

Unsecured Credit, Credit Cards, Store Cards, and the Impact of COVID-19 on the Consumer Credit Market in South Africa

Final Report

Produced by:



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DEFINITION OF TERMS AND ACRONYMS

Abbreviation	Description
DCASA	Debt Counsellors Association of South Africa
DTI	Department of Trade and Industry
MFSA	Microfinance South Africa
n.d.	No date
NCA	National Credit Act
NCR	National Credit Regulator
QC	Quality Check
RFP	Request for Proposal
SACRRA	South African Credit and Risk Reporting Association
SARB	South African Reserve Bank
UCT	Unsecured Credit Transaction

Definitions:

- **Unsecured credit transactions (UCTs)** an agreement that meets all the criteria as set out in section 39 (3) of the National Credit Regulations where the loan or credit is not secured by any pledge or personal security
- **A credit card** is a payment card issued to consumers to enable them to pay for goods and services based on the consumer's promise to the credit provider to repay them for the amounts, plus other agreed charges.
- **A store card** is a credit card that can only be used for purchases from a specific store or group of stores.
- **Informal loans** are a form of credit or lending, taken out by a consumer, that is not regulated by the NCR and therefore not bound or protected by consumer credit regulations.

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1. EXECUTIVE SUMMARY

The National Credit Regulator (NCR) is the regulating body for South Africa's consumer credit environment and is responsible for educating consumers, conducting research, developing policy, registering industry participants, investigating complaints, and enforcing the National Credit Act (34 of 2005) (NCA). This report, commissioned by the NCR, seeks to understand **unsecured credit transactions, credit cards, and store cards** in South Africa and gain perspective on their changes in demand and sustainability as credit products.

This information is vital for the economy when set against the current economic environment in South Africa (Rees, 2020), where a growing population is becoming increasingly over-indebted due to widespread unemployment and economic contraction (Wang, 2021).

More specifically, the NCR has developed this research study to:

- Identify the market trends that cause changes in the demand and supply of unsecured credit transactions, credit cards, and store cards in South Africa between 2017 and 2020.
- Determine the impacts on the market and society caused by these changes in uptake.
- Understand the differences in uptake between various market, income, and social groups.
- Conceptualise the impact of COVID-19 on unsecured credit transactions, credit cards, and store cards.
- Isolate legislation that can be improved in the name of market sustainability.

To achieve this, the NCR conducted **primary and secondary research** from January to March 2021 in the form of consumer surveys, credit industry interviews, and a literature review. The insights gathered from these surveys, interviews, and secondary sources form the basis of the analysis in this report and assist in shaping the key findings.

The users of credit cards and store cards in this study's consumer sample have utilised their products to address **short-term needs**, as store cards are used for clothing and groceries, while credit cards are used for education fees, rent, clothing, and groceries. Unsecured credit transactions have been used more readily for asset purchase and repair, as the average value of an unsecured credit transaction in this study was approximately R50,000. Credit card and store card debt, on average, was taken out for smaller amounts at R20,000 and R5,000 respectively. As such, the average monthly repayment on unsecured credit transactions in this sample was the highest at R2,782, however, given the higher interest rates and shorter terms, credit cards were a close second at R2,172 per month. To this end, store cards and informal loans were more alike as both samples recorded average monthly repayments below R1,000.

Since 2017 (and prior to COVID-19), approximately **42% of surveyed consumers took out additional debt**, most notably among store cards. Likewise, credit card usage also rose during this period due to the appeal of their revolving credit facilities and minimal repayments, while the inflexibility of unsecured credit transactions was a major hindrance to a similar increase in use. Consumer credit data points to a similar rise in use from 2017 to 2020, as approximately R300 billion (15%) more was added to the gross debtors' book over the three-year period.

The uptake in these products from 2017 to 2020 was **driven predominantly by poor economic performance**, which included a rising cost of living, reductions in interest rates, a climbing

unemployment rate, and increasing indebtedness that forced consumers to take out more debt to service their initial obligations. "Late or missed payments" was the most regularly cited reason for increasing debt above the original loaned amount for those with unsecured credit transactions in this study (16%), while consumers using credit cards were most prone (23%) to increasing their debt because of COVID-19. Overall, less than 30% of the consumer sample were able to decrease the amount of debt outstanding on their unsecured credit transactions, credit cards, and store cards between 2017 and 2020.

The **methods for increasing debt** were also different across the product groups. While credit card and store card holders were more likely to increase their debt using the same account (67% and 52% respectively), those holding unsecured credit transactions were almost equally split between those who took out new accounts and those who increased their existing credit limits. This highlights a gap in consumer understanding, as only revolving-credit, unsecured personal loans are able to increase the capital amount during the repayment period, and not unsecured credit transactions. Unsurprisingly, when credit card holders took out new accounts to acquire new credit, 66% of them did so with a new provider, thus highlighting that consumers use a lack of communication between institutions to find additional credit lines.

COVID-19 and the associated national lockdowns have also had a significantly negative effect on South African credit consumers, with many reporting job losses, income reductions, and greater financial stress on their households. This has prompted a higher demand of unsecured credit transactions, credit cards, and store cards (more than 50% of the consumer sample took out additional debt due to COVID-19) that cannot always be provided for by the formal market under its current restrictions, which in turn leads to increasing over-indebtedness through the informal market. This was compounded by credit consumers, who do not fully understand the cost of credit, and formal providers, who are constantly engineering new ways to draw income from the consumer.

During the national lockdowns, store cards endured a significant drop in use due to the physical limitations of in-store shopping, however, a subsequent adjustment to their risk tolerance and a greater online presence included a wider variety of consumers post-COVID, and therefore counteracted the initial loss in revenue. Similarly, those with available funds in their credit cards utilised their facilities more regularly than other product types during COVID-19, especially in the case of those who had lost a portion of their income or savings.

Credit records during the second quarter of 2020 showed a significant drop in consumer credit uptake from approximately R130 billion (Q1) to R55 billion (Q2), however, the final quarter of 2020 saw credit volumes exceed previous highs, with over R150 billion in consumer credit issued. This was largely due to credit extensions within the existing consumer base, as the number of credit transactions conducted over the same period had not recovered to pre-COVID rates when 2020 ended. In terms of value, unsecured credit transaction users sampled in this study took out the highest values of credit because of COVID-19, averaging over R30,000 per consumer, while credit cards and store cards registered approximately R20,000 and R14,000 in additional debt per consumer, respectively.

The **cost of credit** was also tested in this study, as existing literature highlighted some confusion around consumer cost awareness. Indeed, more than half of the sampled consumers only considered the value of their monthly repayments when deciding on new credit, while more than 40% did not know what their interest rate was (55% among store card holders). This lack

of understanding was accentuated by approximately half of the sample not knowing what additional fees they were charged or what credit life insurance schemes were. As such, consumers were predominantly positive about how they perceived their credit, despite the negative impacts and costs.

This has undoubtedly contributed to a growing income-to-debt ratio in households, currently standing at more than 85%. This **indebtedness** was highlighted by the consumer sample, where approximately 42% of credit holders had defaulted on one or more payment since 2017. There were few differences among the product types, except informal loans, where 57% had defaulted. Although debt counselling is proposed as a solution to over-indebtedness, only 15% of consumers had considered using it, with literature pointing toward debt counselling being expensive or ineffective in the eyes of the consumer (Masilo & Marx, 2017, Smit, 2018, and Leathern, 2018).

In terms of these results, the need to conceptualise the market's sustainability was validated. A widespread risk adjustment on the issuance of unsecured credit transactions has **contracted the formal market** and pushed many consumers into an ever-expanding informal market, where providers are not bound by the considered regulations of the National Credit Act 34 of 2005. According to existing literature, informal loans are subject to comparatively high interest rates and tough collection terms, and this study's consumer sample proves that informal loans are only chosen by consumers because they do not have access to the formal market, and not because informal loans are cheaper.

As such, the **legislation and regulation** can be improved to better provide for the average credit consumer, especially in times of economic distress, which can have a wide array of socio-economic impacts. Members of the credit industry who work within the regulatory framework had many suggestions (listed in [Section 9](#)) but focused on the need for better enforcement and customisation of laws in the informal/illegal markets, improvements in existing education strategies, and general increases in stakeholder engagement. The credit industry also advocated for a more technologically advanced system that implements a more widespread and effective debt monitoring and counselling service.

Although legislative improvements have been identified, the existing regulation of unsecured credit transactions, credit cards, and store cards has already gone some way in protecting consumers and providers and establishing a set of expectations for all market participants since its inception in 2005. The refinement of these regulations is ongoing and depends greatly on the collective coordination and engagement of all stakeholders in the consumer credit environment. Therefore, this report has explored the surrounding environment and concludes with a call to action through cooperation and accountability.

2. INTRODUCTION

2.1. Purpose

The purpose of this report is to explore and quantify the growth in unsecured credit transactions, credit cards, and store cards across the South African consumer credit market. The findings will also focus on the effect that credit has on its consumers, especially in the face of COVID-19. The report measures the changes in demand and supply across the three credit products from 2017 to 2020, which aids in gauging the trends of the market and drivers of demand. Rates of default and financial distress are also key indicators explored in this study. The findings and data presented in this report serve as evidence to the effects of COVID-19 and assists policymakers in understanding consumer lending practices and the sustainability of the consumer credit market.

The **quantitative** and **qualitative** data represented here and throughout the report are differentiated to compare the sentiment and opinions of **consumers** and **members of the credit industry**. These insights are also compared to secondary research. As such, these individuals interpret and contextualise the credit environment in different ways. Trends or market variations are analysed at a macro-scale, while the effects of these changes are felt uniquely within all microcosms.

Therefore, this report focuses on the current and previous positions of unsecured credit transactions, credit cards, and store cards in South Africa. With the assistance of secondary research, more than **1,500 consumers** and **24 members of the credit industry** describe the lending profiles present in the country, what changes have taken place since the inception of this debt, and how COVID-19 has changed these lending profiles. These findings are reported in aggregate to represent the market element to which they belong.

2.2. Background

South Africa has an infamous history of inequality, which has left many citizens without access to formal financial services. Many of the barriers to accessing credit that were implemented during the apartheid regime have since been abolished and efforts to combat social barriers are also underway (Moylean, 2018).

Wang (2018) cites research conducted by the University of Cape Town which found that there is a strong relationship between credit expansion and economic growth. Wang further emphasises that providing better credit access through formal institutions will help boost the economy and alleviate poverty – the NCR (2007) notes that this is particularly true with regard to lending money to unsecured borrowers. The sentiment of the benefits of increased access to credit is echoed throughout the global economy, and a lack of credit access has been identified as one of the leading impediments to economic growth (Sheehan, 2018).

The official statistics for South Africa, as reported by NCR's Consumer Credit Report (2020), show the overall Rand value and number of unsecured credit accounts granted by income category. The effects of COVID-19 can be seen across all income types in the first and second quarters of 2020.

The Annual Report 2019/2020 published by NCR (2020) revealed that between 1 January 2020 to 31 March 2020, R126.35 billion total new credit was granted. In March 2020, 27.99 million consumers were recorded as credit active. Of those, 10.47 million (37.42%) consumers were noted as having an impaired record and could be classified as experiencing financial distress. In March 2020, the total outstanding consumer credit balance was R1.98 trillion. The outstanding consumer credit balance for unsecured credit grew by the highest percentage on year-on-year basis when compared to all other credit types, vis., Mortgage, Secure credit, Credit facility, Short term, and Developmental. Between 1 January 2020 to 31 March 2020, outstanding consumer credit for unsecured credit increased by R3.56 billion (1.62%) and by R23.00 billion (11.45%) for the 2020 year (NCR, 2020).

Income Category	2018-Q4 (R)	2019-Q1 (R)	2019-Q2 (R)	2019-Q3 (R)	2019-Q4 (R)	2020-Q1 (R)	2020-Q2 (R)	2020-Q3 (R)	2020-Q4 (R)
R0-R3500	297,595,604	1,318,346,601	189,491,618	163,224,755	148,806,126	80,832,091	50,937,939	78,159,556	96,885,557
R3501-R5500	1,321,082,724	1,016,505,313	1,171,983,298	1,208,483,090	1,107,639,464	715,921,952	255,067,772	575,952,369	663,507,638
R5501-R7500	1,554,116,659	1,283,730,344	1,421,144,575	1,482,417,094	1,363,529,799	979,587,230	384,868,921	739,196,948	847,526,788
R7501-R10K	2,227,701,346	1,883,729,092	1,941,903,636	1,983,533,877	1,909,763,458	1,471,472,866	616,058,642	1,133,771,121	1,338,668,063
R10.1K-R15K	4,634,636,319	4,080,236,568	4,120,646,740	4,322,512,103	4,255,411,743	3,320,062,599	1,486,882,493	2,758,696,282	3,119,546,994
>R15K	21,093,477,975	18,660,158,512	19,789,591,679	20,904,766,429	21,409,456,366	18,745,375,563	7,423,173,867	15,005,610,246	16,737,984,075
Total	31,128,610,627	28,242,706,430	28,634,761,546	30,064,937,349	30,194,606,956	25,313,252,301	10,216,989,634	20,291,386,522	22,804,119,115

Table 1: Rand value of unsecured consumer credit granted by income category

Income Category	2018-Q4	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4
R0-R3500	33,926	42,959	18,169	16,111	18,775	11,809	7,855	12,510	12,324
R3501-R5500	107,782	84,280	92,455	95,907	94,882	64,010	22,770	48,692	54,854
R5501-R7500	87,415	74,652	78,199	80,994	81,766	61,482	23,017	44,172	49,626
R7501-R10K	92,049	81,125	78,003	79,260	82,591	65,221	25,597	46,723	54,325
R10.1K-R15K	146,644	133,873	125,019	129,324	135,972	107,855	45,448	82,178	92,245
>R15K	400,498	366,888	371,245	390,230	415,563	361,841	134,361	253,622	290,004
Total	868,314	783,777	763,090	791,826	829,549	672,218	259,048	487,897	553,378

Table 2: Number of unsecured consumer credit transactions granted by income category

Source: NCR, 2020, p.25

In its Consumer Credit Market Report, the NCR (2020) explored credit granted and the number of agreements entered into. The effects of COVID-19 can be seen across all types of credit, with figures dropping drastically in Q2 2020 and bouncing back in the third quarter, reflecting the impact of strict lockdown measures implemented in Q2 and then easing in Q3.

Agreements	2019-Q4 R000	2020-Q1 R000	2020-Q2 R000	2020-Q3 R000	2020-Q4 R000	2020-Q4 % Distribution	% Change (Q4/Q3)	% Change (Y/Y)
Mortgages	43,733,484	38,932,900	12,985,206	49,251,586	62,662,868	40.58%	27.23%	43.28%
Secured credit	46,191,486	39,080,872	20,512,091	43,250,064	47,512,500	30.77%	9.86%	2.86%
Credit facilities	21,306,448	19,215,217	9,505,285	13,998,170	17,743,638	11.49%	26.76%	-16.72%
Unsecured credit	30,224,428	25,314,143	10,217,700	20,292,392	22,819,475	14.78%	12.45%	-24.50%
Short-term credit	2,466,306	2,122,244	1,037,012	1,581,829	2,107,326	1.36%	33.22%	-14.56%
Developmental credit	1,460,091	1,685,692	425,833	1,071,926	1,573,236	1.02%	46.77%	7.75%
Total	145,382,243	126,351,067	54,683,126	129,445,966	154,419,042	100.00%	19.29%	6.22%

Table 3: Total credit granted by agreement type

3. METHODOLOGY

The NCR is tasked with advising the Minister on matters of national policy relating to consumer credit and on the determination of national norms. The NCR must provide recommendations to the Minister regarding legislation in terms of:

- The volume and cost of different types of consumer credit products, and market practices relating to those products.
- The implications for consumer choice and competition in the consumer credit market.

Therefore, this research aims to fulfil some of the obligations of the NCR by researching and reporting on the fluctuations in supply and demand of unsecured credit transactions, credit cards, and store cards.

The sections to follow describe the process adhered to by the NCR in completing this report and the project within which it falls. As per the original Request for Proposal (RFP) issued by the NCR, the methods used here directly correspond with the stated organisational requirements. Genex Insights (on behalf of the NCR), using its expertise, network, and research methods, has followed this process for developing the project, conducting primary and secondary research, and writing this report.

3.1. Project Development

To ensure that the appropriate findings were delivered, collective brainstorming and feedback sessions were conducted with stakeholders to establish the direction of the project, the nature of its deliverables, and the timeframes within which it would be completed. Ultimately, the insights would need to be delivered to parliament in the following forms:

- A **final report** (this document) that aggregates the findings of both the qualitative and quantitative interviews and surveys, and secondary research.
- A **summary presentation** that highlights the key findings of the final report.

3.2. Primary Research

The opinions of both credit consumers and the credit industry were important in the synthesis of findings in this report. Therefore, the NCR created and followed two separate streams of primary research, whereby consumers provided predominantly quantitative data, while the credit industry provided qualitative insights. As such, two questionnaires were developed.

3.2.1. Quantitative

The quantitative branch of the primary research was completed using digital collection tools distributed through consumer panels (1164) and in-person interviews (560). The consumer panel was favoured because it preserved the principles of social distancing during the COVID-19 pandemic.

Province	Consumer Panel	In-person Interviews
Eastern Cape	77	0
Free State	57	0
Gauteng	508	234
KwaZulu-Natal	155	116
Limpopo	39	13
Mpumalanga	75	6
North West	32	2
Northern Cape	18	2
Western Cape	203	187
	1164	560

Table 4: Interview method by province

To achieve a statistically backed understanding of unsecured credit transactions, credit cards, and store cards, the distribution of surveys was largely representative of the current demographics in the credit market. In addition to the type of credit product, the age, location, income, and population group identification were used as quotas in the primary research exercise. Respondents of the quantitative survey were posed questions around one specific unsecured credit transaction, credit card, or store card that they have been using, and therefore results do not represent an individual's entire credit portfolio.

The achieved sample is described as follows:

DEMOGRAPHIC	Count		DEMOGRAPHIC	Count	
	Unweighted	% Weighted		Unweighted	% Weighted
PRODUCT TYPE*			POPULATION GROUP*		
Unsecured Credit Transactions (UCTs)	633	40%	Asian	76	5%
Credit Card	380	20%	Black	1012	58%
Store Card	522	30%	Coloured	228	13%
Informal Loan	189	10%	White	408	24%
AGE*			PROVINCE*		
18-25 years	214	8%	Eastern Cape	77	6%
26-35 years	458	26%	Free State	57	4%
36-45 years	420	31%	Gauteng	742	44%
46-55 years	343	19%	KwaZulu-Natal	271	14%
56-65 years	183	12%	Limpopo	52	4%
65+ years	106	4%	Mpumalanga	81	6%
INCOME (P/M)*			EDUCATION		
R0 – R3,000	300	24%	No schooling	5	0%
R3,001 – R4,500	142	7%	Primary school	20	1%
R4,501 – R7,500	146	5%	High school	556	32%
R7,501 – R10,000	144	6%	Certificate or diploma	601	34%
R10,001 – R12,500	132	5%	Undergraduate degree	340	19%
R12,501 – R15,000	110	5%	Postgraduate degree	199	13%
R15,001 – R20,000	150	9%	EMPLOYMENT		
R20,001 – R30,000	187	9%	Unemployed	179	13%
R30,001 – R45,000	196	12%	Student	94	4%
R45,001 and above	217	18%	Self-employed	295	18%
MARITAL STATUS			Part-time employment	209	11%
Single	596	32%	Full-time employment	847	50%
Cohabiting	259	14%	Pensioner	100	5%
Married	685	45%			
Divorced	67	3%			
Widowed	60	3%			
Separated	35	2%			

*Demographic factors used as quotas for sampling.

Table 5: Distribution of demographics

3.2.2. Qualitative

The qualitative branch of the primary research was completed using direct telephonic, video, and audio interviews with the credit industry. These 24 individuals were interviewed because of their position in the market, the organisation they belong to, and their expertise in unsecured credit transactions, credit cards, and store cards. The interviews were controlled by in-depth discussion guides covering all topics in this research. These individuals were from the following organisations:

Credit Provider	Description
Banks	Absa
Banks	African Bank
Banks	Albaraka
Banks	FNB
Banks	Investec
Banks	Nedbank
Banks	Standard Bank
Credit bureaus	XDS
Industry stakeholders	Debt Counsellors Association of South Africa (DCASA)
Industry stakeholders	Microfinance South Africa (MFSA)
Industry stakeholders	National Clothing Retail Federation of South Africa
Industry stakeholders	South African Credit and Risk Reporting Association (SACRRA)
Other credit providers	Atlas Finance
Other credit providers	BayPort
Other credit providers	Old Mutual
Other credit providers	RCS Cards (Pty) Ltd
Other credit providers	Sanlam
Retailers	Capri Exclusive Homeware (Pty) Ltd
Retailers	Connect Financial Solutions
Retailers	Edcon
Retailers	Mr Price Group
Retailers	Pres Les
Retailers	Truworths Limited
Retailers	Woolworths Financial Services (Pty) Ltd

Table 6: Qualitative participants in the credit industry

3.3. Secondary Research

A key component of the research conducted for this study included secondary resources. This process examined the existing information and knowledge around unsecured credit transactions, credit cards, and store cards in South Africa. These resources include online articles, journal databases, news bulletins, and other academic and industry research. In this regard, the report used a systematic literature review methodology which aggregates, appraises, and synthesises all relevant empirical evidence (Liberati, et al., 2009).

3.4. Data Management and Report Development

The consumer respondents and credit industry both present unique types of data (quantitative and qualitative respectively) that can be used to understand relationships between different factors. As such, the qualitative data has been coded and interpreted, while the quantitative data have been cleaned, arranged, cross-tabulated, and exported for analysis. The quantitative data have also been weighted to better align with the original ratios set out in the sample quotas. This ensures any incidental oversampling is addressed. Finally, both the quantitative and qualitative data are presented graphically in this report and supported by findings from the secondary research.

4. UNSECURED CREDIT

Access to credit may be widespread and well-intentioned, however Moylan (2018) cites findings from a 2015 World Bank report that South Africans manage their debt poorly and are among the world's biggest borrowers. NCR's Annual Report (2020) further highlights that when compared to other credit products, the use of unsecured credit and credit facilities is increasing at a higher pace than other products.

First-time credit users and low to middle-income consumers are vulnerable to ever-increasing credit and store card limits, unsolicited mail offerings for loans and credit, misleading advertising and promotional offers, and coercive sales techniques which are employed by aggressive agents and brokers. These consumers are often living beyond their means and are most at risk (Francis Z. , 2016). Wang (2021) cautions that even though credit access for the poor may act as a buffer against household crises, this only serves to postpone the crisis – the next time that basic needs cannot be covered, they will borrow money from other lenders.

4.1. Overview

To provide a background to this study's environment, the members of the credit industry gave their opinions on the market. These discussions were managed around the three credit types considered in this report, namely, unsecured credit transactions, credit cards, and store cards.

CREDIT INDUSTRY: To start, could you share your general opinion on the state of unsecured credit transactions, credit cards, and store cards in South Africa?

Common among members of the credit industry was a **predominantly negative outlook** on the unsecured credit transaction, credit card, and store card markets. Due to a variety of factors, including a downward economic trajectory prior to COVID-19, total debt and payment defaults have risen significantly. As such, the rejection rates by most formal credit providers are higher than in recent history and consumers dependent on credit for monthly necessities are being further pressured into poverty via a perpetuating debt cycle. However, many members of the credit industry acknowledge how certain credit mechanisms, like unsecured credit transactions, credit cards, and store cards, are a "necessary evil" to help the lower-income consumers in the short term. These opinions coincide with the existing literature around unsecured debt instruments (Friedman, 2016).

Interestingly, some of the credit industry highlighted the distinction between an overall market contraction of debt demand, in contrast, to the **increased demand in unsecured credit transactions, credit cards, and store cards** analysed in this study. The negative socio-economic impacts of indebtedness and the national lockdowns have prompted a portion of the credit industry into thinking the regulations can be better managed as described in [Section 9](#), especially in the face of predatory lenders and high rates of existing unsecured credit transactions, credit cards, store cards, and default in the consumer market.

"The supply of credit has reduced, as lenders have become more cautious, which has seen the approval rate reduced."

Mr Price Group

4.1.1. Unsecured credit transactions

Unsecured credit transactions have been a popular choice for credit consumers since 2017 (Ryan, 2020) because they offer a method for temporarily upgrading lifestyles. Therefore, prior to the economic contraction due to COVID-19, unsecured credit transactions were a chief contributor to growing over-indebtedness, as they regularly fell lower down on a consumer's repayment priority list (BusinessTech, 2020).

While unsecured credit transactions are issued from a variety of suppliers with a wide range of values, those members of the credit industry understanding the micro-lending environment explained the negative effect of South Africa's COVID-19 lockdowns on financial regulations. Micro-lenders were deemed non-essential and therefore did not remain functional during the COVID-19 lockdowns. This has resulted in the banks and informal market taking over a portion of the consumer base from micro-lenders and impacting the viability of current and prospective investments in the space.

The literature corroborates these findings and adds that unsecured credit transactions held at institutions other than banks have seen a drastic slowdown in loan originations. BusinessTech (2020) identified the increasing rates of unsecured credit transaction delinquencies as a contributor to this trend.

The banks that offer unsecured credit transactions are also believed to be at risk (despite having a larger market share), as an increase in debt issued may be good for asset values, but the lower collection rates on products, even prior to COVID-19, negatively impact the values of lending portfolios. Nonetheless, most banks were happy to issue new long-term debt at this juncture, even though an accumulation of uncollectable debt could have significant economic ramifications. This is evidenced by the 2008 financial crisis.

4.1.2. Credit cards

Credit cards are typically offered by banks with a revolving credit facility. Riley (2019) notes that in their haste to consume, combined with aggressive credit card marketing practices, consumers are attracted to the illusion of greater spending power, convenience of easy money and elimination of the need to carry cash. Indeed, Jordaan (2019) states that "for many people, debt feels 'free' when they're swiping their card as opposed to paying with cash, with research showing that consumers spend almost twice as much when using a credit card."

Riley (2019) reported that between 2014 and 2017, credit card penetration in South Africa dropped from 13% to 7%, however, a rebound in 2018 saw an increase of 9.2% per annum. South Africa had a massive 4 million active credit card users before the COVID-19 pandemic, with the majority making use of one of the four largest banks in South Africa. Since 2017, consumers have often increased their credit limits when their providers market these options to them, which has led consumers to increase their debt unnecessarily (Whitfield, 2018).

According to members of the credit industry, the demand for credit cards has been boosted by the economic contraction of COVID-19. Although hard lockdown saw a reduction in card use, it quickly rose back up to previous usage rates once restrictions were eased. A continued indebtedness is evident in the credit card environment, owing to comparatively high interest rates, although these consumers seem slightly more stable (with lower delinquency rates)

according to credit associations and banks (TransUnion, 2020). There is concern, however, that younger people are more vulnerable to the allure and negative effects of credit cards.

The credit industry believes credit cards are viewed more positively than unsecured credit transactions, from both the consumer's and provider's perspectives. It is a beneficial tool that consumers are using to consolidate their debt and provides a greater flexibility than unsecured credit transactions.

“Consumers in general have resorted to reducing or consolidating their credit utilisation, with a preference for core banking products at the expense of alternative retail financing.”

Woolworths Financial Services (Pty) Ltd

Credit cards are also thought to be better governed than other unsecured credit transactions and store cards, as new applications are more regularly rejected, while minimum repayments are dropping, and credit is extending for existing consumers. Cape Business News (2017) and Absa (2020) also refer to the better cash managements principles of credit cards, whereby consumers are provided protection from and immunity to fraud and theft.

4.1.3. Store cards

Offered by a variety of retailers, store cards provide a line of credit to consumers that can only be used at one or a selection of outlets. Store credit cards are considered to have exorbitant interest rates and a simple application process – which can easily become a debt trap for consumers (Brown, 2021). These cards are typically offered at a till when paying for products and are thus sold by sales assistants and not by financial specialists (The Money Advice Service, n.d.). According to BusinessTech (2018), the CEO of Debt Rescue highlighted the 5% annual growth of the store card market in South Africa, while Van Jaarsveldt (2020) noted that at the end of the first quarter of 2020, approximately 49% (17.3 million) of active credit accounts were held with the retail industry (13.5 million held specifically in the clothing and apparel market).

As such, store cards have experienced an increase in demand over recent years and store card repayments are prioritised by consumers over other debt instruments, which has contributed to a willingness on behalf of the provider to extend new credit where possible, according to members of the credit industry. Despite the promulgation of affordability assessments, this willingness to extend new credit is particularly prevalent among smaller and independent stores, according to retailers, where the credit affordability assessments are less thoroughly applied. However, the affordability assessments have reportedly cooled the over-supply of store cards among the larger, compliant retail chains. Indeed, the store card often served as the first formalised debt that consumers encountered, which played a role in them building their credit scores. In recent times though, this first access to the formal environment is achieved more regularly through mobile phones.

Many consumers still hold multiple store cards and choose which to pay off according to how immediately they can then re-access new funds or credit. Luckhoff (2021) quoted Sebastien Alexanderson, the CEO of National Debt Advisors, who noted that consumers are less likely to skip retail store payments as they buy their necessities, like school clothes or food, through their store accounts and this encourages them to keep up with payments.

Some members of the credit industry believe the store card environment to be less profitable than others, and that the core banking offers, like credit cards, will soon absorb this specific lending environment. However, retail credit providers are more flexible in their credit offerings, as profits can be cross subsidised through the sale value of their products.

4.1.4. Informal loans

Many South African households live in poverty. As a result, they are typically excluded from the formal credit market and are forced to rely on informal credit providers, like mashonisas and loan sharks (Wang, Chaorong, 2018). Mashonisas and other informal credit providers are difficult to conceptualise due to their lack of regulation, however, industry reports (Wonga, 2018) stated there are likely in excess of 40,000 mashonisas in South Africa. Identity documents and bank cards can be taken by mashonisas as security and the interest rate can increase if customers don't pay on time (Reuters, 2019).

The members of the credit industry participating in this research noted an unintended consequence in not considering micro-lenders 'essential' during COVID-19 prompted a strong increase in the volume of unregulated informal loans being taken out, particularly among the lower-income segments. This has been highlighted by a lower rate of credit enquiries at formal institutions (TransUnion, 2020) because of the widespread loss of incomes and jobs, partly due to COVID-19. As a result, consumers are subjected to higher interest rates and tougher repayment terms on unregulated informal loans.

4.2. Original Lending Profiles

Given that many of the trends in this report were analysed over the period 2017 to 2020, it was important to understand the behaviours, purpose, and magnitude of debt at the time of inception among this study's consumer sample. This provides the statistical baseline for the comparative analysis with market trends and COVID-19 induced changes.

4.2.1. Original lending values

CONSUMER: How much money have you borrowed through your unsecured credit transaction, credit card, or store card? [n = 1724]

When asked how much money the respondents had initially borrowed, there was a relatively even spread across the value segments, which is indicative of the variety of credit products being surveyed in this report. However, those borrowing between R2,500 and R50,000 were the most common, and collectively constituted around 50% of the sample.

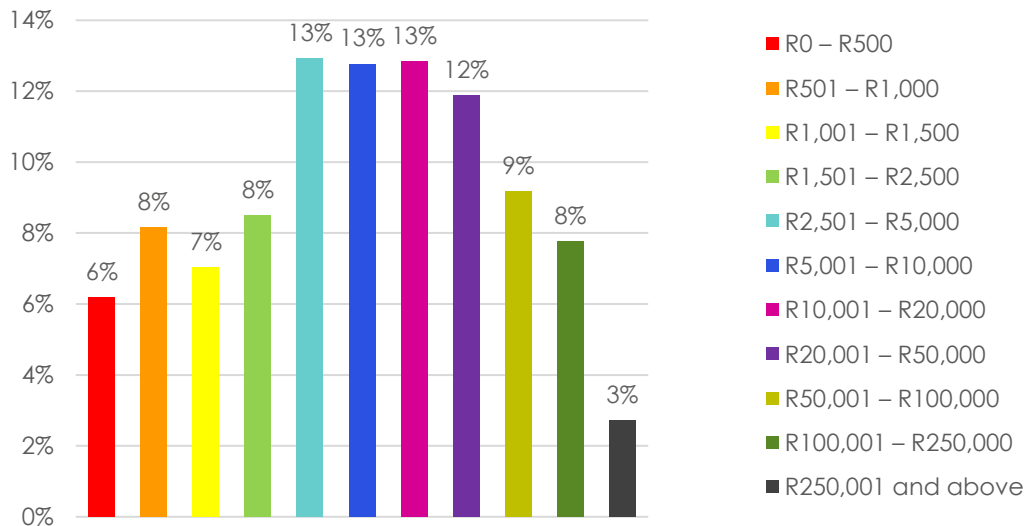
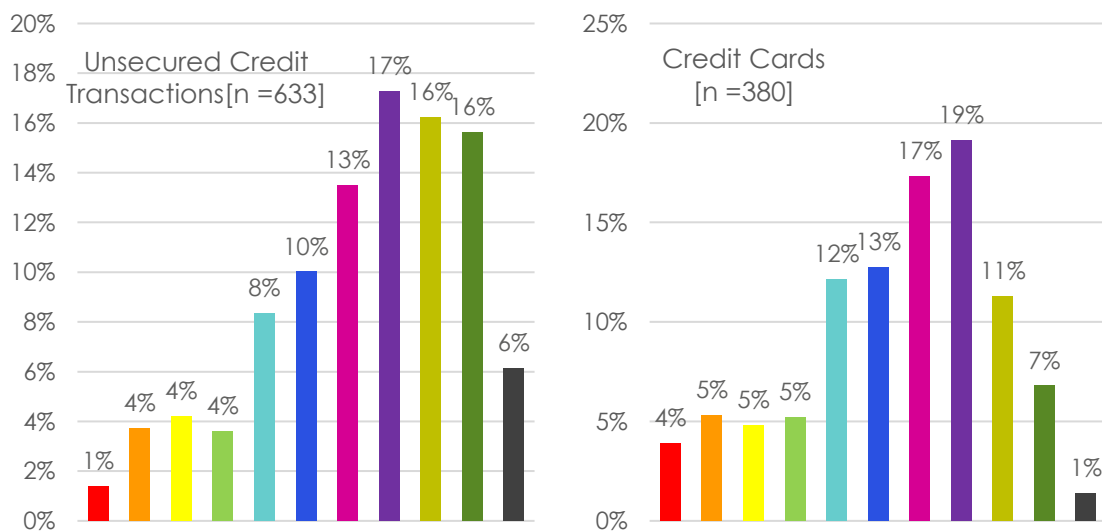


Figure 1: Total borrowed value

The uniformity of the sample did not similarly reflect between the product types. Interestingly, almost three-quarters of all unsecured credit transactions were above R10,000 in value. Credit card values were largely dictated by the terms and credit limits that their facilities enforce, thus infrequently passing R50,000 in total value. Those who incurred store card debt rarely did so for more than R10,000. By contrast, almost 60% of those holding unregulated informal loans had taken out their debt for R1,000 or less.



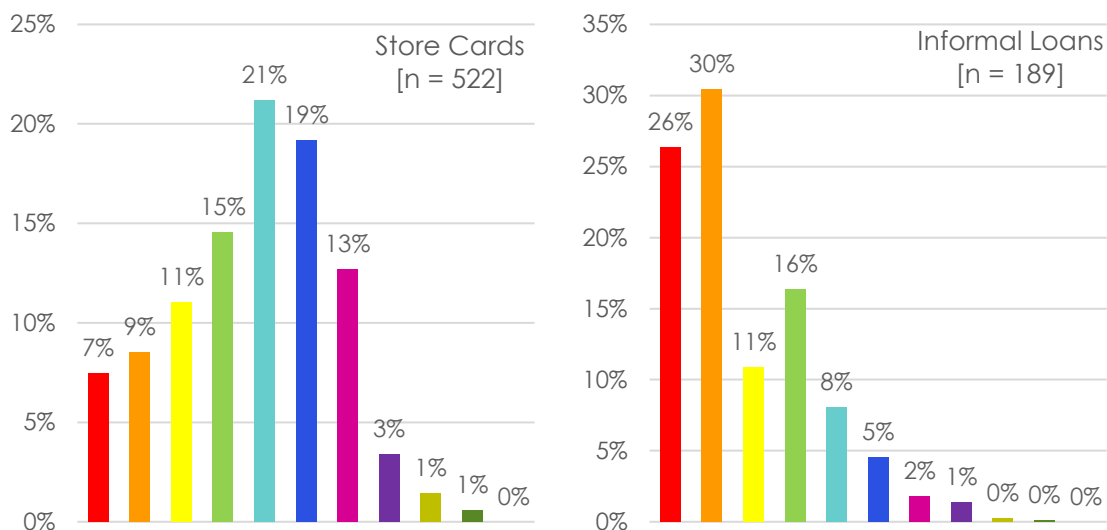


Figure 2: Total borrowed value by product type

The natural, corresponding increase of outstanding debt associated with income levels was preserved by this sample, however, the general over-indebtedness of consumers was highlighted with each income band being more than one paycheque away from paying off only their selected unsecured credit transaction, credit card, or store card (not their entire debt profile). Given the midpoint of each income band, those in the lowest earning category (R0-R3,000) had the highest degree of over-indebtedness (671%) when compared to the total value of their unsecured credit transaction, credit card, or store card.

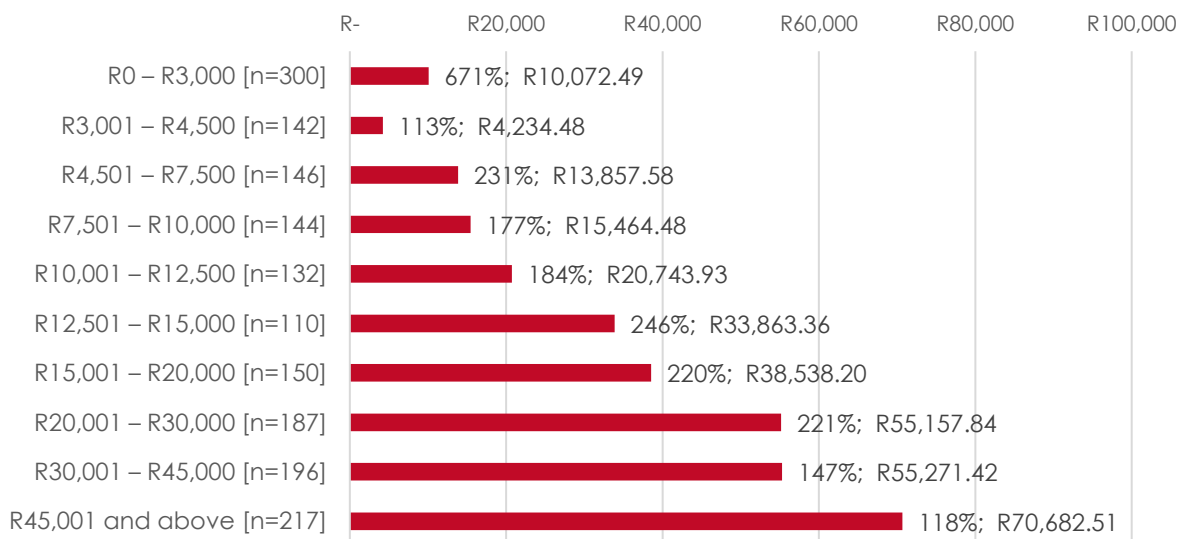


Figure 3: Average borrowed value by income group

4.2.2. Original lending purpose

There are many reasons why credit consumers take out unsecured credit transactions, credit cards, and store cards, which include vehicle repairs, medical expenses, technology costs, school fees, business expenses, clothing purchases, etc. According to Rees (2020), there are two core purposes of debt, namely 'good debt' and 'bad debt', where the former is used to

purchase assets and life-improving items, like houses and education, and the latter is used for maintaining consumption patterns and supporting existing debt obligations.

Rees quoted Woollam (2020) stating that almost two-thirds of newly acquired unsecured credit transactions in South Africa have been taken out as a form of refinancing or to provide an income for general household consumption, and therefore provide little future benefit to creditors. Likewise, Differential Capital (2019) explained that approximately 74% of unsecured loans (not credit cards or store cards) were used for non-constructive purposes ('bad debt'), which stands in contrast to the original intention of empowerment behind allowing credit access to all consumers.

CONSUMER: Why did you originally need your unsecured credit transaction, credit card, or store card? [n = 1724]

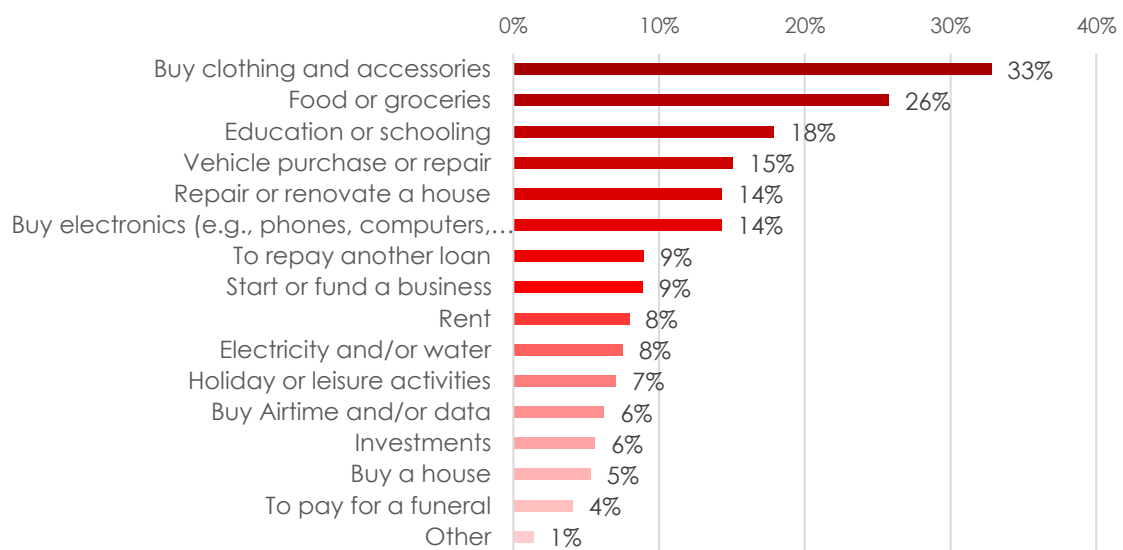


Figure 4: Original lending purpose

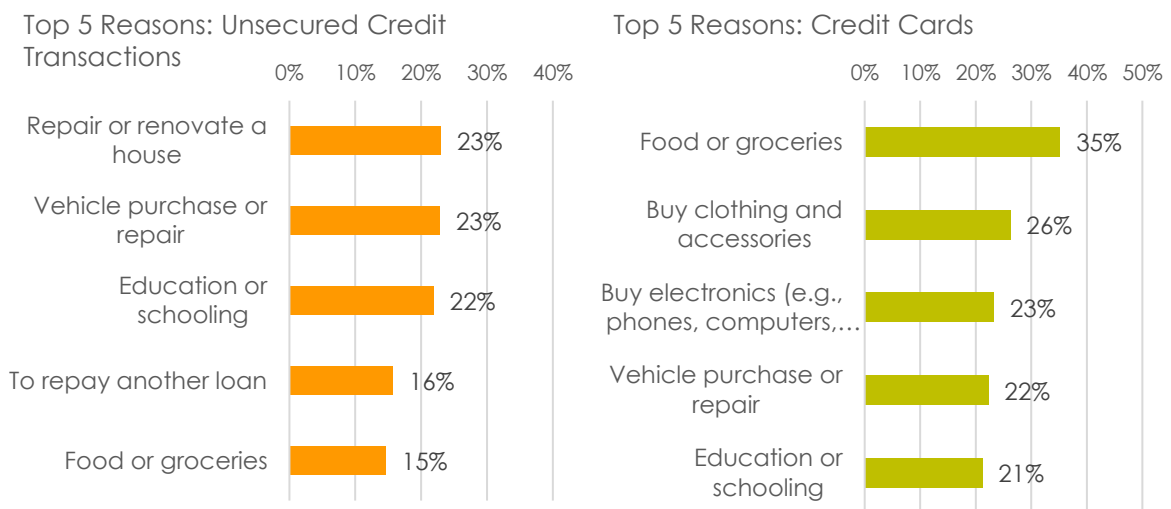
Therefore, having been asked the original purpose of their lending, almost one-third of survey respondents incurred their debt to purchase clothing and accessories, while another quarter of the sample used their new funds to obtain food and groceries for their households. As such, these products were more regularly used for monthly expenses (food, clothing, electronics, rent) than they were for long-term projects, developments, or investments (education, vehicles, renovations, start-ups). It is important to note, however, that store cards are predominantly used for the clothing and accessory purchases in South Africa, and naturally boost that portion of the sample.

*Excl. store cards Income Group	Most cited lending purpose		Second-most cited lending purpose		Third-most cited lending purpose	
	Factor	%	Factor	%	Factor	%
R0 – R3,000 [n=219]	Food or groceries	36%	Education or schooling	21%	Rent	14%
R3,001 – R4,500 [n=92]	Food or groceries	40%	Education or schooling	28%	Rent	16%
R4,501 – R7,500 [n=101]	Food or groceries	34%	Education or schooling	26%	Rent	18%
R7,501 – R10,000 [n=99]	Education or schooling	28%	Food or groceries	23%	Vehicle purchase or repair	18%

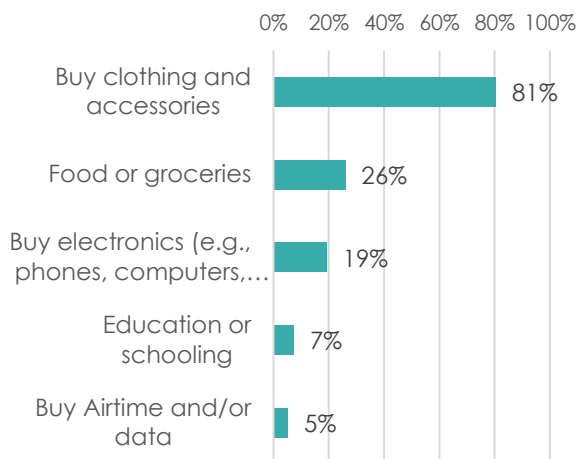
R10,001 – R12,500 [n=99]	Food or groceries	25%	Vehicle purchase or repair	19%	Repair or renovate a house	16%
R12,501 – R15,000 [n=84]	Vehicle purchase or repair	27%	Repair or renovate a house	23%	To repay another loan	23%
R15,001 – R20,000 [n=104]	Vehicle purchase or repair	29%	Education or schooling	27%	Food or groceries	26%
R20,001 – R30,000 [n=147]	Vehicle purchase or repair	29%	Repair or renovate a house	24%	Education or schooling	19%
R30,001 – R45,000 [n=108]	Vehicle purchase or repair	28%	Repair or renovate a house	27%	Education or schooling	22%
R45,001 and above [n=149]	Repair or renovate a house	28%	Vehicle purchase or repair	23%	Food or groceries	21%

Table 7: Original lending purpose by income group (excl. store cards)

The consumer sample without store card holders was then investigated to rectify the imbalance toward clothing and accessory purchases. Among the respondents earning less than R12,500 per month, food and groceries was the most important reason for taking out unsecured credit transactions or credit cards. Above that threshold, respondents were more likely to repair or purchase their cars with these funds. The consideration for vehicles as a motivation to incur debt becomes consistent once a consumer starts earning over R10,000 per month. In a similar fashion, the repair and renovation of houses only becomes a prominent consideration once someone earns over R20,000 per month.



Top 5 Reasons: Store Cards



Top 5 Reasons: Informal Loans

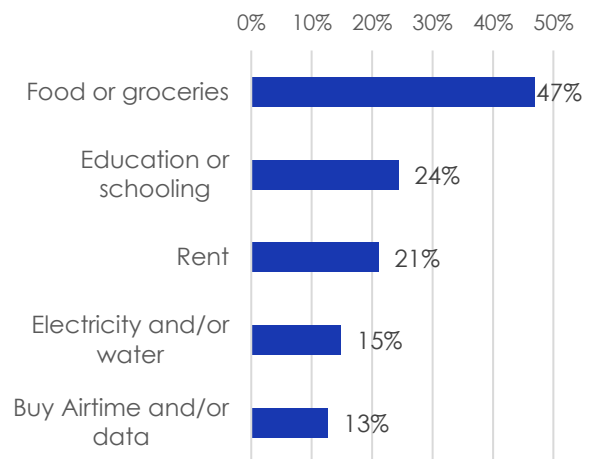


Figure 5: Original lending purpose by product type

The differentiation between short-term and long-term purposes was further highlighted by the credit product types. Unsecured credit transactions were almost entirely responsible for higher levels of bigger ticket items, like renovations and vehicle purchase/repair, while the other three product types were viewed as more transactional facilities, often being used to cover monthly expenses.

4.2.3. Original repayment values

CONSUMER: How much do you pay towards your unsecured credit transaction, credit card, or store card every month?
[n = 1724]

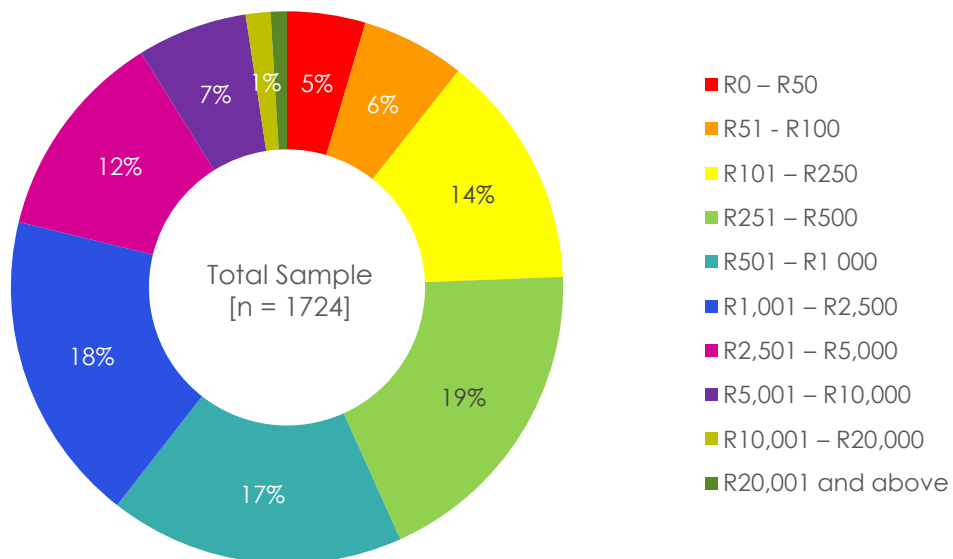


Figure 6: Monthly repayment values

Approximately 80% of respondents recorded monthly repayment values between R101 and R2,500 on their unsecured credit transaction, credit card, or store card. The single largest repayment value band was for those paying R251-R500 each month, closely followed by respondents who pay R1,001-R2,500.

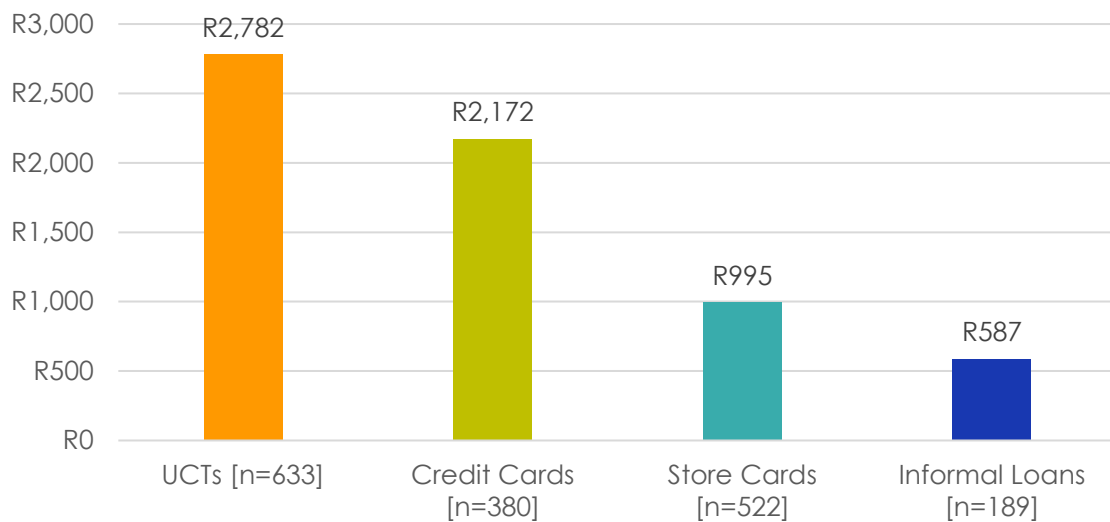


Figure 7: Average monthly repayment values by product type

Due to the original loaned amount and the types of purchases being made through their facilities, it is no surprise that unsecured credit transactions record the highest average repayment value per month (R2,782). Credit cards, given their growing popularity among the wealthier income segments in South Africa, also register a comparatively large average repayment value among its consumers, however, this value will ultimately fluctuate depending on minimum repayment thresholds. Store cards, with their much lower average repayment value, better represent their lower-income customers. Likewise, unregulated informal loan repayment values coincide with the monthly incomes of those who opt for them, as their wealth limits how much they can take out, and thus, repay.

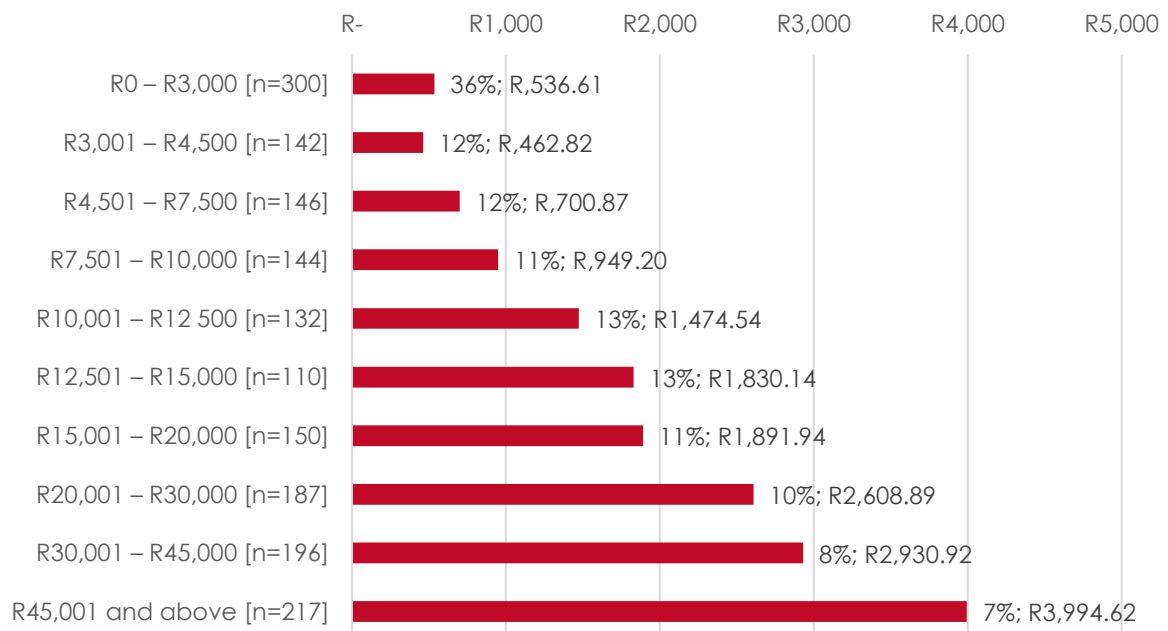


Figure 8: Average monthly repayment by income group

Again, using income band midpoints for reference, the lowest income segment suffers most, as they repay a larger proportion of their earnings each month toward their debt instrument

(approximately 36%, instead of 10-15% like the other income bands). Those earning above R30,000 each month are seemingly less burdened by debt repayments, while those in the R10,001 to R15,000 brackets endure a comparatively more difficult struggle to reduce their debt repayments.

4.3. Changes to Lending Profiles

The global economy is in a state of constant change and these ever-present local and international influences provide an ever-changing credit environment for South African consumers (TransUnion, 2020). Employment levels, money supply policies, rate changes, and other factors can either hinder or expand the uptake of unsecured credit transactions, credit cards, and store cards (Strauss et al., 2020). To help understand these changes, respondents were asked questions about the differences in their lending profiles between 2017 and 2020.

4.3.1. Changes between 2017 and 2020

CONSUMER: How has the total amount you borrowed in your unsecured credit transaction, credit card, or store card changed since 2017? [n = 1724]

It was established within the respondent base that a similar rate of new debt was incurred since 2017 across credit product types, at approximately 42% of the sample. The remaining respondents were split almost equally between those who had maintained their debt levels, and those who had successfully tried to reduce their debt.

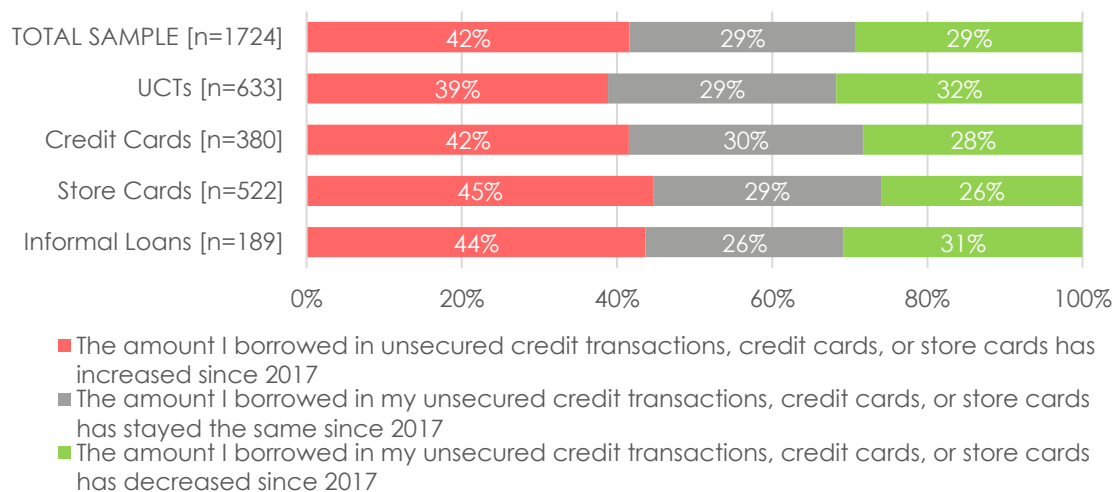


Figure 9: Changes in borrowed values (2017-2020)

Findings from consumer analysis show similar trends (NCR, 2020), as the gross debtors' book for consumer credit in South Africa has increased by approximately R300 billion (15%) from the fourth quarter in 2017 to the fourth quarter of 2020. Even in the fourth quarter of 2020, while under pandemic restrictions, total consumer credit granted exceeded previous highs over the same period (2017:Q4-2020:Q4) by issuing more than R150 billion in new consumer credit.

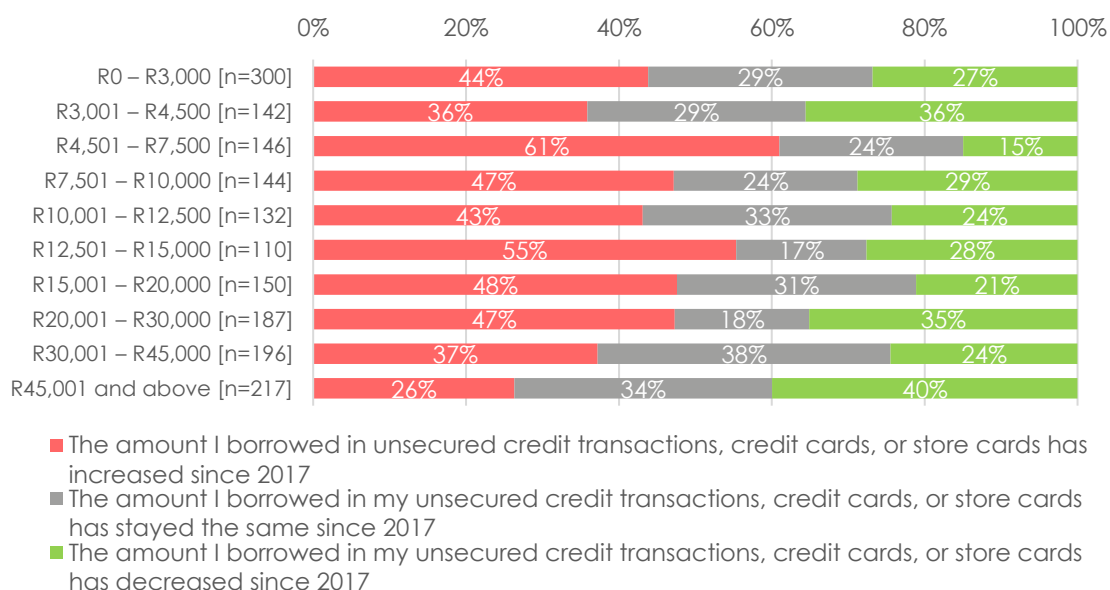


Figure 10: Changes in borrowed values across income groups (2017-2020)

In terms of new debt (since 2017) across income bands, there are few discernible patterns. Naturally, those earning over R30,000 a month had the lowest rates of new debt incurred, but so did the R3,001-R4,500 income segment, although the reason for this was not apparent from the research. At the other end of the spectrum, those earning R4,501-R7,500 and R12,501-R15,000 had the highest rates of new debt incurred since 2017. These income brackets may identify key stages in an individual's financial development where new lifestyles necessitate greater financial strain, e.g., cars becoming affordable for people earning R12,501-R15,000 and likewise for rentals in the R4,501-R7,000 bracket.

4.3.2. Drivers of change

CREDIT INDUSTRY: What has driven any changes in the market landscape and/or what market conditions led to changes in the market?

The overall increase in credit uptake since 2017 has been driven by a few key factors. These include the generally **poor economic performance** in South Africa. The costs of living are rising while the standards fall and interest rates drop. The credit industry identifies electricity and fuel price rises as examples of the differential between actual and reported inflation, which reduces the effective wealth of consumers when companies fix their annual raises to this figure. The continual slide into poverty and increased volume of credit is creating an unsustainable bubble.

Rees (2020) states that in South Africa, the adverse impact of the lending without collateral on the socio-economic sphere has outweighed the benefits and created even more financial inequality, "The fundamental issue with a lending industry that pumps billions of Rands of 'egregiously' expensive debt into the hands of millions of predominantly lower-income consumers is that it is effectively impossible for that debt to be invested, by-and-large, in wealth-building assets or activity [by consumers]." (Rees, 2020)

Van Tilburg (van Tilburg, 2020) warns that South Africa is sitting on a debt bubble because of the steep increase in consumer lending that South Africa has seen, this is exacerbated by high interest rates and abusive contractual terms.

Case Study: Qi (2018), looks at the situation in Kyrgyzstan and warns that a credit bubble may result from the relaxation of legislation to encourage the growth of the MFI sector. There are very few barriers to starting an MFI in the country, as investors looking to start their own MFI require just over \$2000 USD, while most investors have no education or financial background. This context is combined with the fact that the majority of borrowers do not understand the process of loaning, and overspend money which does not exist, creating large debt, and ultimately harms citizens who tried to escape poverty by taking a loan. Qi advises that financial education and proper regulatory oversight are necessary for the expansion of credit access to succeed, and that decision makers must remain careful not to harm those they set out to help.

Most members of the credit industry also note the effects of **COVID-19 and the national lockdowns**. An increased demand in unsecured credit transactions, credit cards, and store cards, coupled with greater degrees of joblessness, has pushed organisations that supply consumer credit toward more stringent application criteria, therefore reducing the availability of credit to those at the bottom of the economic system. The reduced buying power of the lower-income consumer has also pushed certain businesses to close.

"It's a known fact that the SA consumer for a number of years now has been overextended in terms of credit and with the impact of COVID 19, that has basically worsened the situation."

Bayport Financial Services

The ongoing development of **regulations** by government and the NCR also plays the role of a key driver in the market. The recently introduced and revised versions of the NCA have highlighted the vulnerability and volatility of the lower-income segments, according to banks. The NCR has also taken a more proactive stance in recent years, issuing warnings to reckless providers, especially in light of African Bank's previously over-exposed position in the market for consumer credit without collateral or surety (Dludla, 2016). However, the lower interest rates (linked to the repo rate), which have been used as a coping mechanism for consumers, can also prompt an increase in credit uptake.

These drivers of change culminate in a **difficulty to obtain secured credit**. Therefore, a transition to credit sources with no collateral requirements has taken place in South Africa and continues to be a tool for those unable to meet secured application criteria. This shortage in new customers is highlighted, according to banks, by the maximum amount each consumer may

borrow without collateral increasing from R150,000 to R300,000. This implies a transfer of purpose, where consumers are using unsecured credit transactions to achieve goals that would otherwise have been met with secured loans. Store cards are experiencing a particularly strong increase, as industry stakeholders note the correlation between heightened economic stress and increased uptake of store cards, which are easily accessible.

“Store cards are handed out like sweeties.”

SACRRA

CREDIT INDUSTRY: Could you describe any meaningful trends or patterns you have observed in unsecured credit transactions, credit cards, or store cards since 2017? Have there been any trends specifically along income lines?

Naturally, these market drivers enforce change and create market flux in a bid to reach equilibrium in the unsecured credit transaction, credit card, and store card markets. Some of the most prominent trends and patterns, according to members of the credit industry, include the following.

Overall, the **formal market has become more restrictive** in terms of the criteria for new debt, as the risk appetite has been adjusted downwards in the case of most credit providers. Credit providers note that when the banks entered the formal unsecured credit transaction environment, the market became saturated with high-value, long-term lending. Due to general market volatility and other factors like over-indebtedness, the conditions turned. This has been evidenced, according to the credit industry, by a widespread reduction in salaries among government employees, who are a key driver of unsecured credit transactions, credit cards, and store cards. Differential Capital (2019) found a similar dependency of government officials on unsecured credit transactions, credit cards, and store cards, as it was estimated that more than 1.1 million government employees owe more than R75 billion in “unsecured loans”.

Since 2017, many consumers have been subject to a **debt cycle**, where new credit is taken out in intervals to afford repayments on other debt instruments. In addition, the market has experienced an increase in the rate of credit life insurance claims, as a result of increased unemployment. Higher unemployment rates and the greater risk of defaults mean there are now fewer viable customers in the formal space. Indeed, some credit book values are increasing, but only because of credit extensions to existing customers and a very low-risk threshold for new applicants.

Although **store cards** have seen an increase in demand, retailers remain under pressure, as they cite a rising default rate from 5% to 10-12% over recent periods, which is affecting their book values. As such, card providers note an increase in issuance, but not within the higher-income segments, where retailers have recorded a 50% drop in new accounts compared to pre-COVID, a 3-9% reduction in account balances, and a 12-16% rise in 3+ months arrears among card holders.

The **value of lending portfolios** and the organisations that operate within the lending space is largely diminishing, as the credit industry reports strongly penalised regulations, especially at the lower incomes, and low prime and interest rates for investment purposes.

In response, the organisations that provide credit are using new technologies to reduce costs and engineer new sales techniques and products, like the sometimes-compulsory inclusion of

credit life insurance in lending agreements to generate more funds. This challenges the “unsecured” nature of certain debt products, as “security” is essentially being provided in the form of credit life insurance (Head, 2020).

“There is a greater appetite from our consumers to get credit, so we do see an uptake in that, however the portfolio itself, in terms of default and lack of payment, has been worsening, and that is the reason for consumer distress since 2017 [which has been] exaggerated since lockdown.”

Nedbank

Finally, some members of the credit industry commented on the trends in the **psychological condition of consumers**. Although they are not in control of the policies that govern the environment, retailers level criticism against consumers for high degrees of materialism and a sense that credit is used to chase status and image-based goals. On the other hand, the credit industry also acknowledges that the dangers of debt that is not secured or controlled are becoming more prevalent issues for the consumer.

Across **income lines**, the credit industry notes that a full-time salaried employment status is the key divider between those who can and cannot easily secure credit. The lower-income segment is growing and the disproportionately higher retraction of credit from this segment during economic stress is perpetuating the growing income inequality. As such, retailers indicate that they are becoming more risk tolerant to capture more of the lower-income market.

The more affluent segments are also feeling negative impacts. Banks noted that high-income earning professionals, like doctors and pilots, have felt a significantly negative impact to their financial position due to travel restrictions not allowing them to perform their jobs. As such, they note a transition by the affluent into the unsecured credit market and debt cycle, where they are preferred over the lower-income segments by credit providers. However, their credit uptake is deemed reckless by the credit industry, as the rising costs of living and a misrepresentative inflation rate are not culminating in a change of spending habits – rather they loan large amounts to maintain their lifestyle over the short term.

CONSUMER: What event or circumstance caused the amount you borrowed through your unsecured credit transaction, credit card, or store card to increase? [n = 860]

The circumstances that lead to people increasing the amount of money they owe on their unsecured credit transaction, credit card, or store card were driven, mostly, by a lack of affordability among the consumer base, i.e., they did not have enough money and needed to take out credit. Many respondents referred to their interest charges, the financial impacts of COVID-19, and the rising costs of living, which led to respondents missing or making late payments. A few of the core themes extracted from this sample indicated that credit users were buying luxury items or increasing their debt voluntarily. This stands in contrast to some literature prior to the COVID-19 pandemic (Jordaan, 2019), which believed South Africans were feeling pressure to spend money on sustaining unrealistic lifestyles through voluntary indebtedness.

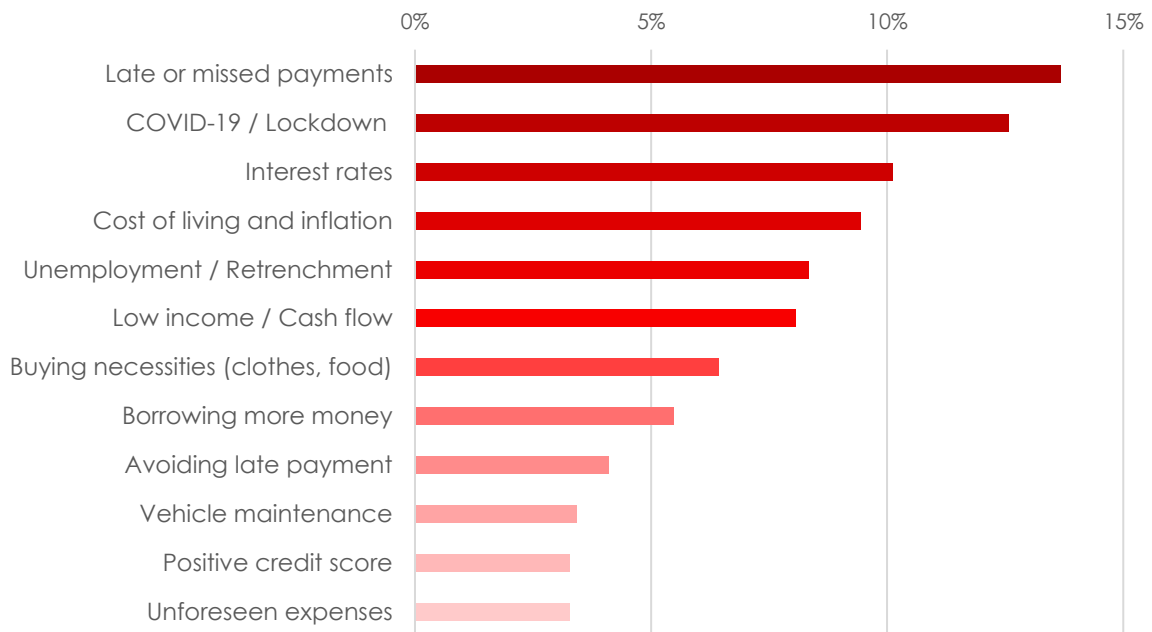
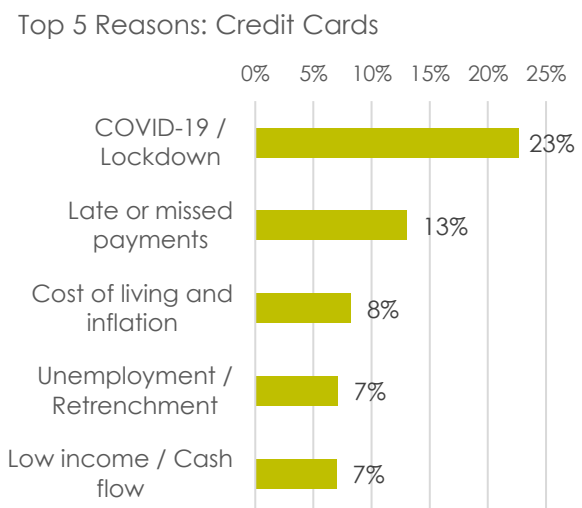
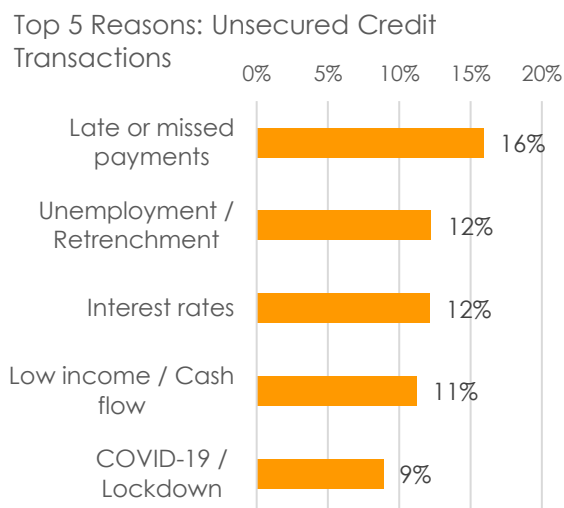


Figure 11: Reasons for increased borrowing

The reasons for increasing debt on unsecured credit transactions, credit cards, or store cards varied across the product types. While increased values in credit cards and store cards were more heavily impacted by COVID-19, unsecured credit transactions and informal loans were more regularly inflated by late or missed payments. Interestingly, those using unsecured credit transactions did not increase their debt because of the rising costs of living, while this was the main cause of increases among informal loans – this again highlights the socio-economic divide between these two groups.



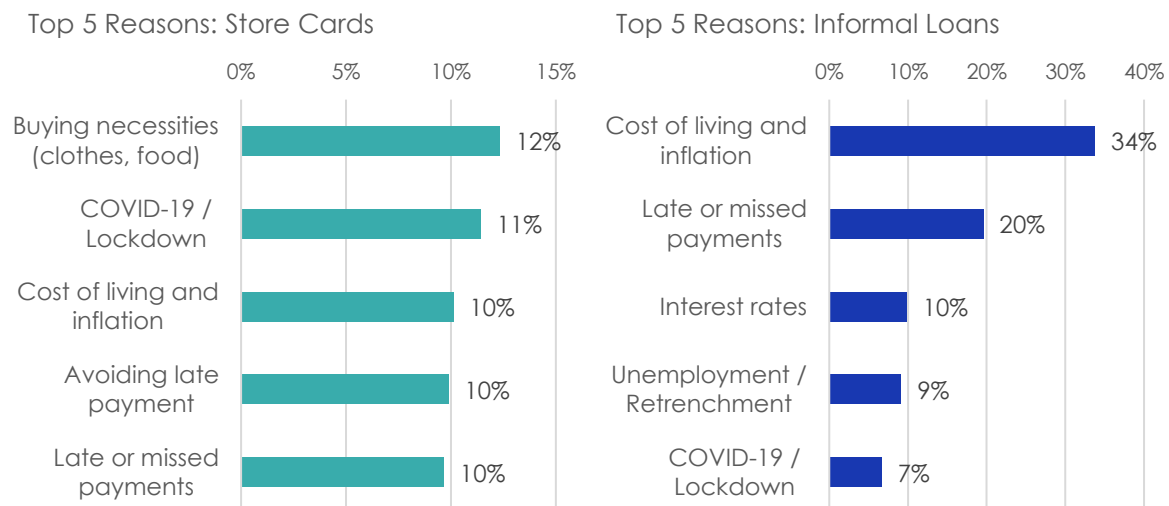


Figure 12: Reasons for increased borrowing by product type

The effect of late or non-payments in increasing debt on unsecured credit transactions, credit cards, and store cards is significant in the lower-income segments and begins to lose effect once respondents earn more than R15,000 per month. On the other hand, COVID-19 seems to have affected the upper income brackets more, as additional debt is incurred because of its economic or financial impacts.

Income Group	Most cited lending purpose		Second-most cited lending purpose		Third-most cited lending purpose	
	Factor	%	Factor	%	Factor	%
R0 – R3,000 [n=114]	Late/non-Payments	19%	Unemployment / Retrenchment	17%	Cost of living / Inflation	13%
R3,001 – R4,500 [n=53]	Late/non - Payments	16%	Low income / cash flow	10%	Cost of living / Inflation	9%
R4,501 – R7,500 [n=72]	Interest rates	18%	Late/non - Payments	15%	Low income / cash flow	14%
R7,501 – R10,000 [n=67]	Late/non - Payments	23%	Covid-19 / Lockdown	23%	Interest rates	12%
R10,001 – R12,500 [n=48]	Low income / cash flow	22%	Interest rates	22%	Unemployment / Retrenchment	8%
R12,501 – R15,000 [n=55]	Late/non - Payments	22%	Borrowing more money	16%	Covid-19 / Lockdown	11%
R15,001 – R20,000 [n=63]	Covid-19 / Lockdown	16%	Unemployment / Retrenchment	13%	Late/non - Payments	13%
R20,001 – R30,000 [n=69]	Covid-19 / Lockdown	16%	Cost of living / Inflation	12%	Vehicle maintenance	12%
R30,001 – R45,000 [n=68]	Avoiding late payment	17%	Covid-19 / Lockdown	13%	Cost of living / Inflation	12%
R45,001 and above [n=48]	Covid-19 / Lockdown	17%	Cost of living / Inflation	17%	Home repair/renovation	8%

Table 8: Reasons for increased borrowing by income group

4.3.3. New debt acquired

CONSUMER: What was the increase in the amount borrowed through your unsecured credit transaction, credit card, or store card a result of? [n = 732]

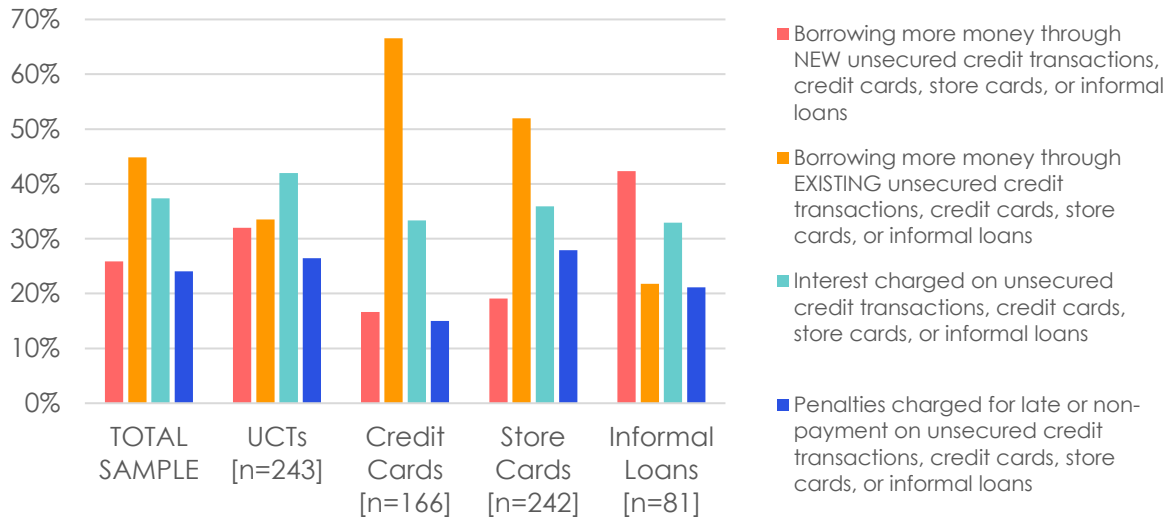


Figure 13: Methods for increased borrowing (2017-2020)

Among those who mentioned increasing their debt on their unsecured credit transaction, credit card, or store card between 2017 and 2020, the most common method for doing so was increasing the debt on their existing product, i.e., incurring more debt with the same account. As such, consumers were unable to distinguish between revolving credit personal loans and unsecured credit transactions, as the latter is fixed and cannot have its capital amount increased during the repayment period. It is thought that the terminology used in advertising “personal loans” perpetuates this misunderstanding, and therefore providers can be more specific about which form the credit agreement takes.

Interestingly, debt increases were more likely to be caused by the interest charged on the lending product than they were by the respondent taking out a new account. In contrast to the overall sample, debt on unsecured credit transactions grew mostly because of the interest being charged on their accounts, while credit cards and store cards had better facilities for increasing loaned principal amounts on the same account.

Unlike the other respondents in the formal market, the unregulated informal loan holders more regularly opted for new loans, rather than extensions of existing ones, however, this is likely driven by the intrinsic unstructured nature of the industry.

CONSUMER: Did you take up your additional unsecured credit transactions, credit cards, or store cards from the same provider or a different provider? [n = 176]

Approximately 3 in 5 respondents who opened new accounts between 2017 and 2020 did so with the same provider. This profile of new debt echoed through the lending products, except credit cards, where it was more likely that the new debt was incurred with a different provider. Given the upper limits of credit lines offered by banks, it makes sense that credit card debt would need to be incurred with a provider that has not yet lent the consumer any funds. This

also points toward a miscommunication between financial institutions, where those in debt are able to open new lines of credit despite industry restrictions.

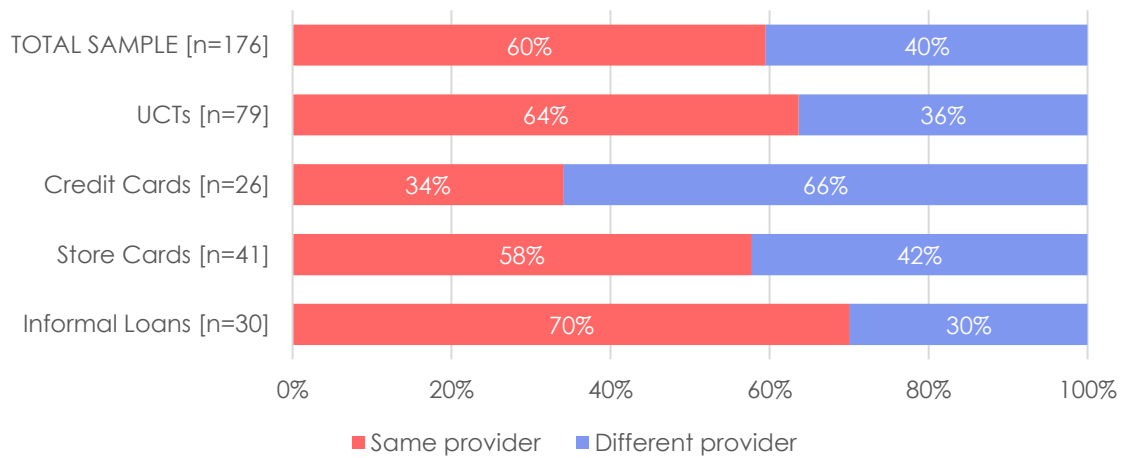


Figure 14: Sources of increased borrowing (2017-2020)

This theory holds true when looking at how many additional accounts and products were taken out over that period, as credit card users had a higher likelihood of registering more than one additional credit card account.

CONSUMER: How many more unsecured credit transactions, credit cards, or store cards did you take out? [n = 176]



Figure 15: Volumes of increased borrowing (2017-2020)

4.4. COVID-19 Enforced Changes

According to Strauss *et al* (2020), South Africa was already struggling with economic deterioration prior to the outbreak of COVID-19, as unemployment reached 30% in the first quarter of 2020 off the back of three consecutive periods of economic contraction. Indeed, at the beginning of 2020, 60.5% of those employed in South Africa were earning below the working poverty line (R5,086).

The COVID-19 pandemic that swept the globe throughout 2020 forced through policy changes that affected all South Africans. Social distancing and lockdowns directly impacted individual and organisational earnings, thus creating financial pressure on all those who did not benefit from state protectionist measures and emergency funding. South Africa was no exception in this regard, especially in the fields of tourism, travel, and entertainment. In terms of credit, the payment holidays and debt relief programs that were implemented in the consumer base are now being vigorously collected, and more people than ever are using their credit to obtain basic goods (Roets, 2021).

Under South Africa's legislation, financial provisions are made for natural disasters in the National Credit Act (NCA)

"Emergency loan" means a credit agreement entered into by a consumer to finance costs arising from or associated with-

- (a) a death, illness or medical condition;
- (b) unexpected loss or interruption of income; or
- (c) catastrophic loss of or damage to home or property due to fire, theft, or **natural disaster**, affecting the consumer, a person who is dependent upon the consumer or a person for whom the consumer is financially responsible;"

(The National Credit Act 34 of 2005, p. 20)

The legislation makes provision for making credit available should it be in the best interest of the public

"(2) The Minister, by notice in the Gazette, may make a declaration

- (a) in order to promote the availability of credit in all or part of the Republic in circumstances of **natural disaster** or similar emergent and grave public interest."

(The National Credit Act 34 of 2005, p. 44)

4.4.1. Changes to demand and supply

CREDIT INDUSTRY: How has the COVID-19 pandemic affected the supply and demand of credit products? Why do you say this?

According to the credit industry, both the demand and supply for unsecured credit transactions, credit cards, and store cards decreased temporarily during the two months of hard lockdown in South Africa. However, once lockdowns began to lift, the market responded.

In terms of **demand**, consumers increased their appetite for unsecured credit transactions, credit cards, and store cards, especially among those who had lost their jobs or incomes. Despite now being more pessimistic about their prospects, consumers showed a particularly high demand for large-value loans, according to banks. DCASA criticised banks for their claimed flooding of the market with potentially reckless credit provision during the initial state of financial emergency under COVID-19.

Among the more affluent, a rise in credit demand for home loans was seen too, as the change in rates made the investment environment more favourable. This highlighted a switch in mindset among the affluent, who experienced a drop in demand for luxury items that has only recently partially normalised. Additionally, consumers became less reckless and focused their financial efforts more on creating a stronger financial foundation for their families. It was believed by some in the credit industry that consumers in need of credit during the lockdown could have been treated with more leniency by the regulator.

“If the regulator could have been more lenient with the granting of credit during this time, it would have benefitted a lot of consumers.”

Standard Bank

Demand in store cards also suffered initially because of the physical restrictions of lockdowns and the fact that many retail credit providers interact with their customers using physical cash. This drop in demand pushed retailers to then take on a riskier profile of consumer and increase their supply. Some retailers noted a drop of around 60% in sales during hard lockdowns and therefore provided customers with online catalogues to select products and meet retail representatives outside the store to complete the transaction (business was conducted outside the store to observe lockdown rules). This greater reliance on e-commerce platforms is expected to remain.

As discussed, the **supply** of credit was initially hindered by the physical restrictions of lockdowns and continued to be a stringent environment (because of risk adjustments) once physical access was restored to unsecured credit transactions and credit cards. Even among higher-income earners, there were limits placed on some store card extensions, although this has now normalised. These reductions in new credit uptake, compared to periods before COVID-19, have affected the profits of credit suppliers, as they were also financially impacted by the higher number of credit life insurance claims submitted. In this way, it was proven that some sectors were more volatile than others, like travel, hospitality, and liquor distribution, where credit life insurance claims for consumers in these sectors were at their highest.

Agreements	2019-Q4 R000	2020-Q1 R000	2020-Q2 R000	2020-Q3 R000	2020-Q4 R000	% Change (Q4/Q3)	% Change (Y/Y)
Credit transactions	124,075,795	107,135,851	45,177,842	115,447,796	136,675,405	18.39%	10.15%
Credit facilities	21,306,448	19,215,217	9,505,285	13,998,170	17,743,638	26.76%	-16.72%
Total	145,382,243	126,351,067	54,683,126	129,445,966	154,419,042	19.29%	6.22%

Table 9: Changes in rand value of consumer credit during the COVID-19 pandemic

Agreements	2019-Q4 000	2020-Q1 000	2020-Q2 000	2020-Q3 000	2020-Q4 000	% Change (Q4/Q3)	% Change (Y/Y)
Number of credit transactions	2,145	1,815	825	1,399	1,659	18.57%	-22.68%
Number of credit facilities	2,607	2,111	1,227	1,679	2,001	19.19%	-23.24%
Total	4,752	3,926	2,052	3,078	3,660	18.91%	-22.99%

*Table 10: Changes in consumer credit volumes during the COVID-19 pandemic
Source: Consumer Credit Market Report, 2020: Q4, NCR*

These findings were supported by data represented in the fourth quarter Consumer Credit Market Report (NCR, 2020), where although the total value of consumer credit granted exceeded levels prior to COVID-19, the number of new accounts being granted diminished, showing an increase in credit uptake within the existing customer bases of organisations, i.e., the same people were taking out additional debt.

4.4.2. COVID-19 induced borrowing

CONSUMER: Did you borrow more on your unsecured credit transaction, credit card, or store card as a direct result of the COVID-19 pandemic and subsequent lockdowns? [n = 732]

Among those in the consumer sample who incurred more debt, at least half did so because of the financial ramifications of COVID-19 and its associated lockdowns. Store cards, perhaps by virtue of being the predominant method for buying clothing, did not see as much of a COVID-19 induced increase, as those products were not as essential to a lockdown environment (and in high level lockdowns, were unavailable). Credit cards holders, on the other hand were comparatively more affected by the pandemic.

The unregulated informal loan holders felt the most financial pressure among product groups, with almost 80% of the sample attributing their increased debt to COVID-19.

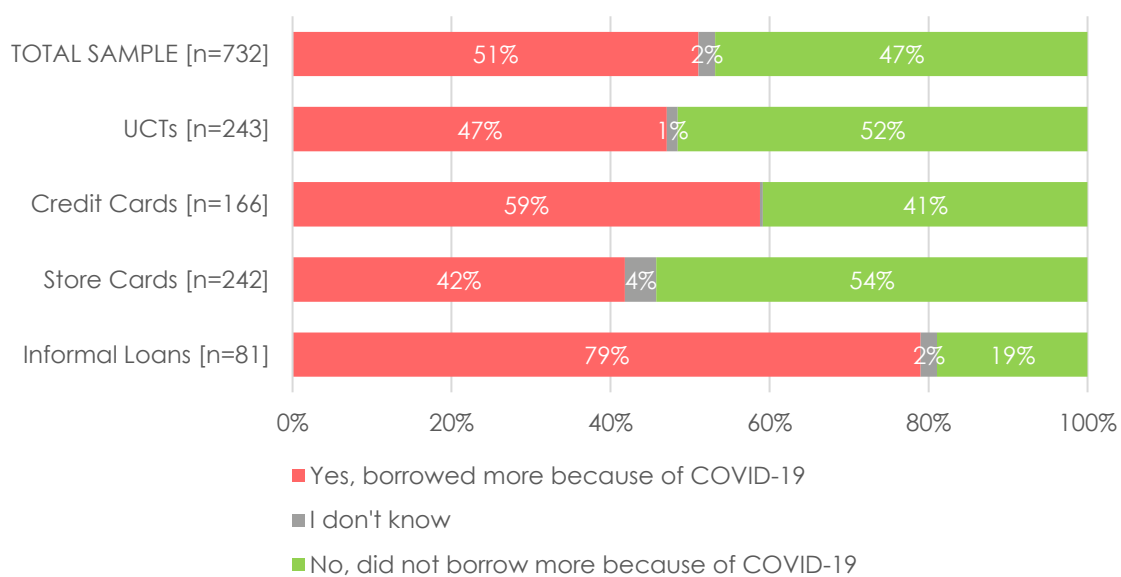


Figure 16: COVID-19 induced borrowing by product type

Interestingly, the highest income bracket had the lowest rates of additional debt, but were seemingly most affected by COVID-19, at least in terms of the cause for their additional debt. This may point to a similarly low threshold of emergency funding among these consumers. Although the R12,501-R15,000 income segment was one of the bands with the highest rates of new debt since 2017, it was seemingly least impacted by COVID-19, highlighting that the cause of their increased debt could be more independent of the pandemic.

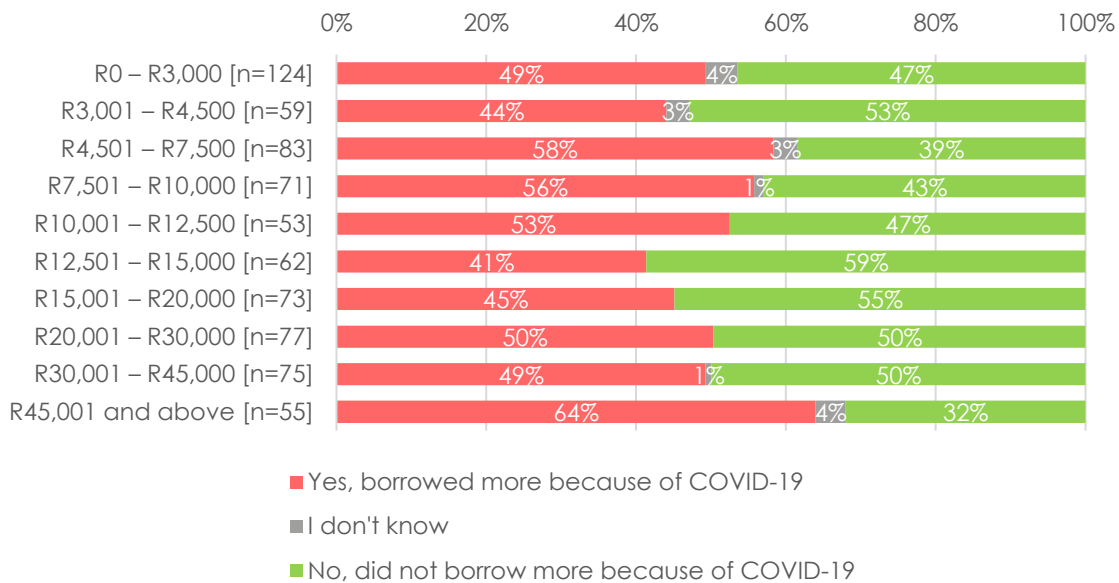


Figure 17: COVID-19 induced borrowing by income group

CONSUMER: Which of the following, if any, contributed to you borrowing more during the COVID-19 pandemic on your unsecured credit transaction, credit card, or store card? [n = 387]

As a coping mechanism for loss of cashflow during the COVID-19 pandemic, some businesses were forced to retrench workers, withhold salaries, or reduce the compensation paid to their employees. Those who incurred COVID-19 debt and held credit cards in this study had the lowest levels of association with job loss, but a higher incidence of having their salaries or wages reduced.

On the other hand, it seems those who hold unregulated informal loans were more easily shed from companies that needed to reduce payroll and meet financial targets.

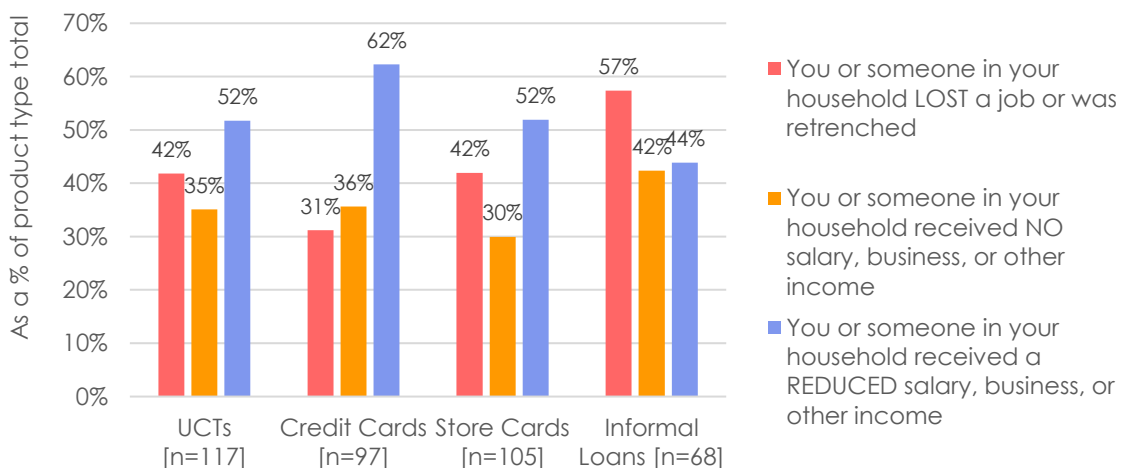


Figure 18: COVID-19 impacts by product type

The different treatment of low and high-earning employees during COVID-19 was further exemplified by the difference among income segments. Retrenchment or job loss was the leading impact in four of the **bottom five** bands, whereas the same factor was the least impactful in four of the **top five** bands. Indeed, a reduction in salary, which is the most

preferable of the COVID-19 impacts in this scenario, was the most regularly reported impact for anyone earning more than R12,500 per month.

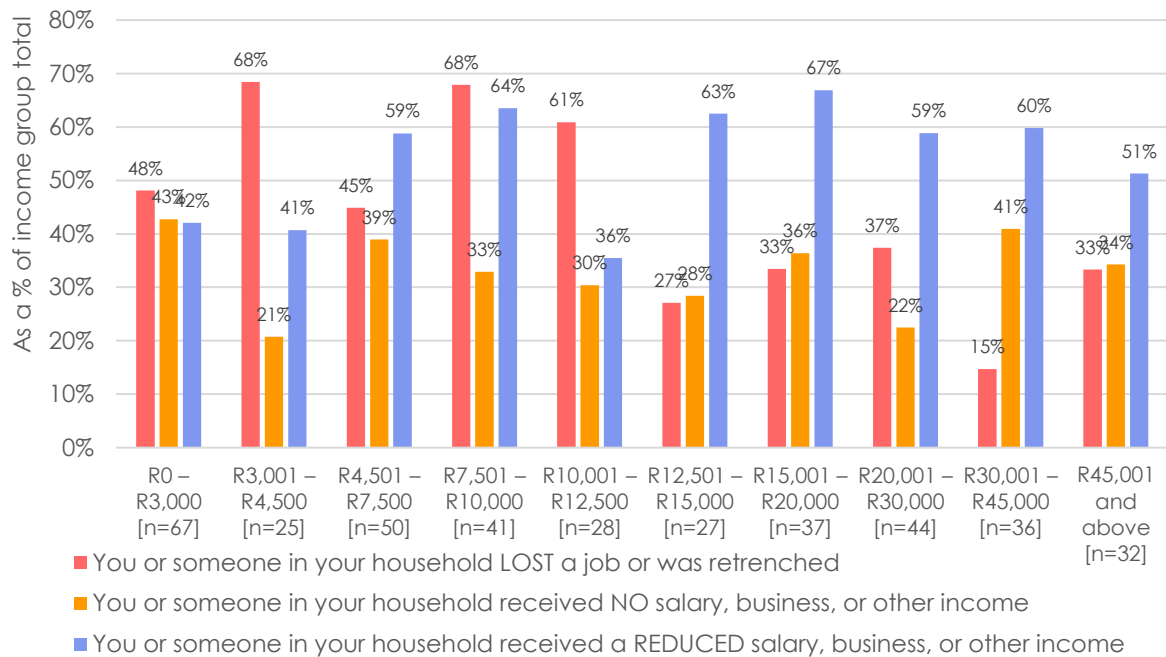


Figure 19: COVID-19 impacts by income group

CONSUMER: How much more did you borrow through your unsecured credit transaction, credit card, or store card specifically because of COVID-19? [n = 379]

When covering for COVID-19's financial impacts, the formalised environment (inclusive of unsecured credit transactions, credit cards, and store cards) was willing to offer larger credit amounts to their customers.

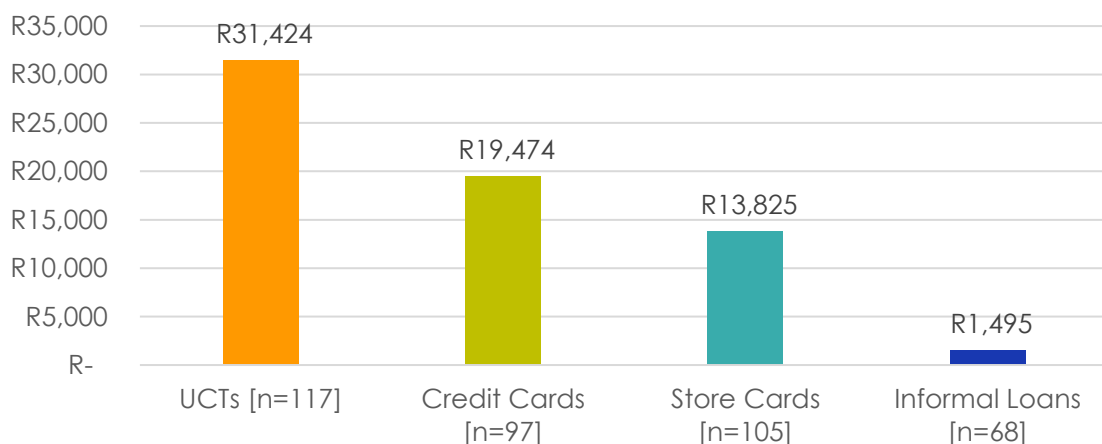


Figure 20: Average value of COVID-19 induced borrowing by product type

In contrast, the unregulated informal environment, perhaps due to the significant demand among the lower-income groups (and not having the money supply to meet this demand), were not as willing to provide large debt extensions. Instead, they focused on low-value/high volume lending.

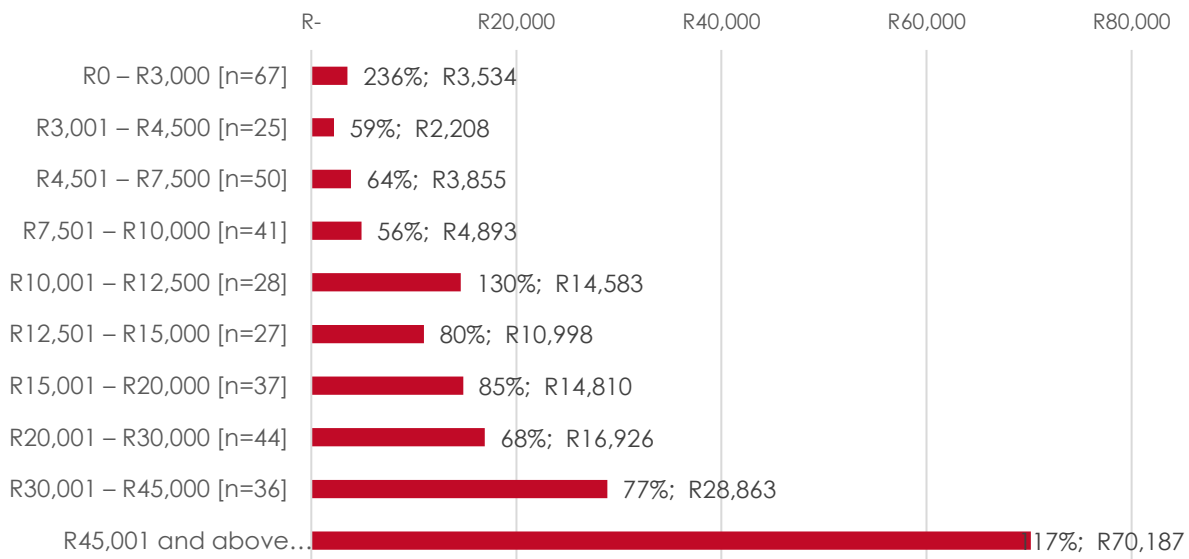


Figure 21: Average value of COVID-19 induced borrowing by income group

The R0-R3,000 and R10,001-R12,500 income bands were the only segments that incurred COVID-19 induced debt that definitively surpassed the value of their monthly earnings. The average debt value of the highest income bracket was significant, although given the financial position of the respondents, were spent on more long-term projects, as established in [Section 4.2](#).

4.4.3. Money management

CONSUMER: In what way, if any, has the recent COVID-19 pandemic impacted the way you handle your money?
[n = 1723]

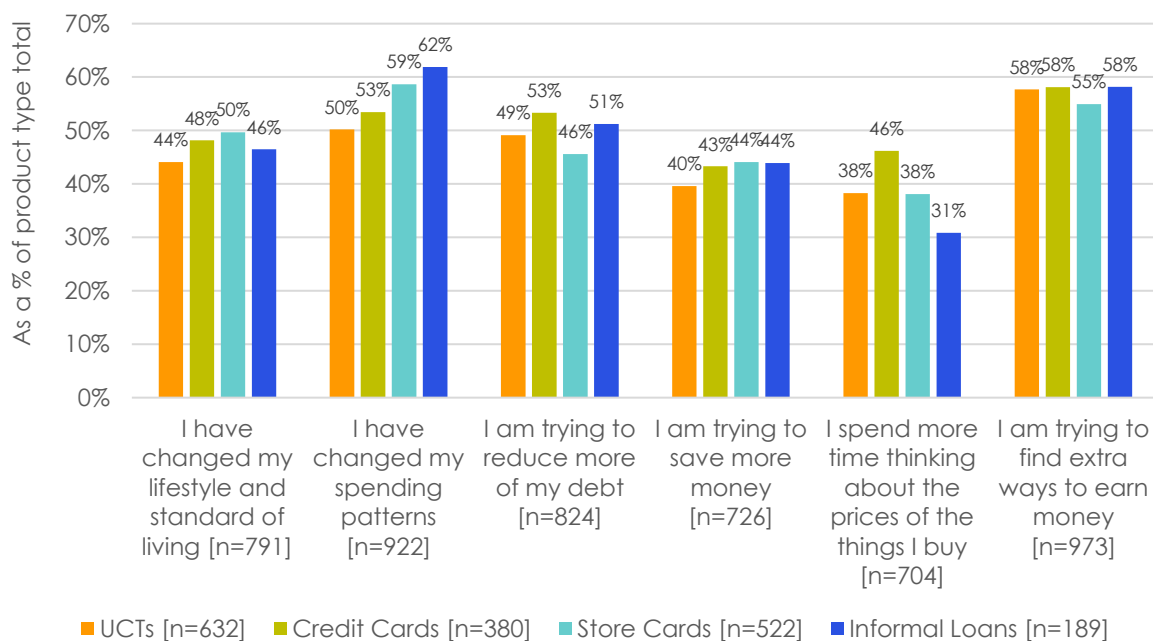


Figure 22: COVID-19 induced money management changes

The impacts of COVID-19 are not limited to those who took out additional debt. Throughout the entire sample, there is a large contingent of respondents across product groups who have taken active steps toward finding additional sources of income. Likewise, the pandemic has had a significant impact in changing the spending habits of most respondents, specifically those who hold store cards and unregulated informal loans (the lower end of credit values).

5. COST OF CREDIT

The cost that a consumer bears when taking out credit includes, according to the Review of Limitations on Fees and Interest Rates Regulations published in the Government Gazette (DTI, 2015), the interest charged on their facility, the service fee charged by the service provider (capped at R60), and an initiation fee. The interest rates and initiation fees vary according to the type of debt instruments. In terms of the products included in this study:

Product	Maximum Prescribed Interest Rate	Maximum Initiation Fee	Maximum Credit Life Insurance Charge
Unsecured credit transaction	Repo rate + 21%	R165 per agreement +10% of amount over R1,000. Never to exceed R1,050.	R4.50 per R1,000 of the deferred amount.
Credit card	Repo rate + 14%	R165 per agreement +10% of amount over R1,000. Never to exceed R1,050.	R4.50 per R1,000 of the average utilisation of the credit limit in the billing cycle.
Store card	Repo rate + 14%	R165 per agreement +10% of amount over R1,000. Never to exceed R1,050.	R4.50 per R1,000 of the average utilisation of the credit limit in the billing cycle.

Table 11: Maximum monthly costs of credit

Source: DTI, 2015

Despite the limitations enforced through the legislation, there is sentiment among the literature (Whitefield, 2018, Rees, 2020), credit industry, and consumer sample that the cost of credit is either inconsistently applied, bloated with auxiliary charges, or a source of confusion for creditors. Indeed, a report released by Differential Capital (2019) examining the real costs of credit found that the cost of all fees and charges on "unsecured loans" range from 225% for 1-month to 37% over 61-90 months. Although these cost mechanisms are adherent to the legislation shown above, consumers do not understand the real cost of credit over the lifetime of the product. Among a consumer population that struggles with financial literacy, a single-figure cost of credit, which includes rates, service fees, and insurance, would be more suitable when trying to fairly represent costs to the consumer.

5.1. Additional Costs

Some of the considerations that consumers need to be aware of include knowing and understanding what the banks billing cycle is, the minimum instalment, what the interest-free period is, and also the bank charges (Ardé, 2019). Ardé further states that consumers need to be cognisant of the total cost of the credit and not only the interest rate. Initiation fees, annual maintenance fees, and monthly subscription fees for rewards programs are also sometimes added to the overall cost (BusinessTech, 2019), and Jordaan (2019) includes penalties for non-payment in his description.

Shopping for the best interest rate is the advice that is most commonly given, but consumers also need to see what other costs and conditions come with the credit agreement. Cairns

(2019) notes that there is a rising trend of average consumer debt and attributes some of this to consumers shopping around for the best deals. More specifically, they tend to look for the largest loan with the lowest monthly repayment, regardless of whether this extends the loan over many years (Differential Capital, 2019). The author notes that this is an unintended consequence of current legislation aimed at financial inclusion.

Whitefield (2018) explores some of the fees which are not always clearly understood by consumers. These include “hidden” fees, such as those charged when withdrawing money from a credit card. Whitefield further highlights the way in which some interest rates are calculated by stating, “If you owe your bank R10,000 and pay R9,999, then they are entitled – as per the small print – to charge you interest on the full R10,000 rather than the R1 that you failed to pay.”

The competing interests between the clear set of regulations provided by the NCR and the need to maximise organisational profit are further explored in the next section by members of the credit industry.

5.2. Market Cost Awareness

CREDIT INDUSTRY: How well would you say the cost of credit is understood by the market?

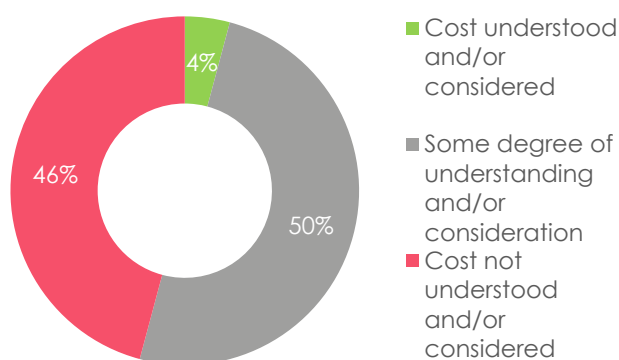


Figure 23: Understanding the cost of credit

Individuals questioned in this study believed that the **cost of credit was either poorly or only partially understood by South African consumers**. Many highlighted the difference between certain income and education groups, whereby those in lower-wealth segments who had not received quality formal education were less likely to fully understand the cost of credit. The necessary information is seemingly available to consumers, however, it is their ability to absorb and conceptualise

the cost of credit that was the main hindrance. The causes are discussed in detail here, but a major factor is affordability and therefore the freedom to compare and choose the terms of their debt – some people will take whatever is offered to them because of their dire financial situation. Indeed, many high-income earners have used these mechanisms to generate profit for themselves through rate hedging and arbitrage.

Being able to understand the cost of credit requires the development of certain skills and problem-solving methods. Many of these are established and transferred during a consumer’s years in the **formal education system** and most banks thought the average South African consumer to lack this financial literacy. Ideally, consumers should be able to assess the multiple products being offered to them and determine the option with the lowest cost of credit, however low mathematical literacy rates (and required pass rates in schools) are cited as a barrier. To combat this, some organisations have started including an educational component to their offering, although credit providers believe this responsibility should lie with the

government and the regulator. Some consumers have learned about managing credit by being over-indebted and having their credit lines restricted, although this method may not be in the best interests of the economy and the consumer.

This lack of understanding means that many consumers do not grasp the exponential growth of **compound interest rates** and how their instalments may increase in the future should they default or the interest rate change. Interestingly, the opinion of the credit industry that consumers more readily consider the monthly value of their instalments over other charges, rates or details is confirmed by the consumer respondents in this study. The variability of these rates, which is also not understood completely by the consumer, can play a factor in future affordability and levels of indebtedness.

Finally, credit providers agree with the literature around the **complexity of some credit mechanisms**, whereby additional sundry rates and charges are applied to credit to an extent that does not match the originally advertised rate to the consumer. In an attempt to disclose all fees to consumers, a pre-agreement contract is mandated by the NCA and given to a customer to agree to within seven (7) days. However, the lack of financial literacy and education discussed in this section highlights how this measure can be ineffective in some instances.

Despite a general lack of education and a perceived predation on consumers (especially in the lower-income segments), some members of the credit industry voiced **concern over the attitudes and behaviours** of South African credit consumers. Indeed, a few members of the credit industry thought that consumers purposefully ignore the conditions of their agreements and do not read their contracts (including the fine print) because they cannot control their impulses.

Much of the credit industry related the degree of understanding of credit costs to the **regulation** within the environment. Although the legislation is still comparatively new, there were positive remarks on the changes that require compulsory acknowledgement of credit terms by the consumer, and further praise was given to the readability of the NCA. However, further concern was raised over the ease with which consumers could agree to contracts over the telephone and consumers reading contracts, but not understanding them.

5.3. Rate Understanding

Understanding the cost of credit becomes a question of whether consumers are aware of the multiple cost components of their debt and what they focus on when considering a lending product. This includes the nature of the rates they are given, i.e., Are the rates subject to change? And how are they determined by the provider? Respondents in this study were posed questions about their understanding of the cost mechanisms in play and how they affect credit management.

CONSUMER: When you borrowed money through your unsecured credit transaction, credit card, or store card, did you focus more on the interest rate charges or the monthly instalment? [n = 1723]

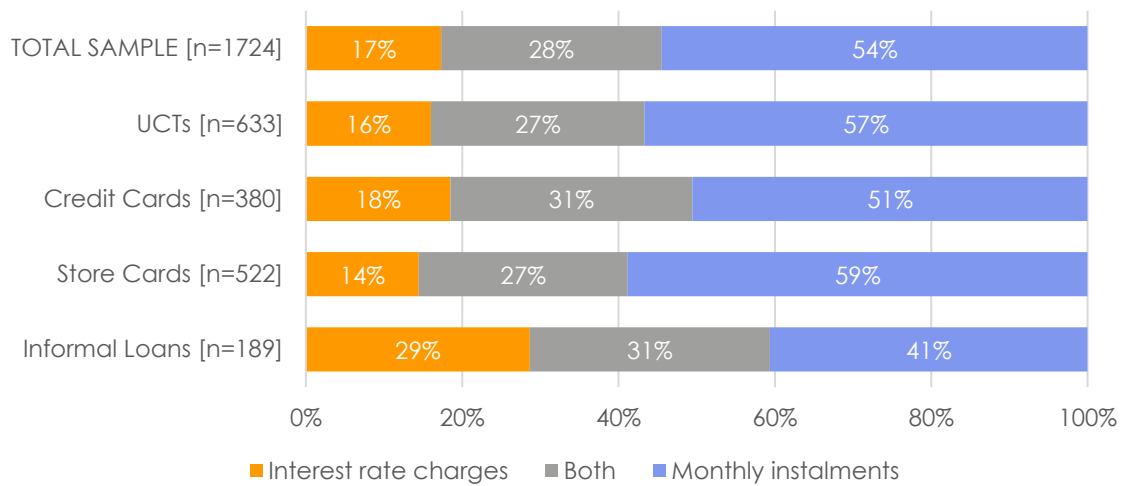


Figure 24: Cost mechanism focus

When asked to compare the consideration of interest rates and monthly instalments, over half of this study’s respondents focused more on the value of their monthly instalments, implying a more integral role in the process of choosing lending products. In this case, store card holders were most interested in their monthly repayments. This further exemplifies the belief among the credit industry that the average consumer does not have the necessary information to fully understand the true cost of their credit.

Interestingly, the unregulated informal market showed a greater degree of consideration given to interest rates, as 60% of their base either valued interest rates more than monthly repayments or saw them as equally important.

CONSUMER: Do you know what interest rate you pay on your unsecured credit transaction, credit card, or store card? [n = 1723]

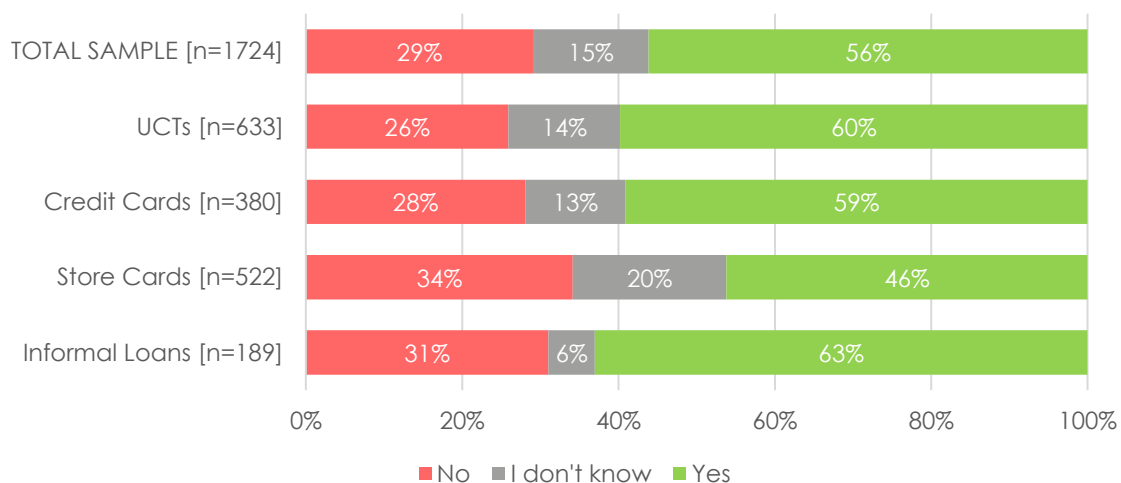


Figure 25: Awareness of interest rates

It is therefore unsurprising that store cards holders were least aware of what their repayment rates were. However, their comparative disinterest was not shared with the rest of the sample,

as approximately 60% of each product type knew what their interest rate was. Although this is a positive result, it remains concerning that more than a quarter of the sampled population does not know what interest rate they are paying.

CONSUMER: Has the interest rate you pay on your unsecured credit transaction, credit card, or store card increased, decreased, or stayed the same since 2017? [n = 961]

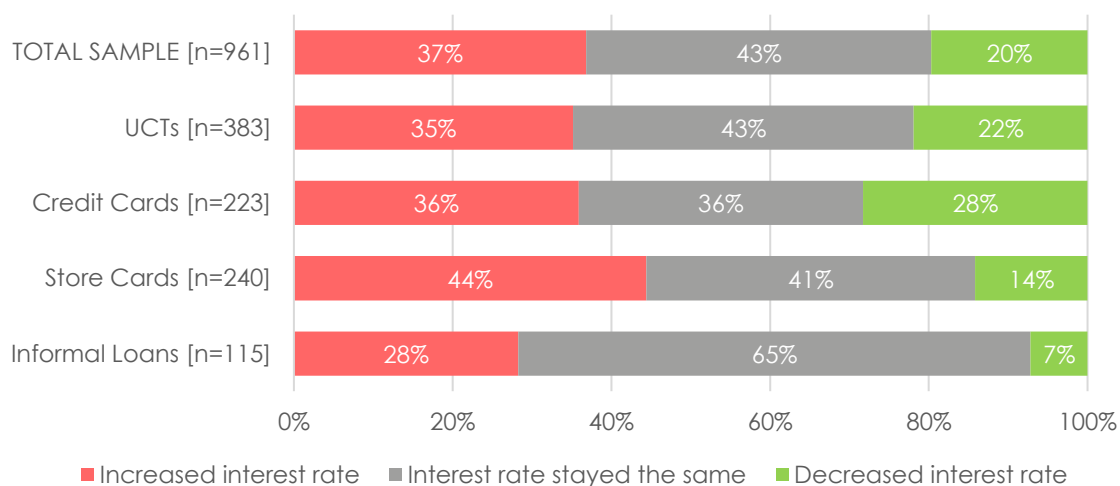


Figure 26: Changes in interest rates

Of those respondents who were aware of their interest rates, the largest proportion stated that their rates had not changed since 2017. Despite this, the respondents that cited increases in their interest rates considerably outweighed any reductions over that period, i.e., rates were more likely to climb than reduce. This may point to another contradiction in consumer awareness, as rates in the market recorded reductions over the same period. Store card holders, again, were unique in that they were more likely to have their interest rates increased.

Fortunately for the lower-income households, the reported rates among unregulated informal lenders remained quite stable between 2017 and 2020, with less than a third needing to increase their repayments because of rate hikes.

CONSUMER: Does the interest rate you pay on your unsecured credit transaction, credit card, or store card usually stay the same? i.e., is it a fixed rate or does it change (floating or linked rate)? [n = 961]

Credit card facilities showed the greatest degree of rate fluctuation, as their day-to-day transactional activities tend to demand a more flexible costing structure in response to the market's changes. On the other hand, unsecured credit transactions were most likely to be subject to fixed rates when calculating interest. This highlights the variability that credit consumers are exposed to, which can be a concern in a market that does not have the requisite financial literacy or knowledge.

The unregulated informal market registered the largest proportion of fixed rates for their customers, with more than 70% of these product holders stating that they were not subject to rate fluctuations over the borrowing period.

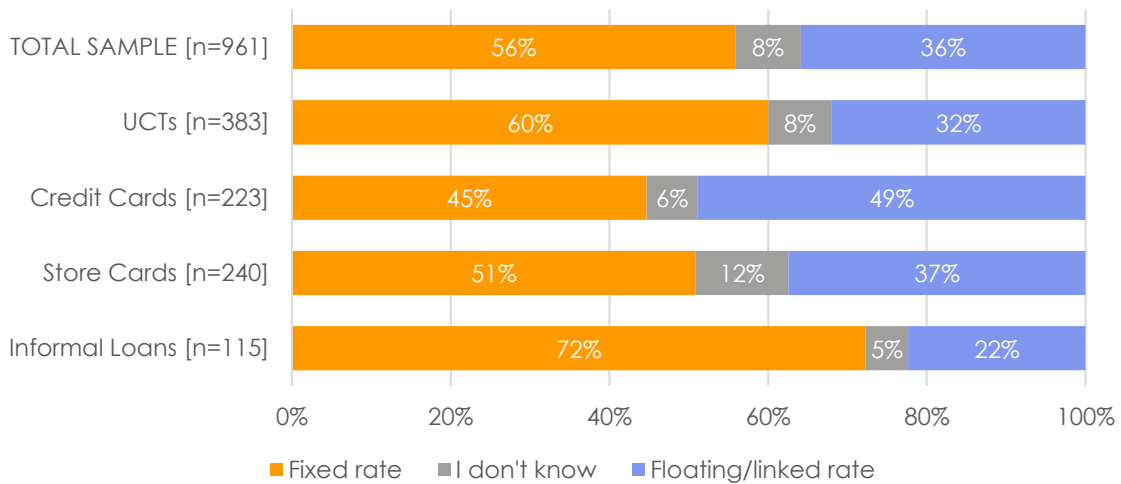


Figure 27: Interest rate mechanisms

CONSUMER: Do you know if there are any other charges on your unsecured credit transaction, credit card, or store card, besides interest charged? [n = 1723]

Respondents were further probed about their awareness of additional charges on their lending products. Credit card holders were the most attentive to additional charges, with 49% of them stating they knew there were other charges (apart from interest) on their accounts, like a service fee. Store card holders, by comparison, were less aware of additional charges, which reinforces the findings of this study that they are less concerned with their rates and fees than other product types.

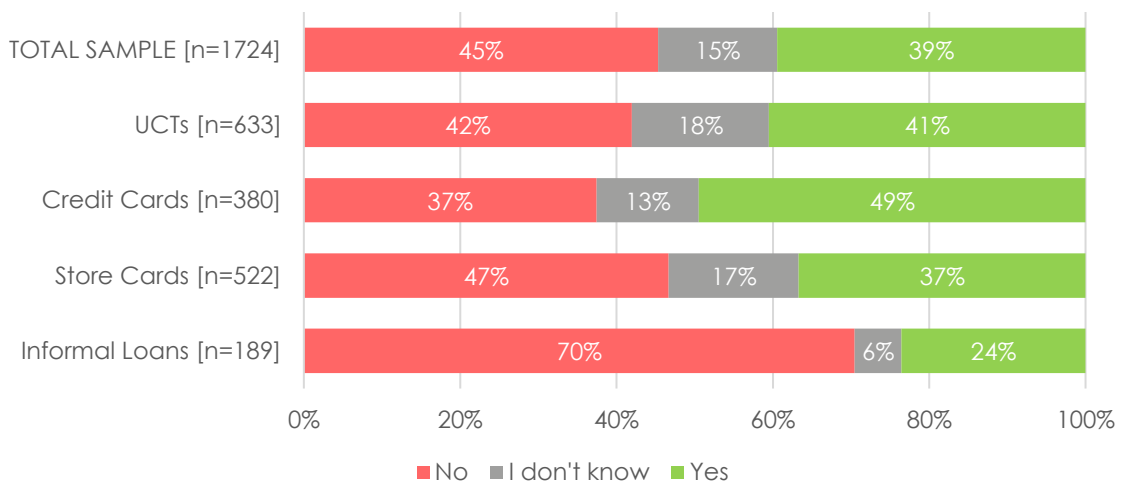


Figure 28: Awareness of additional debt charges

When compared to the regulated market, the informal loan holders were less sure of their additional fees, with only 24% of these product holders being certain of the costs incurred. No further questions were asked of the consumer sample to identify their additional charges, although this serves as another statistical representation of the need for better financial education among credit consumers.

5.4. Credit Life Insurance

To manage the uncertainty inherent in the credit system, providers encourage the use of credit life insurance, which can be compulsory for larger debt instruments (Head, 2020). This mechanism, which is paid via monthly premiums, is defined by the NCA as including “cover payable in the event of a consumer’s death, disability, terminal illness, unemployment, or other insurable risk that is likely to impair the consumer’s ability to earn an income or meet the obligations under a credit agreement” (DTI, 2006, p. 18). In essence, a credit life insurance policy will continue to pay off your outstanding debt if you are unable to. The maximum prescribed fees for these services have been regulated by the NCA and are available in [Section 5](#).

CONSUMER: Do you know what Credit Life Insurance is? [n = 1723]

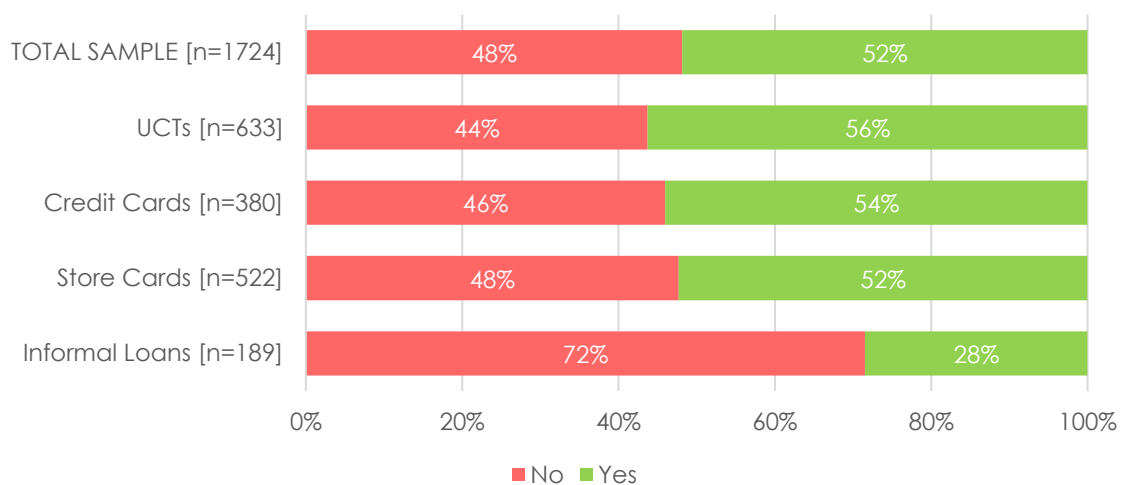


Figure 29: Awareness of credit life insurance

The NCR first sought to understand the awareness of credit life insurance among holders of unsecured credit transactions, credit cards, and store cards. On average, just over half of the sample knew what credit life insurance was, with the formal lending products showing a greater degree of awareness. Holders of unsecured credit transactions were only slightly more aware of credit life insurance than the other product types.

The unregulated informal market, where these insurance mechanisms are unlikely to be present, recorded more than 70% of their product group as unaware of credit life insurance.

CONSUMER: What is your understanding of Credit Life Insurance? [n = 856]

Among those respondents who said they were aware of credit life insurance, more than 90% accurately described what credit life insurance entails. This lends credence to the concept that credit life insurance is an easy concept to grasp once discovered. This contrasts with the opinions of some members of the credit industry, who thought consumers did not fully understand what the additional costs of this service would be.

6. INDEBTEDNESS

As reported by the NCR in the 2019/2020 Annual Report (NCR, 2020), South Africans are in considerable debt, with approximately 48% of active credit consumers in arrears, and on average, 85.3% of disposable income being spent on debt repayments (BusinessTech, 2020). This creates an environment where new credit is required to service old credit, maintaining a cycle of debt management which prevents individuals from escaping their circumstance. Therefore, indebtedness becomes more than just a financial phenomenon, but rather encapsulates much of the socio-economic and geopolitical issues in the global economy. Debt, in that sense, is tied to power, and can be a method of governance.

6.1. Degrees and Causes of Over-indebtedness

Taking stock of the current credit status of consumers is a sobering reminder of what South Africans don't have left at the end of the month to contribute toward debt. Luckhoff (2021) notes that 75% of South Africans who are credit worthy, are already over-indebted. Ardé (2019) cites research conducted by Old Mutual which estimated that only 16% of credit card holders in South Africa pay their balance in full at month-end and 56% only pay the minimum instalment. Social grants have further complicated over-indebtedness, as they have become collateral for credit in some instances; the regularity of state payments has enabled grant recipients to enter into the formal lending sector, as they are now a very secure market for credit providers (Torkelson, 2020).

The NCR's Fourth Quarter Credit Bureau Monitor (2020) compares the credit standing of consumers from March 2018 to December 2020. The number of those in good standing over this period is notably higher in March 2020 (despite a general downward trend). However, the number of impaired records has increased in volume since 2017 and a significant spike in credit active consumers in March 2020 has since reduced.

	03/17	06/17	09/17	12/17	03/18	06/18	09/18	12/18	03/19	06/19	09/19	12/19	03/20	06/20	09/20	12/20
Good standing (#)	14.9 9m	15.1 m	15.2 1m	15.6 2m	15.7 7m	15.0 2m	15.0 7m	15.6 9m	15.5 5m	14.8 7m	14.3 5m	14.4 9m	17.5 2m	16.9 6m	17.0 2m	16.8 0m
Good standing (%)	60.7 %	60.9 %	60.6 %	61.7 %	61.9 %	61.1 %	62.6 5%	60.7 1%	60.5 2%	59.2 5%	57.0 6%	57.5 0%	62.5 8%	62.9 0%	61.5 2%	61.2 8%
Current (%)	48.2 %	49.2 %	49.2 %	49.9 %	49.6 %	49.4 %	50.8 7%	48.0 9%	48.1 1%	47.8 9%	45.9 2%	45.7 2%	53.4 4%	53.3 3%	52.4 1%	52.1 2%
1-2 months in arrears (%)	12.5 %	11.7 %	11.4 %	11.8 %	12.4 %	11.7 %	11.7 8%	12.6 2%	12.4 1%	11.3 6%	11.1 4%	11.7 8%	9.15 %	9.57 %	9.11 %	9.17 %
Impaired records (#)	9.69 m	9.69 m	9.87 m	9.70 m	9.69 m	9.57 m	8.98 m	10.1 6m	10.1 5m	10.2 3m	10.8 0m	10.7 1m	10.4 7m	10.0 0m	10.6 4m	10.6 1m
Impaired records (%)	39.3 %	39.1 %	39.4 %	39.3 %	38.1 %	38.9 %	37.3 5%	39.2 9%	39.4 8%	40.7 5%	42.9 4%	42.5 0%	37.4 2%	37.1 0%	38.4 8%	38.7 2%

	03/17	06/17	09/17	12/17	03/18	06/18	09/18	12/18	03/19	06/19	09/19	12/19	03/20	06/20	09/20	12/20
3+ months in arrears (%)	21.7 %	22%	22.1 %	21.7 %	21.9 %	22.7 %	22.3 4%	24.1 5%	23.5 5%	22.9 9%	23.7 5%	24.7 7%	23.2 3%	22.9 0%	23.7 5%	23.4 1%
Adverse listings (%)	11.4 %	11.2 %	11.4 %	11.1 %	10.7 %	10.6 %	9.46 %	10.0 6%	10.8 7%	12.6 8%	14.2 0%	12.8 8%	10.9 2%	10.8 9%	11.4 7%	12.0 7%
Judgements and admin orders (%)	6.2%	5.9%	5.8%	5.5%	5.5%	5.5%	5.56 %	5.08 %	5.07 %	5.08 %	4.99 %	4.85 %	3.27 %	3.31 %	3.26 %	3.24 %
Credit-active consumers (#)	24.6 8m	24.7 8m	25.0 8m	25.3 1m	25.4 6m	24.5 9m	24.0 5m	25.8 5m	25.7 0m	25.1 0m	25.1 4m	25.2 0m	27.9 9m	26.9 6m	27.6 6m	27.4 1m

Table 12: Credit standing of South African consumers
Source: NCR, 2020

As such, this study explores the magnitude of debt in South Africa, stratified by income, product type, and social impact. Establishing trends within these factors remains important for governing the unique sectors of the consumer credit environment.

CREDIT INDUSTRY: What are your thoughts on the current level of indebtedness in South Africa? How does this differ across socio-economic and income groups?

There was almost total agreement among the credit industry that rates of indebtedness in South Africa are **unreasonably high and create an unsustainable credit position**. This has been promoted by a generally poor economic performance and the negative impacts of COVID-19, as discussed in [Section 8.3](#). South Africans are some of the most indebted consumers in the world, according to the credit industry, and this shows in the rising number of consumers under debt review.

“Based on reports which we see on a regular basis, there is an over extension of credit. The cost of living has gone up, but salaries have not gone up at the same pace [as] the cost of living and people are finding other mechanisms to survive.”

Bayport Financial Services

When analysing the different degrees of indebtedness among **income segments** and socio-economic groups, there is a general consensus that those in the **lower-income bands** suffer more from indebtedness – these tend to be young Black South Africans, not part of the formally employed environment and short on education and training. As seen across topics, the lower-income consumers are being pushed into the unregulated informal market.

However, the negative impacts of over-indebtedness are filtering into the **middle and higher-income brackets** too, where higher rates of default are being recorded, according to members of the credit industry. More credit without collateral is being taken out by higher-income consumers, as the costs of living are growing at a rate greater than inflation. Middle-income earners in industries that ceased during lockdown, like air travel, have increased their indebtedness the most, as house and car purchases, which were made at a time deemed safe, now create large financial burdens.

Many members of the credit industry believe that it is more difficult for a higher-income consumer to become over-indebted, as the formal avenues for debt without surety are regulated (unlike the informal market) and, in many cases, the consumer has enough wealth or savings to absorb the loss. This belief is supported by a study conducted by McKinsey (2020), where 75% of consumers reported a decrease in savings in the months following COVID-19's initial impact. Naturally, those who do not have this savings buffer are directly exposed to over-indebtedness. Interestingly, a small portion of the credit industry thought that indebtedness was felt equally among socio-economic groups, although the stronger rise in COVID-induced debt among high-income earners in this study's consumer sample could point to a blind spot in the industry.

The credit industry also noted the effects of **organisations** in the unsecured credit transaction and credit card environment in influencing the degree of indebtedness. A reduction in profit pushed some organisations to increase their advertising and marketing efforts, especially among vulnerable consumers who had negative long-term employment prospects. Some members of the credit industry laid specified blame on the banks, who allowed for high-value, long-term lending that greatly increased levels of indebtedness. Even the extensions allowed to consumers for rentals and other services were criticised as mechanisms for delaying payment and boosting overall indebtedness. The permanency of bad credit records though, has not yet fully reflected post-COVID.

However, certain credit providers thought that formal institutions were following the rules and applying their criteria as per the regulations, and instead it was the un-monitored, unregulated, informal market that was causing the rising over-indebtedness among consumers in South Africa. This was achieved by the issuance of seemingly reckless credit by informal credit providers. A study conducted in 2017 by Wonga Financial Services (Pty) Ltd also highlights the relationship between the informal market and rising rates of indebtedness.

Over-indebtedness was also directly linked to the **failure of multiple businesses and companies** who were responsible for the employment of many consumers. In that way, business failure is also responsible for rising indebtedness, although this increase in investment risk would theoretically boost returns and can be taken advantage of by those able to invest.

In the credit industry, there were a few **contrarians** too. Indeed, one retailer stated that debt extension rates were lower than previous years and that consumers were managing their debt quite well. Furthermore, another member of the credit industry was of the opinion that over-indebtedness was caused by a personal attribute or characteristic in the consumer, that South Africans do not believe in saving their money, and that customers try to hide the truth about their financial position when applying for credit.

6.2. Repayment defaults

CREDIT INDUSTRY: In your experience, are South Africans defaulting on payments more often, less often, or at the same rate as before? What key factors drive this? How do these rates compare between 2017, pre-COVID and post-COVID?

When asked if consumers were defaulting more or less since 2017, more than 60% of the credit industry participants thought the average South African credit consumer was **defaulting more frequently on their credit**. Approximately one quarter of the credit industry participants thought that the rate of default had remained the same since 2017. In this regard, retailers were the most optimistic (thinking that default rates had reduced), while banks had the most pessimistic view of impairment rates (thinking that rates had worsened).

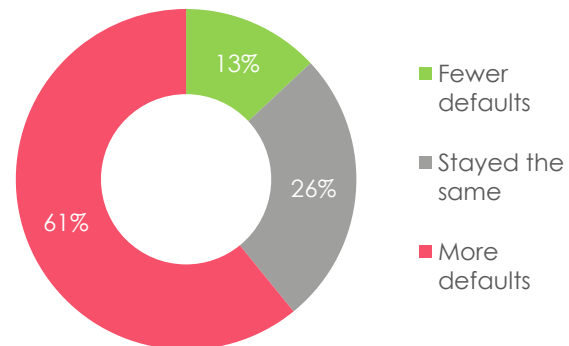


Figure 30: Change in South African default rates

For those credit industry participants who mentioned factors that worsened default rates since 2017, at least one third believed that the COVID-19 pandemic and the associated lockdowns were a leading cause for rising defaults. Approximately one quarter of the consumer sample for this study (which was posed a similar question), believes COVID-19 was responsible for their payment defaults. Prior to COVID-19, job loss and a generally poor economic environment were also contributing factors to a rising rate of default, according to the credit industry, and remain so today.

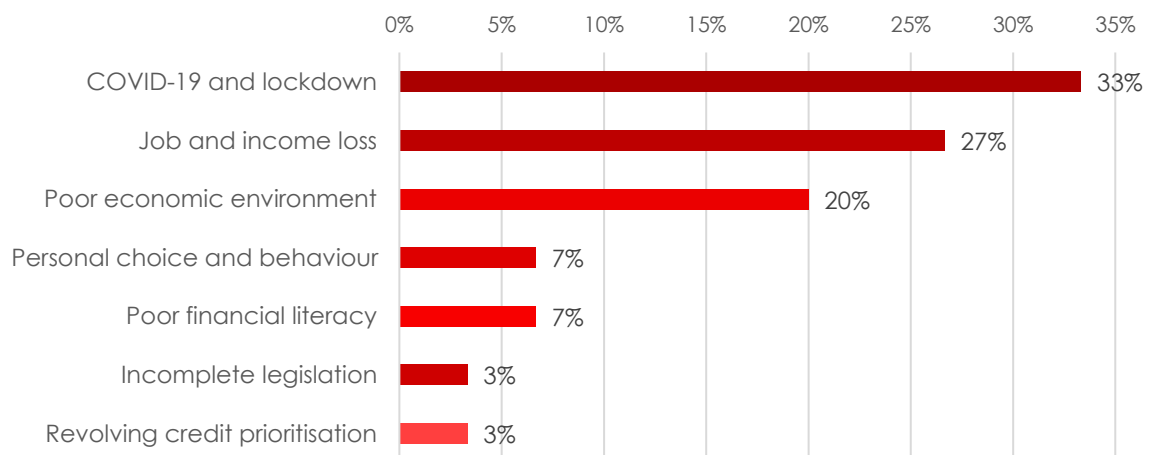


Figure 31: Reasons for increased rates of payment defaults

When asked to directly compare the rates of default since 2017 with pre and post-COVID periods, most of the credit industry indicated that default rates are now higher post-COVID. The years prior to the pandemic are viewed with more uncertainty by the credit industry, although there is an agreement that the legislation changes (like the adaptations to income verification) contributed, at the very least, to a stabler economy with more controlled rates of unemployment and repayment default.

"Post COVID, show me a young person with a job and I will show you a rarity."

SACRRA

CONSUMER: Have you been unable to make a payment or skipped a payment on your unsecured credit transaction, credit card, or store card since 2017? [n = 1723]

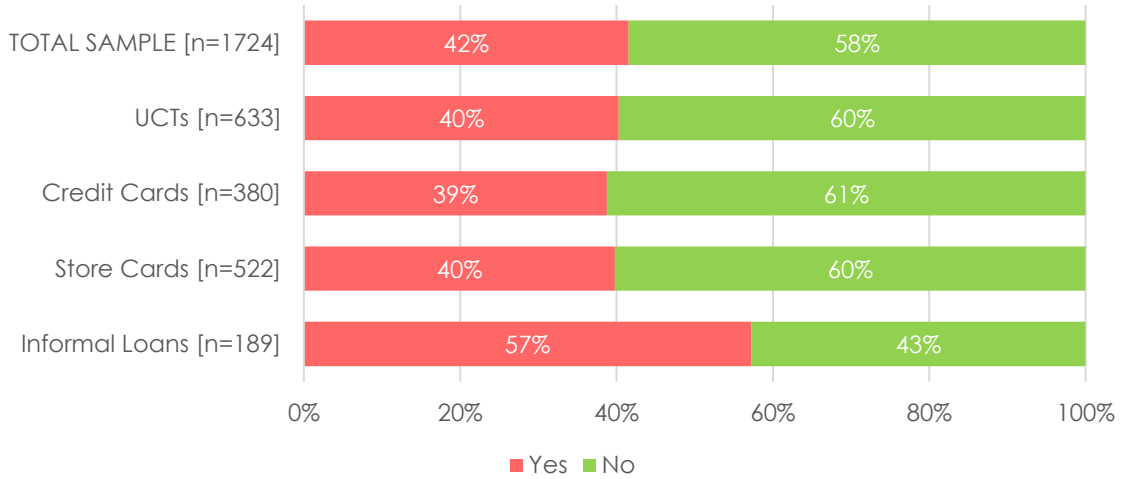


Figure 32: Incidence of payment defaults by product type

The rate of default within this study's sample (approximately 42%) coincides with the NCR's findings in 2019 and 2020. Seemingly, COVID-19 has actively increased the levels/volumes of debt but has not had a significant impact on rates of payment defaults, however, this may be felt further in the future. There are few discernible differences in rates of default between unsecured credit transactions, credit cards, and store cards.

Given the income and employment characteristics (and relative risk) of informal loan holders, it is unsurprising that they do not have the same capacity to meet their debts at the rate of the formal market. While indebtedness is a demographic-wide problem, it is certainly more impactful and prevalent in the lower-income markets.

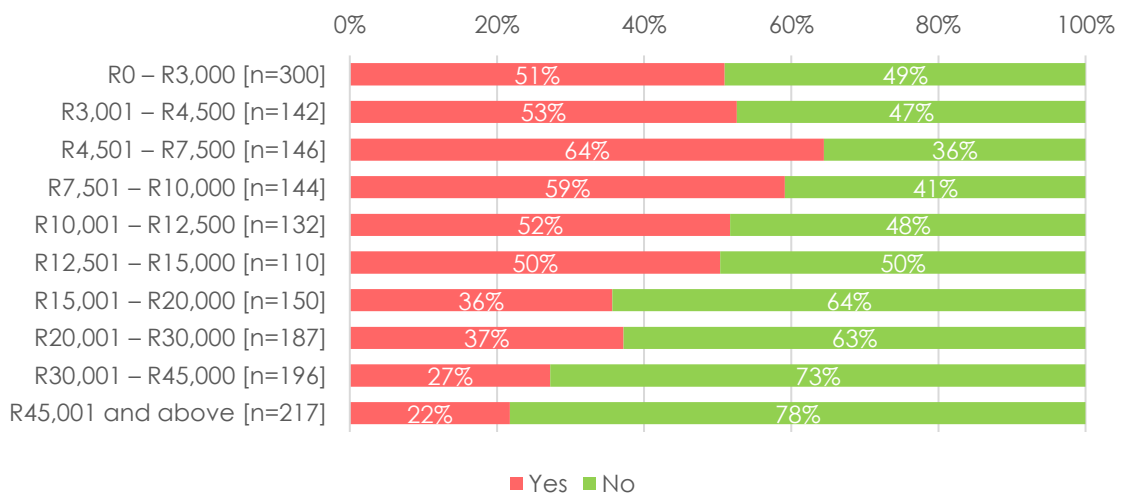


Figure 33: Incidence of payment defaults by income group

Indeed, when analysed among the study's income segments, the wealthiest of the respondents secured the lowest default rates. More than half of all respondents earning less than R15,000 had missed payments and, when viewed in isolation from the income bands above R15,000 per month, this paints a much more negative view of the consumer credit market in South Africa.

CONSUMER: What event or circumstance caused you to be unable to pay or skip a repayment on your unsecured credit transaction, credit card, or store card? [n = 720]

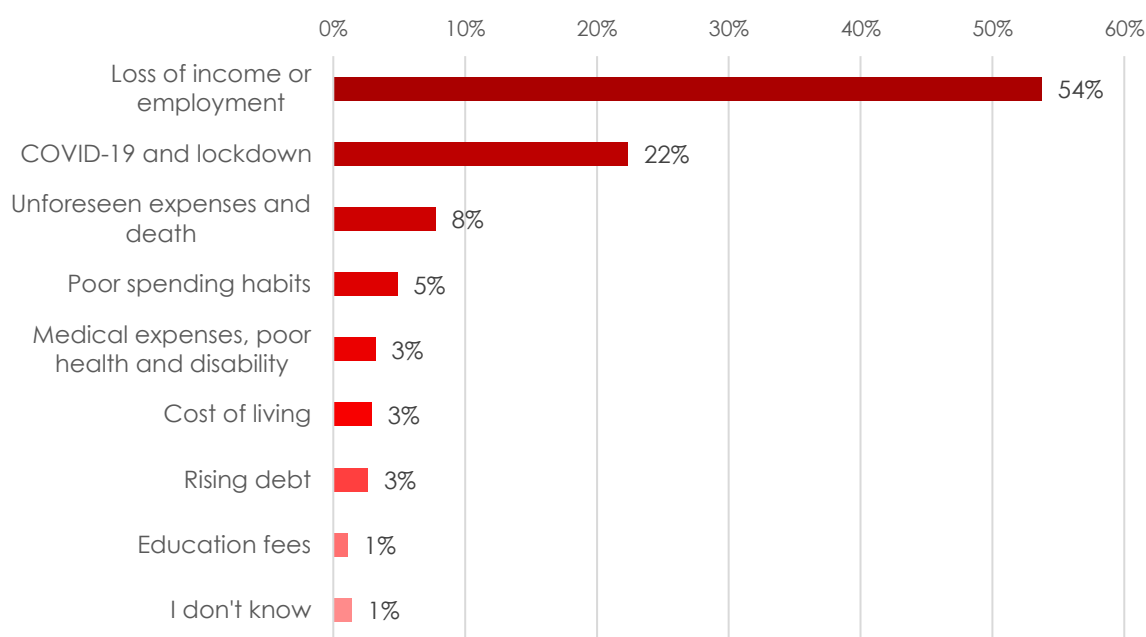


Figure 34: Reasons for payment defaults

Among those respondents who had previously missed or delayed a payment, more than half of them did so because they had either lost their job or foregone a portion of their income. Although COVID-19 was the second most cited cause of default, less than a quarter felt the financial impact of the pandemic to be a driver of default. Very few respondents thought that their payment defaults were a direct result of their own poor financial management.

Income Group	Most cited lending purpose		Second-most cited lending purpose		Third-most cited lending purpose	
	Factor	%	Factor	%	Factor	%
R0 – R3,000 [n=132]	Job and/or income loss	71%	COVID-19 / Lockdown	15%	Unforeseen expenses, death	5%
R3,001 – R4,500 [n=68]	Job and/or income loss	61%	COVID-19 / Lockdown	18%	Unforeseen expenses, death	10%
R4,501 – R7,500 [n=74]	Job and/or income loss	50%	COVID-19 / Lockdown	25%	Unforeseen expenses, death	8%
R7,501 – R10,000 [n=76]	Job and/or income loss	48%	COVID-19 / Lockdown	26%	Unforeseen expenses, death	7%
R10,001 – R12,500 [n=58]	Job and/or income loss	45%	COVID-19 / Lockdown	32%	Unforeseen expenses, death	11%
R12,501 – R15,000 [n=45]	Job and/or income loss	38%	COVID-19 / Lockdown	19%	Unforeseen expenses, death	11%

R15,001 – R20,000 [n=52]	Job and/or income loss	46%	COVID-19 / Lockdown	26%	Unforeseen expenses, death	9%
R20,001 – R30,000 [n=65]	Job and/or income loss	44%	Unforeseen expenses, death	20%	COVID-19 / Lockdown	14%
R30,001 – R45,000 [n=49]	Job and/or income loss	48%	COVID-19 / Lockdown	36%	Unforeseen expenses, death	12%
R45,001 and above [n=44]	COVID-19 / Lockdown	34%	Job and/or income loss	30%	Poor spending habits	20%

Table 13: Reasons for payment defaults by income group

There were few differences in payment default reasons across income groups, especially among those earning less than R30,000 per month, who always chose loss of income/job as their chief reason for missing payments. However, the rate of incidence was highest in the lower-income segments (over 60%). Those earning above this threshold were more likely to default on their payments because of the impact of COVID-19 or poor spending habits.

6.3. Debt Counselling

Indebtedness on this scale has necessitated the development of the debt counselling industry, which was introduced by the NCR in 2007 (NCR, 2020). Once registered with the NCR, debt counsellors provide debt review services for a fee that helps consumers by deflecting and handling debt collectors, as well as strictly managing monthly incomes and expenses (National Debt Counsellors' Association, n.d.).

Kedilatile Legodi, the Manager of Debt Counselling at NCR, notes that the regulator has had to adjust the way that compliance monitoring is conducted and enforced due to the digital shift that COVID-19 has created. One example of such a shift is the compliance monitoring of debt counsellors, which is now done both on-site and via digital channels (Legodi, 2020). Stakeholders are being engaged via webinars and debt counselling training is also being hosted online which is, in turn, boosting the awareness of the service among credit consumers. Debt counselling can provide consumers with a valuable mechanism for relieving their debt, and as such, this study tests the awareness of and engagement with debt counselling.

CONSUMER: Are you aware of Debt Counselling services? [n = 1724]

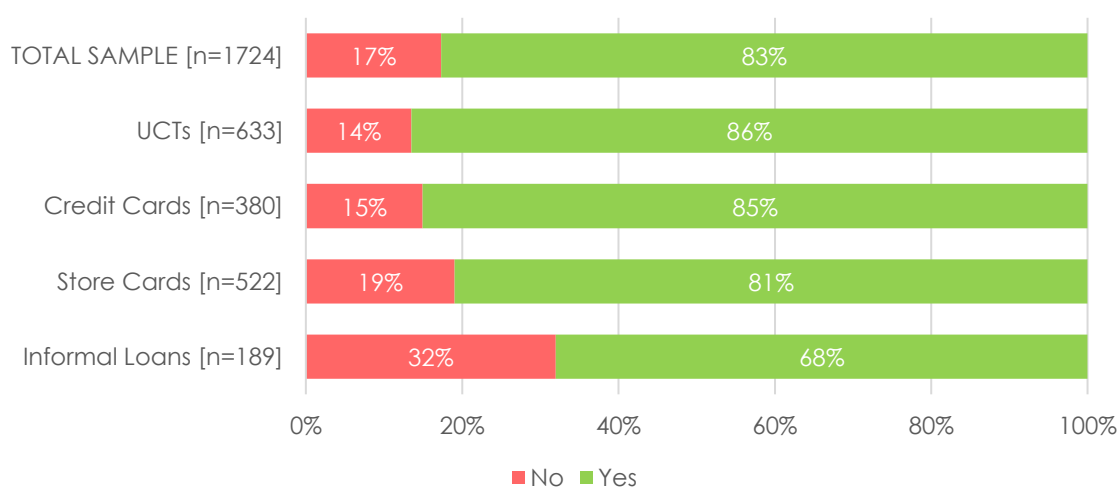


Figure 35: Awareness of debt counselling services

Among formal lending products, the awareness of debt counselling services was strong (83%), particularly for those respondents holding unsecured credit transactions (86%). Awareness was strongest among those with unsecured credit transactions, while store card holders were the least knowledgeable on the topic. While the unregulated informal market may have lagged in this regard, more than two-thirds of these respondents knew consumers could use debt counselling services.

CONSUMER: Since 2017, have you had or considered Debt Counselling? [n = 1413]

Despite being largely aware of these services, few respondents indicated that they had used or considered a debt counselling service (15%). This highlights a stark contrast between purpose and efficacy, where a system designed to assist the consumer is not taken up by the majority of those in need of debt review. Some members of the credit industry alluded to the exorbitant costs of debt counselling as a hindrance to usage.

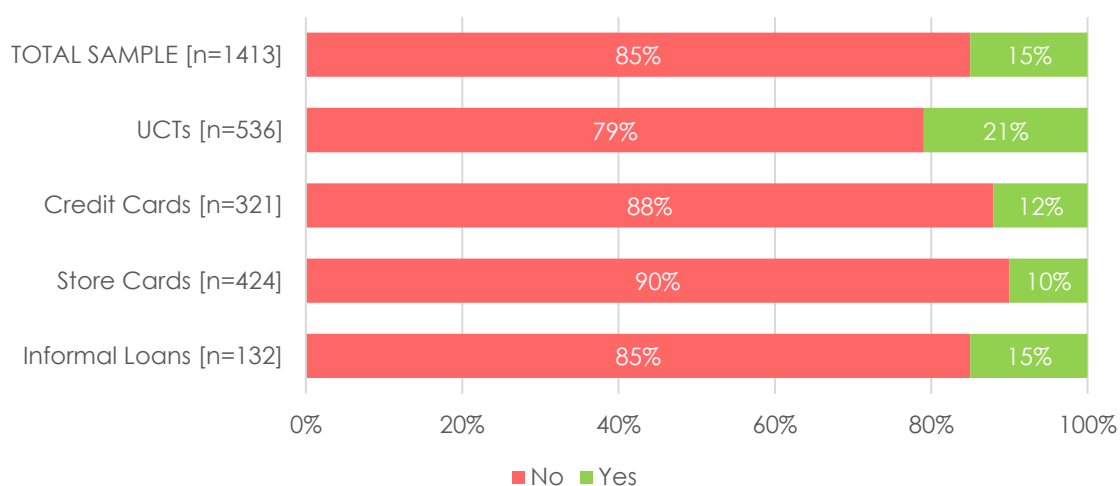


Figure 36: Consideration for debt counselling services by product

The NCR (2020) also noted current limitations to the service, which may form barriers to debt counselling implementation:

- A consumer must have an income to apply for debt counselling.
- If someone is under debt administration, they cannot also use debt counselling.
- Once debt counselling is applied for, no further credit can be given, and the consumer is flagged at credit bureaus.
- Debt counselling is not free.

Furthermore, the NCR commented on the negative reputational effects on debt counselling due to incorrect marketing and advertising on social media platforms, as they tend to paint debt counselling in a bad light (NCR, 2020). The report cites the below examples of misinformation spread on social media:

- There is a new High Court ruling helping people in debt write off up to 63% of their monthly payments. Click "Apply Now" to take the FREE assessment.
- DEBT RELIEF- High Court ruling frees South Africans in debt. TAP "SEND MESSAGE". This advert displays the picture of the President of the Republic of South Africa, the Honourable Cyril Ramaphosa.

- NCR DC is giving South Africans “Extra Cash” to enjoy by reducing debt interest and protection from repossession of assets. Free assessment SMS “YES”.
- There is government proclamation on cancellation of debts.
- We will attend to your legal and debt review flag removal in 20 working days with or without a court order.

Source: (National Credit Regulator, 2020).

In addition to these erroneous representations of debt counselling, some debt counsellors have taken to including the NCR's logo on their marketing material, which is strictly prohibited (NCR, 2020).

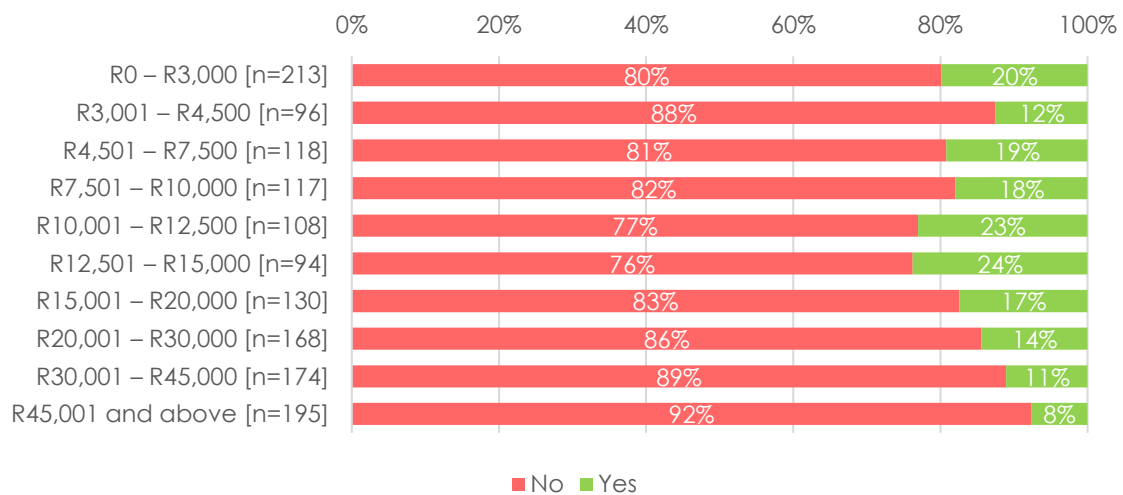


Figure 37: Consideration for debt counselling services by income group

Once earning more than R15,000 per month, the consideration for debt counselling services declines as monthly earnings increase. However, the income bands earning less than R15,000 per month are more varied and range between 12% and 24% consideration for the service.

CONSUMER: What event or circumstance caused you to consider Debt Counselling? [n = 203]

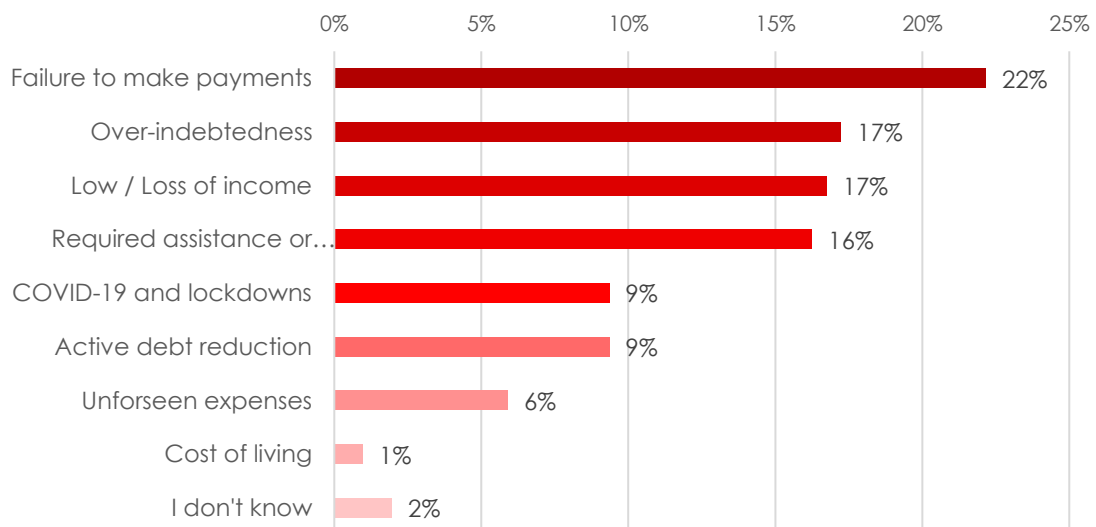


Figure 38: Reasons for considering debt counselling

A relationship between debt counselling and payment defaults was established, as many of those who considered debt counselling did so because they missed payments or were already over-indebted. A considerable portion of these respondents also suffered from reduced or denied incomes, as well as a need for financial education and assistance.

7. INFORMAL LOANS

In general, informal loans in South Africa operate outside of the bounds of the regulator and the legislation (Crouth, 2019). As such, informal loans are not subject to the same rules as unsecured credit transactions, credit cards, and store cards. Therefore, these engagements are much riskier, for both the consumer and the provider, which normally results in exorbitantly high interest rates (Wonga, 2018).

7.1. Reasons for Informal Loans

The analysis in this study has highlighted some of the key differences between the formal environment and the informal loan market. This necessitates a closer look at what types of informal loans are available and the reasons why consumers would opt for an informal loan over the other formal lending products available to them.

One of the most common types of informal lending in South Africa, in addition to mashonisas covered in [Section 4.1.4](#), is stokvels. Hutchison (2020) defines a stokvel as “a type of informal credit union in which members agree to contribute a fixed amount of money to a common pool weekly, fortnightly or monthly”, and estimates that this sector holds member savings of approximately R49.5 billion representing about 11.6 million consumers.

Hutchison (2020) conducted research in Khayelitsha and found that the main reason why consumers invest in these systems is because they don't like using formal channels and want to manage their own affairs. Stokvels are typically governed by a constitution and this determines how the group is run, as well as how debt collection procedures work. These contracts are usually agreed to through formal written consent, but it is also common for oral ceremonies to allow participation.

Because members can draw loans from stokvels, participants typically resolve non-payment situations themselves through the use of group pressure or negotiation. When a resolution is not found through the accepted informal channels, e.g., reaching out to chieftains for assistance, members resort to selling debtor property without court consultation.

Even though this form of debt enforcement is typically harsh, consumers tend not to default on these loans. One reason cited for a successful system is that careful selection of participants is a necessity – consumers being allowed into the stokvel need to be trustworthy.

Country Spotlight: Thailand

Karaivanov & Kessler (2018) found that borrowing from friends and relatives is the preferred method of accessing credit in Thailand. The reasons for this demand include:

- Informal lenders are more informed about the borrower's personal circumstances.
- Informal loans have lower monitoring and enforcement costs.
- Informal loans have more favourable terms when compared with formal lending.
- Family loans are typically interest-free.

The authors use the term 'social collateral' to describe these sorts of transactions. Instead of using physical collateral, the social or kinship ties between the lender and the borrower are used as a substitute. The threat of losing social ties is what compels borrowers to commit to the payments. If a borrower does default, the social capital is lost and both parties suffer the cost of the debt. On the other hand, if a lender refuses a loan, their social capital could also be reduced.

The authors argue that even though informal credit may appear to hold potential for increasing credit access, the resultant loss in welfare terms is potentially more 'expensive' than what is paid in formal credit.

CONSUMER: Why did you take out your informal credit transaction instead of using a formal credit provider, like a bank? [n = 189]

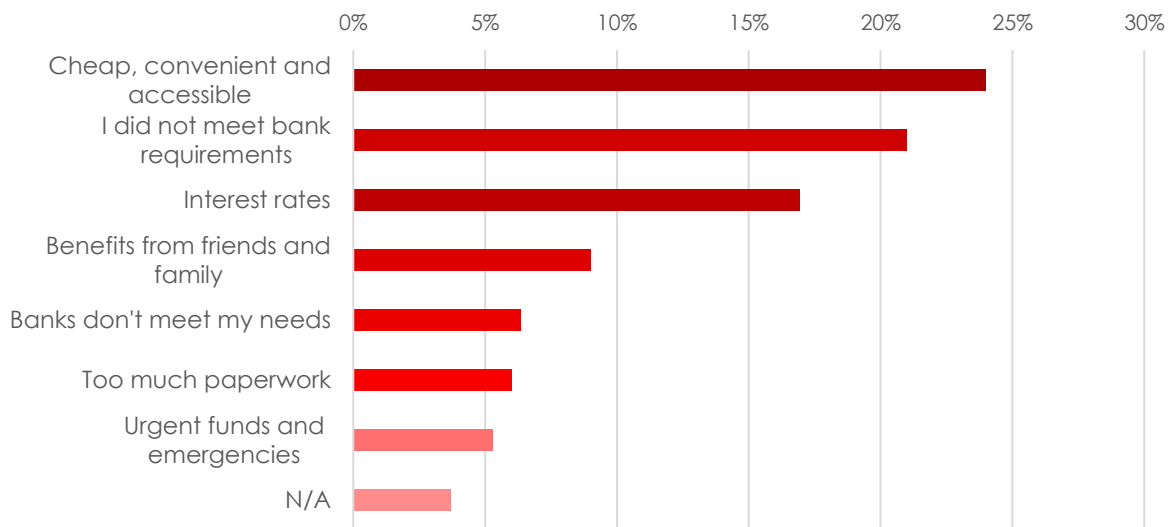


Figure 39: Reasons for informal loans

Informal loan holders chose their products over a formalised equivalent largely because they were easier to obtain. Some respondents were more precise, explaining that their current financial position impacted their ability to meet the banks' requirements. Interest rates were also a key motivation for taking out an informal loan, while less were concerned with the additional benefits that came from dealing with friends and family members.

CONSUMER: Please rate the following statements according to how strongly you agree with them, where 1 means you strongly disagree and 10 means you strongly agree. [n = 158]

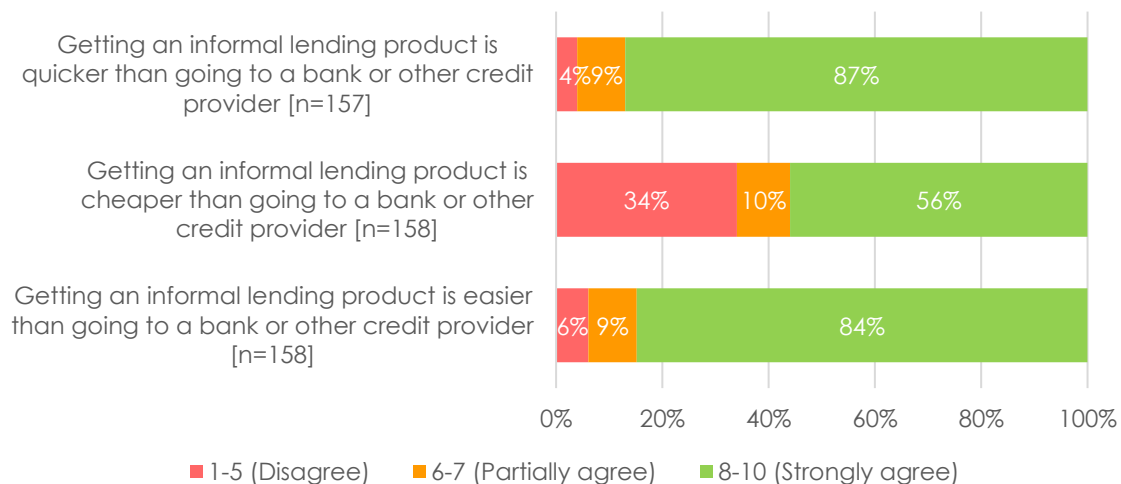


Figure 40: Informal credit access ratings

- Consumers choose informal loans because they are often the only form of credit they have access to.
- Therefore, consumers do not choose informal loans because they are more affordable (or offer better rates) than the formal market.
- The lack of regulation in the informal market means informal credit providers can more easily provide credit to consumers.

- The credit providers in the formal market would be able to attract the consumers in the informal market if the regulations were loosened for this specific demographic. This could take the form of lower prescribed credit costs (rates, life insurance, initiation fees) with limits on the maximum value allowed under these agreements.

7.2. Cost of Informal Credit

Throughout the assessment of lending profiles and credit costs, it has been evident that informal loan holders form a relatively distinct group in terms of their treatment, financial abilities, and awareness of key credit terms. As such, this section looks closer at the costs that are unique to informal loans.

CONSUMER: In addition to the original informal credit transaction, how much extra money do you have to return? I.e., how much were you charged on your informal credit transaction? [n = 189]

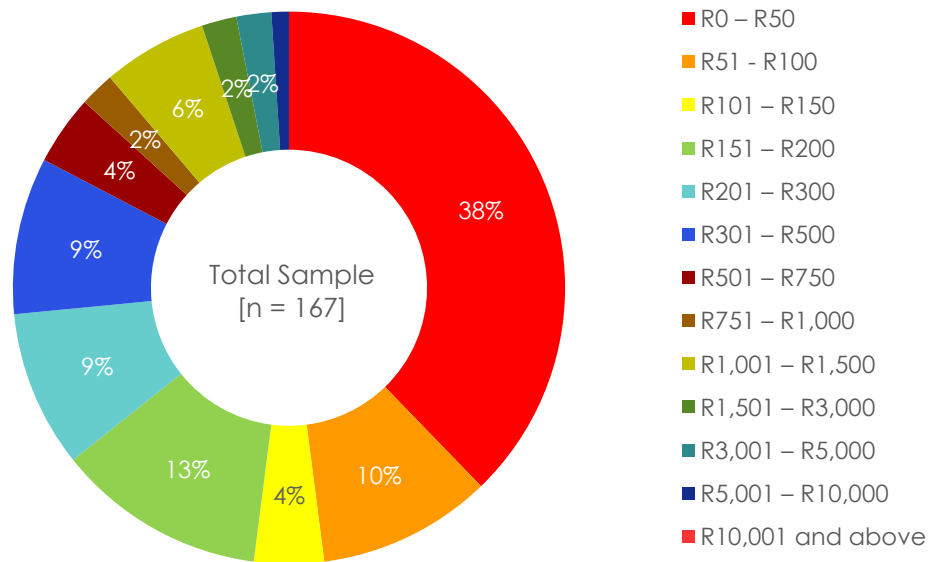


Figure 41: Additional charges on informal loans

Given that informal loan holders in this study predominantly borrowed funds between R0-R1,000 (almost 60% of the sample), the repayment costs reflect these smaller amounts. Using a similar proportion for this sample (60%), most repayment values on low-value informal loans range from R0-R200. In other words, an informal credit customer would pay, on average, 20%-30% of the original value of the loan when settling their debt.

The comparison between the original loan values (at their midpoint) and the average additional charges on informal loans follow a similar ratio (approximately 35%) among lower-value loans (R0-R1,500). However, the R2,500-R5,000 bracket has a particularly high repayment ratio, perhaps indicating the greater risk inherent with these higher values. More variability is seen with consumers holding loans greater than R5,000, however, the smaller sample size will affect these results.

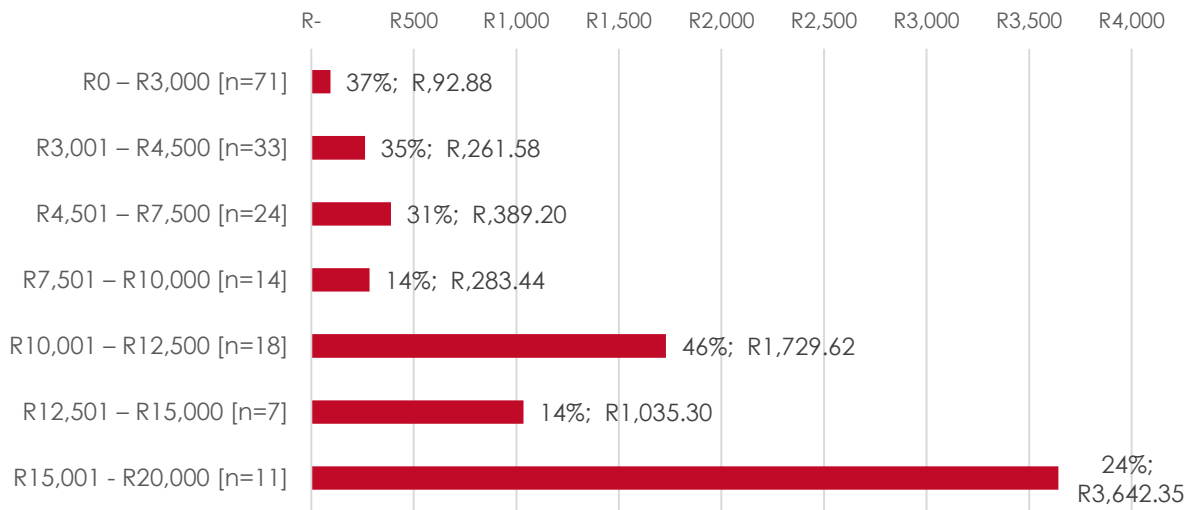


Figure 42: Average additional charges on informal loans by original lending value

8. SOCIO-ECONOMIC IMPACTS

As credit and financial stability have such a large impact on the types of lives consumers live, they become inextricably linked to quality of life and happiness. Otherwise known as socio-economic impacts, the freedom and restriction that respondents experienced with their finances are informed, in part, by their degree of debt. The ability to access healthcare, education, and housing are examples of socio-economic impacts, and therefore this section focuses on the relationship between these impacts, debt, and COVID-19.

8.1. Socio-economic Impacts of Debt

Credit is comparable to consumers borrowing from their future to pay for today's needs. As such, credit providers gain a type of ownership or control over the borrower's future by taking advantage of their financial position. Over-indebtedness among millions of lower-income South African borrowers, which is further compounded by aggressive debt collection, works to entrench inequality, and denies low-income consumers the hope of meaningful participation in the economy (Rees, 2020).

This limitation of financial participation has real world effects. Cairns (2019) highlights the Marikana Massacre as a consequence of over-indebtedness and the levels of desperation that come from living in such a negative socio-economic situation. He further notes that there have been numerous studies conducted that found the miners were under significant financial strain and were demanding higher wages because of credit that was automatically being repaid from their accounts.

Jordaan (2019) states that increasing levels of debt and financial strain can lead also to physical manifestations such as hypertension, ulcers, migraines, and heart attacks; mental manifestations such as depression, stress, and suicide; and even social problems like the inability to provide for loved ones leading to broken relationships, divorce, and family disputes.

Therefore, it is important to establish what socio-economic impacts are being felt by South African credit consumers who own unsecured credit transactions, credit cards, and store cards, and further identify any differences between income segments.

CREDIT INDUSTRY: In your opinion, what do you believe to be the socio-economic impacts of unsecured credit transactions, credit cards, and store cards on South African consumers? Does this differ along the lines of income or economic status and if so, how?

Among the members of the credit industry who were questioned about the socio-economic impacts of unsecured credit transactions, credit cards, and store cards, there was a notable **neutrality**. Many expressed the opinion that credit is a double-edged blade,

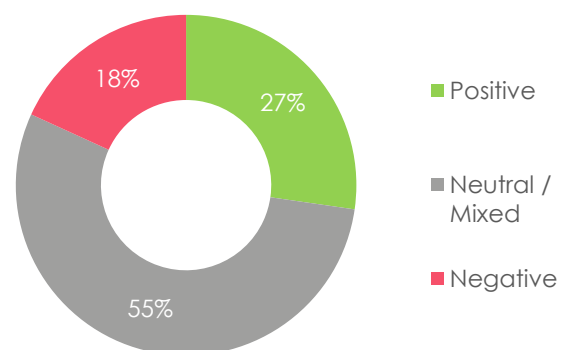


Figure 43: Perceived socio-economic impact of consumer credit

which could uplift and oppress people, depending on how it is handled.

The most reported **positive socio-economic impact** was the formal inclusion of consumers in the financial environment, sometimes for the first time in a post-apartheid South Africa. Indeed, these interactions have helped build the necessary credit records for consumers to take on more complex funding activities, especially in the case of new money-making ventures and investments. On the other hand, unsecured credit transactions, credit cards, and store cards also provide immediate access to funds in instances where the consumer needs emergency assistance or undergoes an unforeseen loss of income.

However, not all consumers are equal, and in many cases unsecured credit transactions, credit cards, and store cards have perpetuated **negative socio-economic impacts** like debt and credit cycles, especially in the lower-income segments. In that respect, consumers become more vulnerable to other emergencies with higher levels of unemployment and a reduced buying power. The credit industry has criticised the willingness of South Africans to take on a negative debt position and, in some cases, believe they do not show any indication of intent to repay their debt. This approach has the propensity to transfer socio-economic issues onto the household and surrounding community and helps an unregulated informal market flourish.

Not all members of the credit industry were straightforward with their opinions of the socio-economic impacts of credit and rather focused on a lack of financial literacy, poor responsibility on behalf of the consumer, and an unfulfilled mandate by the regulator – all reasons for unnamed negative socio-economic impacts.

The credit industry was also questioned about whether these socio-economic impacts are stratified by any income, economic, or demographic status. The overwhelming majority indicated that those in **lower-income brackets** were more likely to be affected by negative socio-economic impacts, like indebtedness and unemployment. Indeed, lower incomes are less likely to be awarded formal loans, which limits their opportunities, promotes debt cycles in the informal environment, and does not adequately address rising costs of living.

The **higher incomes**, on the other hand, were seen by the credit industry as more protected. As affordability was greater, job changes and savings cash-ins were readily available to handle emergency situations. Higher-income debt owners are often better **educated** too, which lends understanding to the financial environment and a mitigation of the negative effects of credit. However, some members of the credit industry note the transition of many middle-income earners into the lower-income segments – this relates to the poor economic environment, rising unemployment and cost of living, and a misunderstanding of asset affordability.

The other distinctions made by some of the credit industry include the **self-employed**, who are viewed as more vulnerable to negative socio-economic impacts of credit, and the new adult generation joining the workforce, who are typically less wealthy than previous **generations** at the same stage.

A small portion of the credit industry thought there was no differentiation in the socio-economic impacts of unsecured credit transactions, credit cards, and store cards among income or economic segments.

CREDIT INDUSTRY: How has the socio-economic impact of unsecured credit transactions, credit cards, and store cards on South African consumers changed since 2017?

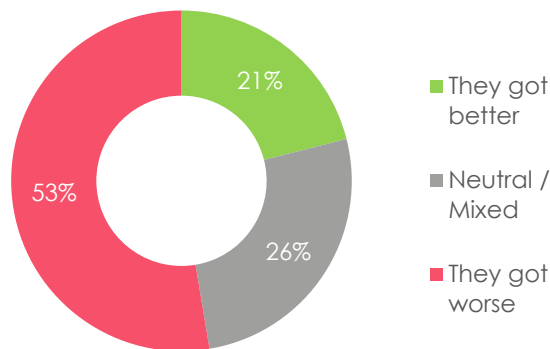


Figure 44: Changes in the socio-economic impact of consumer credit

Having established the socio-economic impacts of credit and highlighted how they differ across income segments in South Africa, the credit industry then commented on the change in the market since 2017. As illustrated here, a majority of the industry (especially those working in industry associations) thought the socio-economic impacts had worsened since 2017. Less than a quarter of the industry were outright positive about changes, although retailers were seemingly the most optimistic.

Among these **positive outlooks**, members of the credit industry cited the changes to application criteria in recent times as an example of the market consolidating and attempting to reduce over-indebtedness. However, this termination of access to funds when consumers need it most has become controversial and may serve as a protectionist measure for the organisations, rather than the consumers. The changes made to 'proof of income' requirements in 2018 were an example of legislation directly improving the immediate access to funds that the formally unemployed could have, however this had the potential to over-expose the lower incomes.

Only half of those credit industry members who thought the socio-economic impacts had **worsened** since 2017 attributed this decline to COVID-19. Indeed, it was a prevalent cause, but many emphasised the negative direction of the market independent of and prior to the international financial crisis. Consumer lifestyles had been modified to accept a lower real income off the back of poor general economic performance and rising unemployment and indebtedness. The credit industry believes more people turned to the informal market, where the opportunity for exploitation was higher, as were the interest rates.

8.2. Consumer Sentiment

The concern over socio-economic impacts of unsecured credit transactions, credit cards, and store cards in South Africa is validated by the large proportion of people who are unemployed, but still have access to credit (for varying reasons). Considering the lending profiles established in [Section 4.2](#), many people are using loans as stopgaps for missed monthly paycheques to purchase general living and household necessities.

CONSUMER: Please rate the following statements according to how strongly you agree with them, where 1 means you strongly disagree and 10 means you strongly agree. [n = 1699]

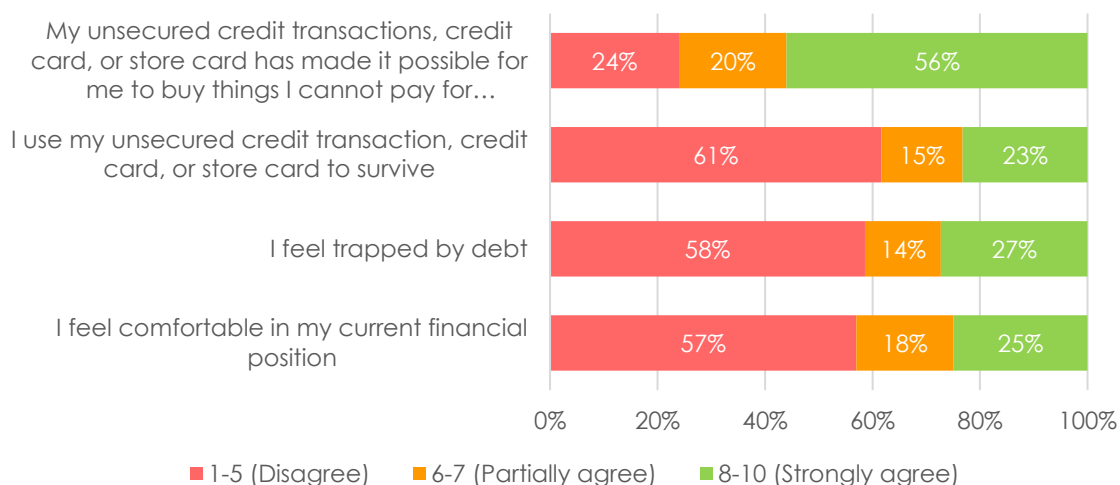


Figure 45: Socio-economic statement ratings

As such, this study's population is largely appreciative of their unsecured credit transactions, credit cards, and store cards. More than half of these respondents thought that credit was an important medium for owning things immediately. Moreover, many disagreed with any sentiment that debt was a trap or that debt was necessary for survival in their current financial position. This seems to contrast their spending habits and repayment values (as a proportion of their earnings) established in Section 4.2, and their general discomfort in their financial position. This may also strongly allude to poor consumer education around debt and the negative socio-economic consequences of uncontrolled lending.

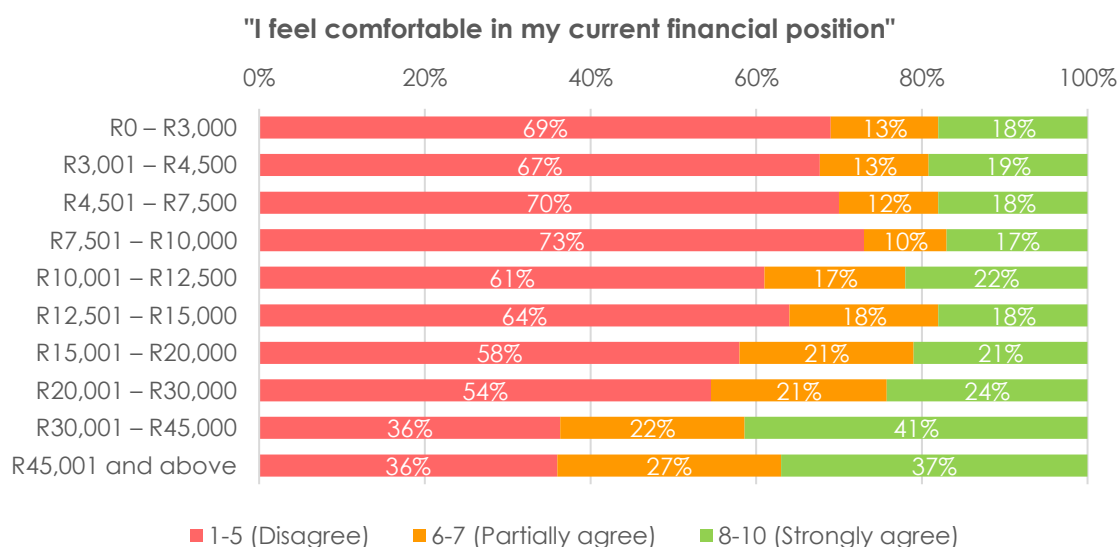


Figure 46: Financial comfort across income groups

Although a connection may not have been made by the consumer between their level of debt and strength of financial position, the findings nonetheless point toward a greater degree of financial satisfaction at the higher-income levels. However, even among those earning over R30,000 each month, there are many still concerned about their financial position, which coincides with the decline of many higher-income individuals into lower-income brackets.

CONSUMER: Which of the following best describes your thoughts on unsecured credit transactions, credit cards, or store cards? [n = 1723]

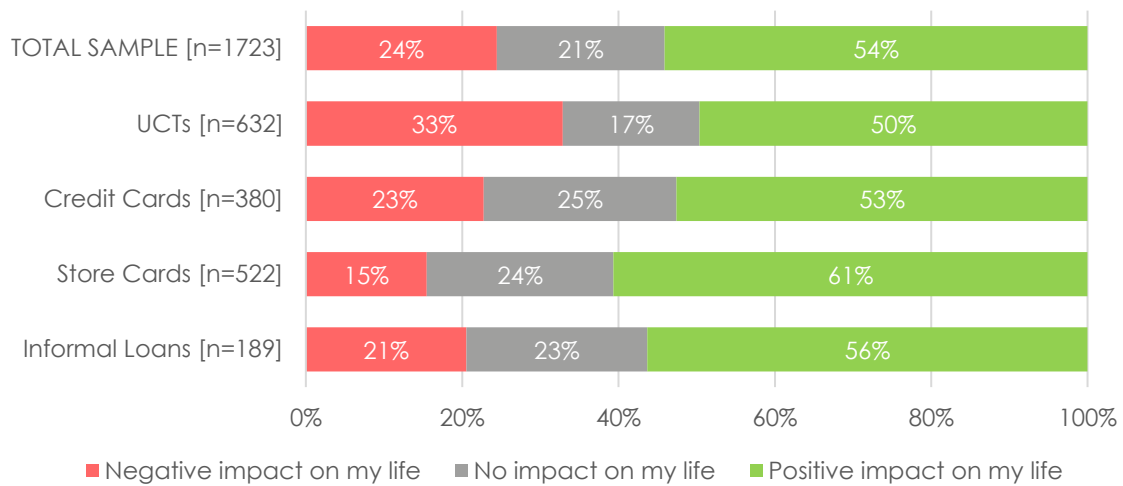


Figure 47: Personal impacts of debt by product type

Likewise, none of the product types had less than half their sample thinking that their debt instrument had a positive impact on their lives. However, when compared, unsecured credit transactions were notably more negatively perceived by their holders, as a third of these respondents felt a negative impact on their lives. Indeed, store cards holders had the most positive perceptions about their debt instrument.

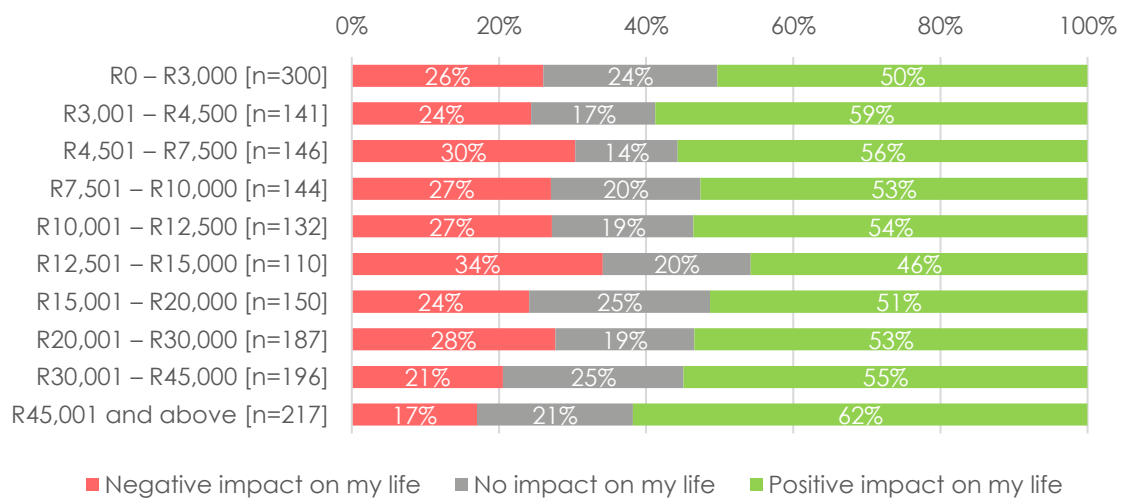


Figure 48: Personal impacts of debt by income group

Across income groups, the wealthiest respondents perceived their lending products most positively, however, those earning R3,001-R4,500 per month were almost as optimistic. Among those who were most negative about their debt were respondents earning R12,501-R15,000 - this income segment reported one of the highest repayment ratios in [Section 4.2.3](#) for each Rand earned.

8.3. Impacts of COVID-19

More than half of the respondents in this study incurred additional debt because of COVID-19. Of these respondents, many lost their jobs and salaries, and endured reduced compensation rates. With a focus on those who are indebted, the credit industry was asked for their understanding of the socio-economic impacts of COVID-19.

CREDIT INDUSTRY: Based on your experience, what socio-economic impact has COVID-19 had on those who are indebted? Why do you say this?

It is no surprise then that members of the credit industry from across the market agree that COVID-19 has had a significantly **negative effect on those who were indebted** prior to the pandemic. Previous questions and statistical representations have addressed the impacts of COVID-19 but are reiterated here as considerable job and income loss among the lower-wealth segments. This has significantly impacted their affordability and greatly increased the dependency on pay-day credit cycles, which were already a grave economic concern prior to the pandemic. As such, consumers are reconsidering their priorities and making decisions that would guarantee monthly necessities, like food, over any legal obligations.

"Consumers' propensity to repay debt is highly correlated with unemployment levels, [which have] increased to above 30%."

Woolworths Financial Services (Pty) Ltd

Those who are indebted are now having more frequent debt reviews and counselling. However, the credit industry noted the lesser chance for recovery among the lower-income segments (and the already indebted) and this highlights the vulnerability that these groups have to economic shocks. Indeed, regulatory associations have acknowledged that **COVID-19 served as a tipping point for many consumers** who were only just managing to control their debt. As those who struggle turn to their families for assistance, households that were previously in good standing have now joined the indebted too. Indeed, literature shows that the average consumer has also become more vulnerable to fraudulent offers and scams claiming that their financial problems can be resolved with services that require upfront fees (TransUnion, n.d.).

The physical closure of organisations during hard lockdown and the cash-based nature of some unsecured credit transactions, credit cards, and store cards (consumers needing to be physically present to make repayments) meant that consumers desperate for incomes used the cash they would have otherwise directed toward debt repayments. Scarily, for consumers impacted by COVID-19, the negative marks on their credit record will remain in place, even once re-employed, which is arguably not the case for those who sought relief from the informal market.

Due to these COVID-induced trends, some banks took a stronger stance on collections too. Under the assumption that consumers would have to choose which of their outstanding debts to pay off, banks applied pressure on consumers, according to the credit industry, to ensure that they were the repayment of choice. Financial organisations also **closed off supplies of unsecured credit transactions and credit cards** to many consumers because of internal risk appetite adjustments and the lack of inclusion of micro-lenders as essential financial services during periods of lockdown. In relation to this credit supply contraction, some credit associations levelled criticism against the NCR over their regulatory operations, as their measures and responses could not repress the surge in credit uptake in the informal market.

Some socio-economic impacts felt by the indebted were **less direct**, but equally as powerful. Banks have highlighted the comparatively larger impact that COVID-19 has had on the rural and under-developed regions in South Africa, which in turn has prompted a greater reliance on crime and a foregoing of education and housing. In the more developed areas, housing prices are decreasing, as are the value of stock exchanges and financial assets. Credit providers are also quick to highlight that not all the impacts of COVID-19 have been along economic lines, as specific industries, like tourism and entertainment, were negatively impacted for all who were part them.

Although the credit industry uniformly agrees that COVID-19 had negative impacts on the indebted, there are a few silver linings. Firstly, the physical isolation of some regions and communities from their usual supply of goods and services has prompted a greater reliance on local businesses and has therefore boosted the local economy in some cases. Indeed, many people fortunate enough to work in roles that could be digitally transformed were able to save money on transport costs and therefore reduce their outstanding debt and improve their savings for future emergencies. There were also allowances made for payment holidays, although the positive effects of these are disputed by parts of the credit industry, as these mechanisms merely delay payment, not reduce debt.

Finally, there was also some acknowledgment among the credit industry of the shared human condition, whereby people and organisations understood the gravity of the economic situation and made extra steps to assist and care for those that they were able to – whether this approach holds on the other side of the pandemic remains to be seen.

9. GOVERNANCE AND LEGISLATION

Through the NCR and NCA, the consumer credit market in South Africa is monitored and regulated. The legislation that governs this sector of the economy has the job of promoting the sustainable uptake of unsecured credit transactions, credit cards, and store cards, which necessitates a balance between consumer protection and viability for providers. Therefore, this section focuses on the perceptions of the literature, consumers, and credit industry in relation to the legislation and governing bodies.

9.1. Efficacy of Governance Mechanisms

Governing credit means creating and administering policies that are both technically sound and effective in the real economy. Ideally, these policies should help allocate credit to those individuals in the financial position to pay it off, without permanently and negatively impacting their lives; while providing education and financial information to the public on how their measures work to improve sustainability. The NCA stipulates that “every adult natural person, and every juristic person or association of persons, has a right to apply to a credit provider for credit” (DTI, 2006) and accordingly, access to credit is a right of every citizen.

9.1.1. Accessing credit

CREDIT INDUSTRY: What is your opinion on the ease with which South Africans can obtain credit? What role does the National Credit Act play in easing access to credit? How do these factors differ across socio-economic and income groups?

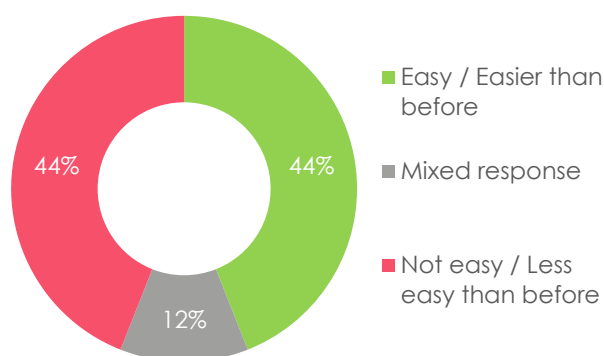


Figure 49: Difficulty of credit access

Interestingly, when asked how easy it was for South Africans to obtain credit, the credit industry was evenly split between those who thought it was **easy** (or easier than before), and those who thought it was **difficult** (or less easy than before).

Naturally, those that thought credit was **easier to obtain** used the state of over-indebtedness in South Africa as testament and proof. As such, the credit environment and system were criticised

for favouring the formally employed (and over-extending credit to them) and not having a national network that could capture the full credit picture of each applying consumer (and control the uptake). This allowed for multiple applications to multiple sources, which then included the unregulated informal market when all other options became impossible.

The **motives of credit organisations** were also criticised by various stakeholder groups who indicated that there would always be willing lenders if the margin for profit was right. Indeed, the banks were again accused of pushing products with inflated pricing onto already struggling consumers, while retailers provided new credit lines for those in need of groceries. As established in this study, those consumers needing credit for groceries were more often in the lower-income group, which lends credence to the belief among some parts of the credit

industry that organisations take advantage of those with lower levels of financial literacy and income. This combination culminates in people using credit to live a lifestyle above their means, sparking debate around what the minimum standard of living that should be afforded the average consumer is.

On the other hand, members of the credit industry that thought credit was **more difficult** to obtain usually referred to adjustments in risk appetite as barriers to entry. These changes have required proof of a regular income and are a result of greater insecurity and joblessness in the credit market post-COVID. Some have praised these changes as sustainable, highlighting that consumers are now more prudent, while others believe it contravenes the principles of a free market. Either way, these evaluations are only based on the perspective of the formal environment and evidence shows that more consumers are being pushed into the unregulated market.

“All of this will inadvertently result in the continued marginalisation of the most vulnerable consumers historically excluded from financial activity, limiting access to the economy and setting back the credit industry for years to come.”

Woolworths Financial Services (Pty) Ltd

The divide between formal and informal was further highlighted by the increased accessibility to credit through digital and self-help channels targeting the digitally proficient. With these new developments, comes the need to revise legislation. Banks note how regulations are created to suit the conditions at the time of writing, however, there are often unforeseen consequences, such as the challenges that seasonal workers face when applying for credit.

When queried about the **role that the NCR plays** in easing access to credit, most of the credit industry agrees that its primary purpose **should not be to ease access to credit**, but rather effectively **govern the relationships** in the environment. Indeed, the NCR should help with access to credit wherever possible, but not to the disadvantage of the provider, consumer, or economy. Their credit monitoring data should guide the regulator on the appropriate responses to changes. Given the changes to legislation and the economic contraction, the current regulations have not eased the access to credit, but rather curbed the level of formal credit being granted. What may have been well-intentioned adaptations to current affairs has instead pushed more consumers into the informal market or to omit/fabricate information on formal applications.

Some members of the credit industry made further recommendations to what role the NCR should play in the credit access system, which included:

- enforcing more regulations in the informal market.
- assisting organisations in interpreting the Act and calculation mechanisms.
- prioritising the development of strong credit records among consumers.
- improving the coordination between entities when assessing credit applications.

9.1.2. The repo rate

The term “repo” is a short for “repurchase” (Investopedia, 2020) and is a term used to describe the rate at which The South African Reserve Bank (SARB) lends money to commercial banks (Nedbank, n.d.), that is, the SARB purchases collateral back from commercial banks in exchange for cash. This allows the government to control money supply in South Africa by decreasing or increasing available funds (Investopedia, 2020).

As such, changes to the repo rate can also affect those who have borrowed money from credit providers. There are two options for how interest on credit is calculated – it is either fixed and does not change for the duration of the loan, or it is variable, in which case it is directly affected by the repo rate and will change as the repo rate changes (Nedbank, n.d.).

CONSUMER: Do you know what the repo rate is? [n = 1724]

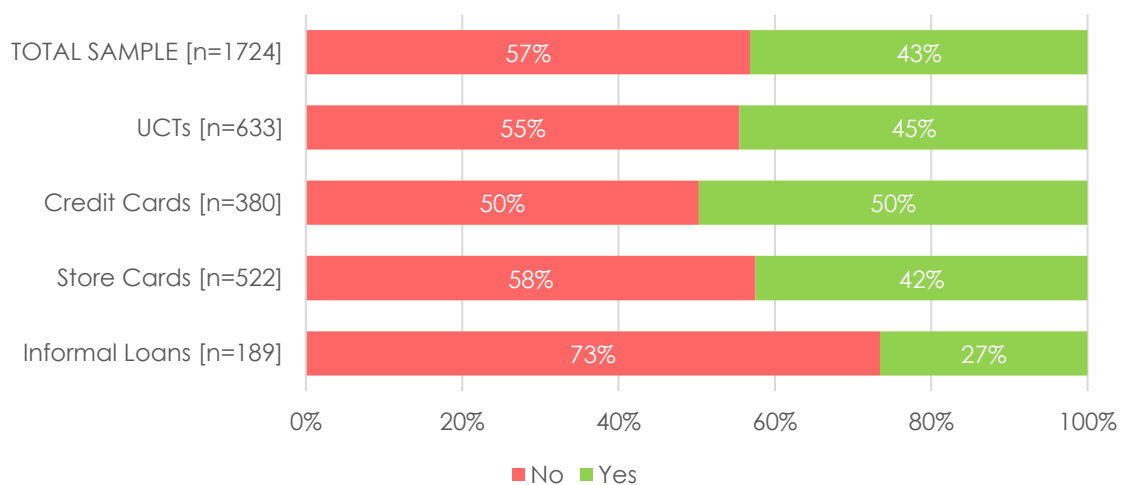


Figure 50: Awareness of repo rate

It is, therefore, concerning that the repo rate, which is so integral to the governance of credit, is unknown to at least half of the respondents in this study. Credit card holders were the most aware of the repo rate, while store cards holders were marginally the least knowledgeable product group.

This absence of knowledge is worse in the unregulated informal market, where a lack of enforcement and education may have contributed to a greater shortfall in the awareness of credit mechanisms.

Indeed, the difference in knowledge across education levels highlights the importance of financial literacy in formalised education settings. The repo rate is one component of a complex financial system which is taught incrementally in schools and tertiary institutions, and should a consumer miss out in this regard, their decision-making for their financial health will be impaired. Likewise, marketing and advertising can still be educational for consumers, however, the awareness of the repo rate in this study implies that financial literacy is not a core focus of marketing strategies among credit providers.

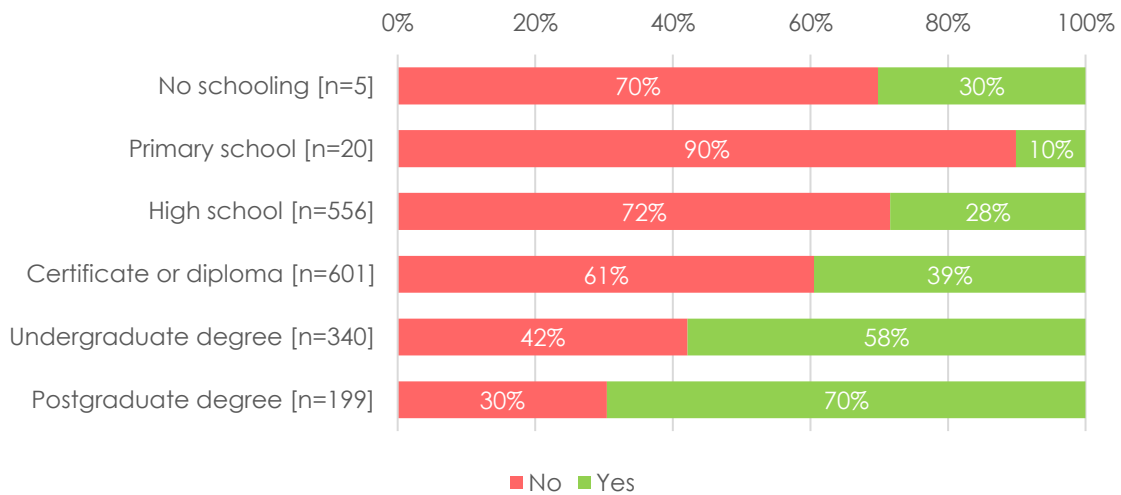


Figure 51: Awareness of repo rate by education level

To aid the country in recovery from the devastation caused by the pandemic, the SARB cut rates by 300 basis points in 2020 – a response which was described as “aggressive” by the governor, Lesetja Kganyago (Mathe, 2021). Knowledge of this response to COVID-19 was also tested in the consumer sample.

CONSUMER: Did you know that the repo rate was reduced during the COVID-19 outbreak? [n = 705]

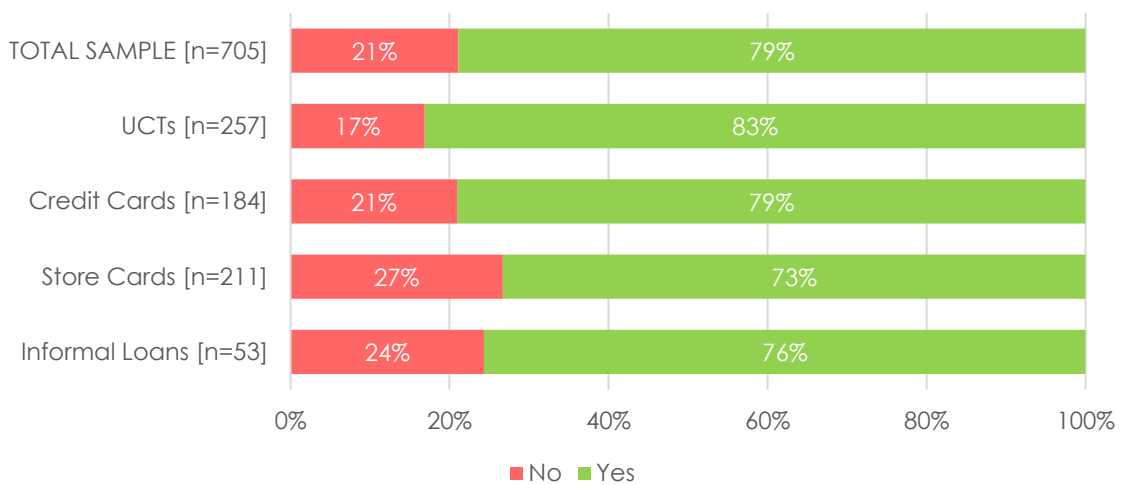


Figure 52: Awareness of COVID-19 repo rate reduction

Among those who knew what the repo rate was, more than three-quarters were aware that it had been reduced during the COVID-19 pandemic to ease consumer pressure. The product types showed little variation in this regard, although the lower-value lending products were slightly less aware of the policy change (store cards and informal loans).

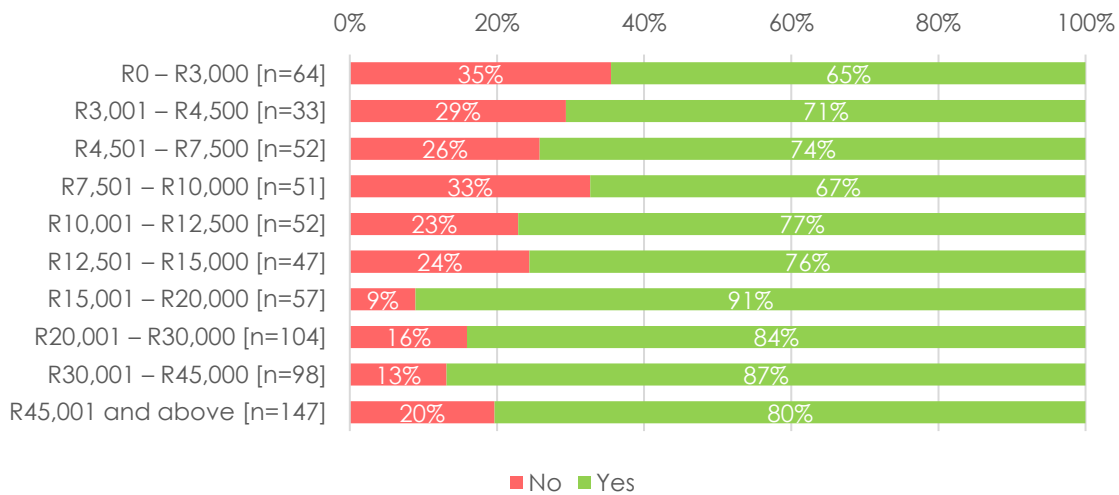


Figure 53: Awareness of COVID-19 repo rate reduction by income group

The difference in demographic was more pronounced among the income bands. On average, those who earned lower incomes each month were less aware of the change made to the repo rate. There was, however, a spike in the uppermost income level, which may point to a degree of unimportance that the repo rate has in wealthy individuals' financial concerns.

CREDIT INDUSTRY: Do you think that reducing the repo rate during the COVID-19 national lockdown helped those with unsecured credit transactions, credit cards, and store cards?

When compared to the consumers in this study, the credit industry was **more positive about the impact of the repo rate reduction** as a protective measure during the COVID-19 pandemic. According to the industry, those consumers who did not feel the effects of COVID-19 had a higher disposable income and were able to pay off more of their debt because of widespread interest rate declines.

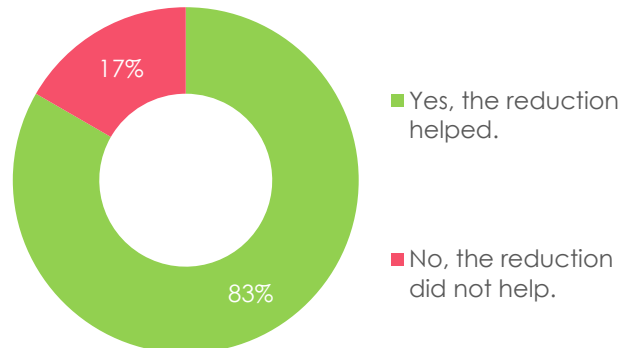


Figure 54: Benefit of the repo rate reduction

The affordability of new items bought on credit was also a benefit of the repo rate reduction, however, this reduction would only affect rates that were floating or linked. Therefore, in terms of this study's credit products, credit card holders reaped the greatest rewards from the rate drop, while fixed rate unsecured credit transactions could only be improved if paid off with a new transaction at a lower rate. As such, the repo rate reduction was much **more effective in the formal environment** because of the closer regulation of rates – the informal market, on the other hand, was not forced to drop their rates.

A few members of the credit industry also warned against the **temporary nature of a rate reduction**. The prevalent issues causing indebtedness were unemployment and economic contraction, and these were not solved by more affordable credit. Indeed, the recent decline

in the repo rate serves as a window during which some benefit can be derived but can also prompt a significant cash flow loss when rates return to a more natural position.

There were also some parts of the credit industry that thought the **repo rate reduction did not work**, as unsecured credit transactions, credit cards, and store cards are usually issued at the highest rate possible. In that case, a reduction in the rate only served to reduce an organisation's funding costs and therefore improved their profit ratios. Other individuals thought that the effects of a rate drop needed more time to take effect.

CONSUMER: Do you feel like this reduction in the repo rate had a positive, negative, or neutral effect on you financially? [n = 540]

At first glance, the credit consumers in this study also feel that the reduction in the repo rate has financially assisted consumers (61%), as it was meant to. However, this sentiment is only prominent among formal products, particularly credit card holders, who feel the effects of a rate reduction more directly because rates are linked to indexes.

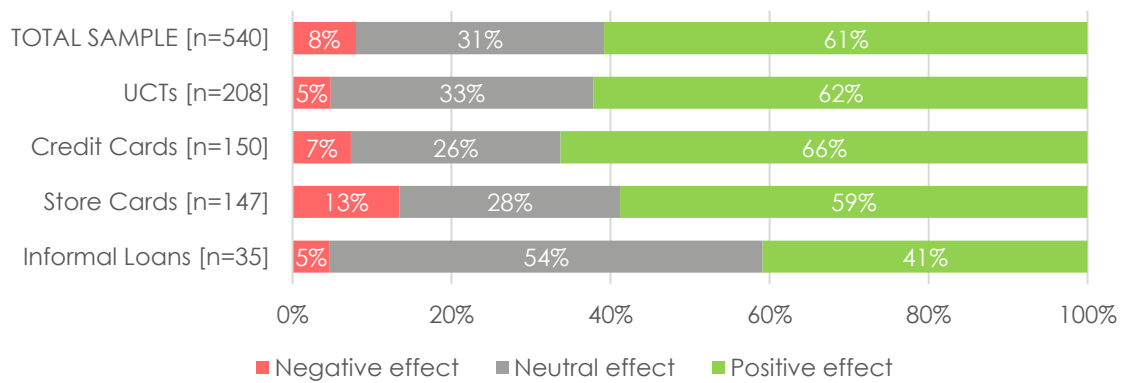


Figure 55: Personal impact of repo rate reduction by product type

Most of the unregulated informal market on the other hand, thought that the repo rate reduction was ineffective. Given that the growing, unregulated informal market suffered most during the pandemic, as established in [Section 4.4](#), their perceptions on efficacy must be considered.

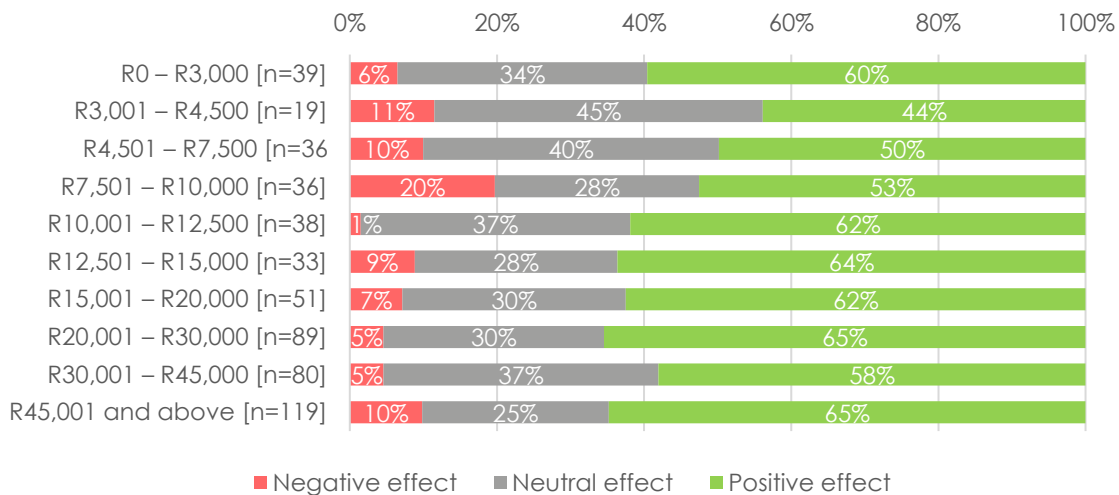


Figure 56: Personal impact of repo rate reduction by income group

As such, the three highest rates of negative and neutral effects of the repo rate reduction were found in income segments earning less than R10,000 per month. Likewise, only one income band above R10,000 per month had less than 60% of their respondent group thinking that the rate reduction had a positive effect.

CREDIT INDUSTRY: Did consumers who benefited from repo rate reduction during the COVID-19 national lockdown increase their monthly repayments or reduce their credit term?

When asked how the market responded to the repo rate reduction, most of the credit industry thought that consumers were happy to settle for a **reduction in their repayment values** each month. Some individuals highlighted mixed behaviour, depending on the consumer, while even fewer thought consumers had taken the opportunity to reduce their credit term or increase their monthly repayments.

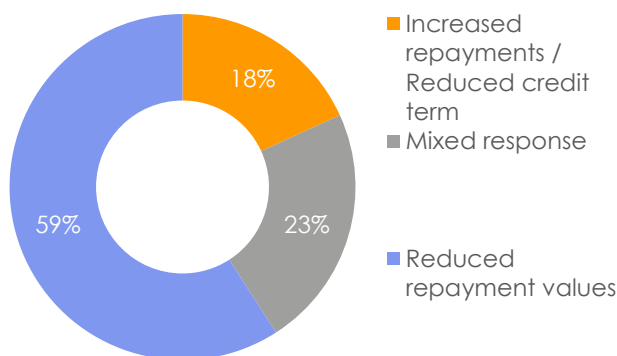


Figure 57: Impact of repo rate reduction on credit

Those that chose a reduction in repayment value were often motivated by a generally difficult financial position, where lower instalments meant a **higher disposable income** to purchase monthly necessities. Others also thought this money was better used for their savings. Consideration was given to the fixed nature of some rates and the management of debit orders, as changing a debit order to match your newfound surplus can become an arduous process.

The credit industry also made note of the **differing behaviour** between income segments and credit types. Consumers in the higher-income brackets or those with secured credit were more likely to reduce their credit term and increase their monthly repayments. Retailers, in particular, noticed a greater pay-down of debt, although the temporary respite of the repo rate reduction was again cautioned against.

9.2. The National Credit Regulator

As the governing body for consumer credit in South Africa, the NCR is an independent organisation, subject to law and the Constitution, and has jurisdiction throughout South Africa to create sustainable consumer credit markets, provide registration facilities for market participants, enforce regulations, and to provide the public and industry with credit information (DTI, 2006). The NCR was established as the regulator of the South African credit industry by the National Credit Act (34 of 2005) and is consequently one of the newer regulatory bodies created by government. One of the key focuses of the organisation, as per their mission statement (NCR, 2014), has been the development of responsible credit access for historically and socio-economically disadvantaged persons. As such, the awareness and performance of the NCR was tested within the consumer sample.

CONSUMER: Are you aware of the National Credit Regulator? [n = 1484]

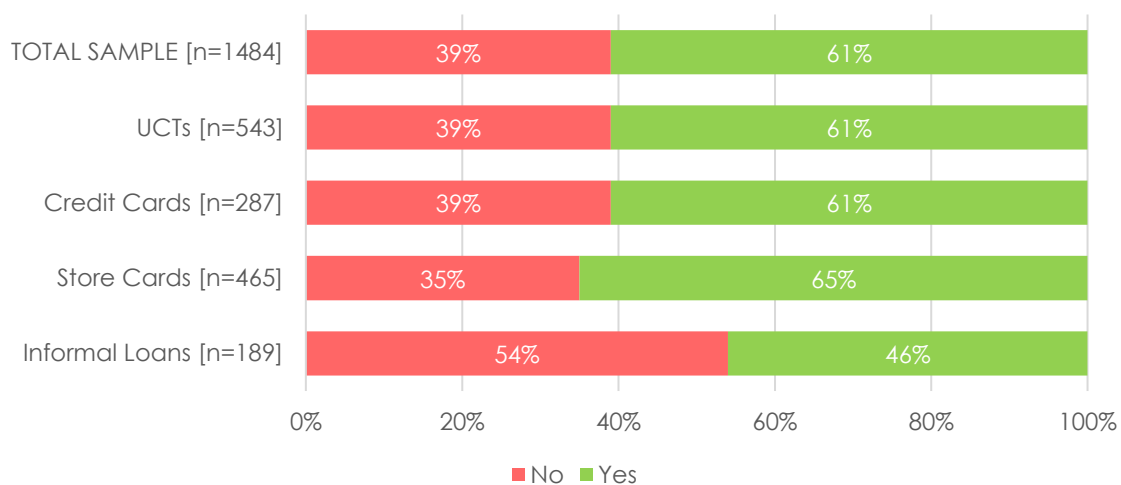


Figure 58: Awareness of the National Credit Regulator by product

Almost 40% of those who held unsecured credit transactions, credit cards, and store cards in the consumer sample were not aware of the NCR. Given the pivotal role that the NCR plays in resolving disputes and regulating interactions, it is concerning that so many people holding these debt instruments are not aware of the regulator's guidance and services available to them. Interestingly, store card holders were the most aware of the NCR.

On the other hand, the lack of regulation in the informal credit market is highlighted by the proportion of respondents who did not know about the NCR's existence, as 54% of these consumers were not aware.

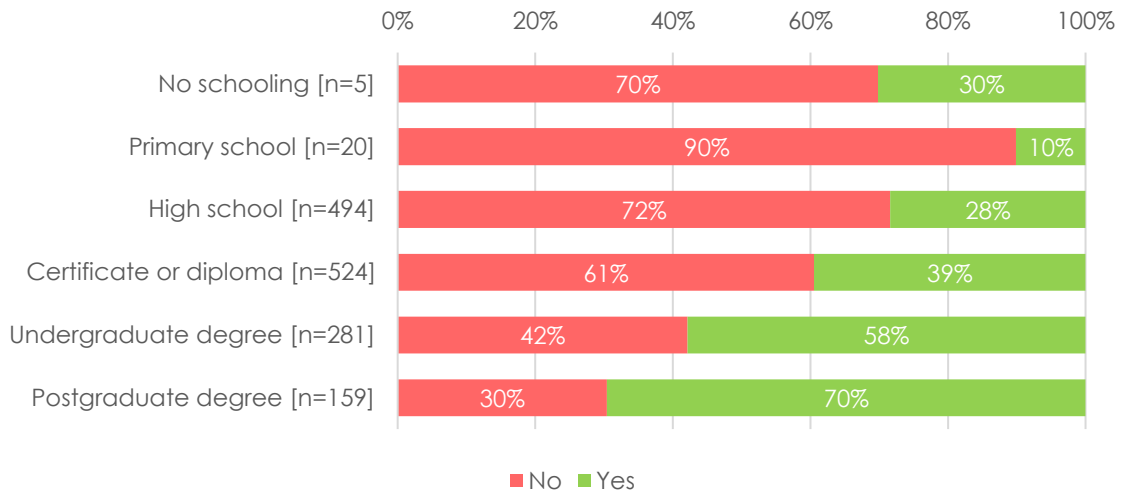


Figure 59: Awareness of the National Credit Regulator by education level

The education level of respondents also played a role in determining their awareness of the NCR. Nearly all consumers who had been educated to a primary level did not know about the regulator, while advanced certification and degree-holders were the only segments where more people knew about the NCR than not.

CONSUMER: What does the National Credit Regulator do? [n = 860]

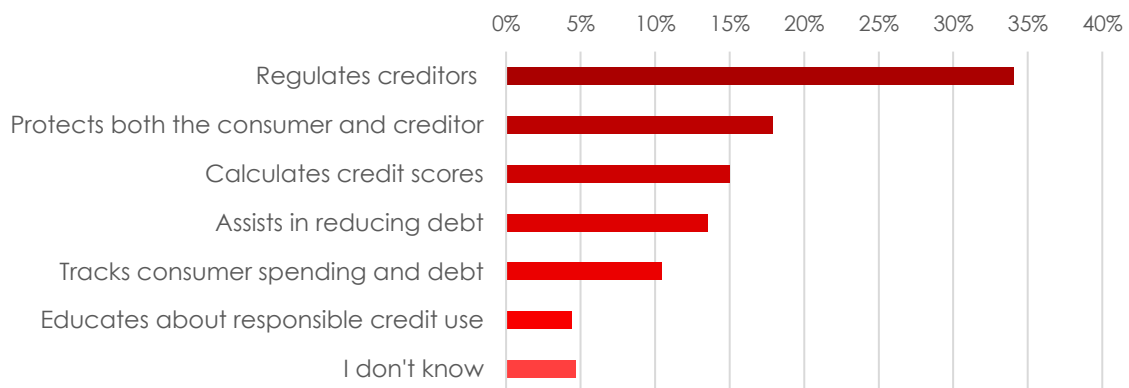


Figure 60: Purpose of the National Credit Regulator

Those respondents who were aware of the regulator were asked to describe what role the organisation plays in the credit market. More than a third of this subset described the NCR's role as 'regulating creditors', while other smaller proportions thought they were created to calculate credit scores, provide consumer and creditor protection, and assist in reducing debt.

CONSUMER: On a scale of 1 to 10, please rate your agreement with the below statement, where 1 is total disagreement and 10 is total agreement: [n = 809]

“Credit is easier to attain, more accessible and cheaper since the introduction of the National Credit Regulator.”

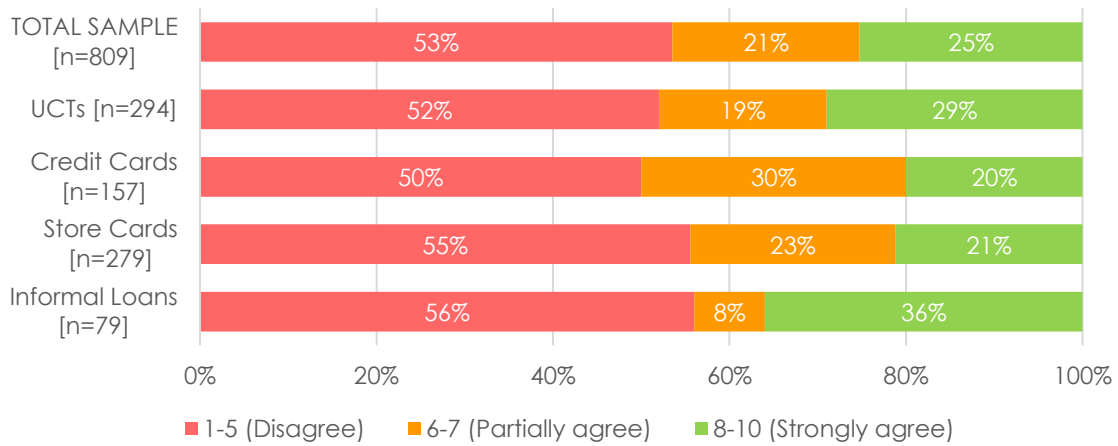


Figure 61: Accessibility ratings by product group

When reducing the NCR's purpose down to a rated statement, more than half of the respondents aware of the NCR disagreed that the organisation had achieved its purpose. Exactly half of all credit card holders were positive, to varying degrees, about the NCR's performance, which was the best rating across products. Store card holders were the most disagreeable.

Informal loan holders were the most negative about the NCR's performance, as 56% of these consumers disagreed with the statement. However, those informal loan holders that agreed with the statement, did so with much more emphatic positivity, as 82% of this subset gave the NCR ratings in the 8-10 category.

“Credit is easier to attain, more accessible and cheaper since the introduction of the National Credit Regulator.”

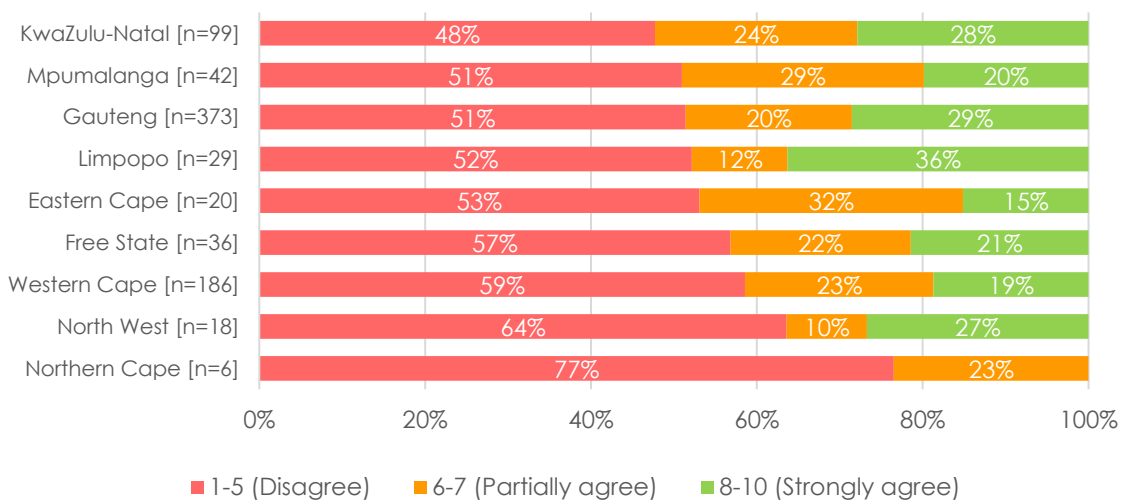


Figure 62: Accessibility ratings by province

The NCR's regulatory tasks are also impacted by region, as each area of South Africa needs to be managed with some degree of autonomy – this can reveal differing performances dependent on location. Indeed, respondents from KwaZulu-Natal were much more positive about the NCR's performance, while other provinces, like the Northern Cape and the North West, recorded largely negative perceptions, although samples sizes in these areas may limit statistical significance.

9.3. Legislative Review

The NCR utilises the regulations established in the National Credit Act (NCA) 34 of 2005 to manage the consumer credit environment in South Africa. There are other pieces of legislation enacted by the South African parliament, such as the Consumer Protection Act 68 of 2008, which influence the consumer credit environment too, as the “goods or services that are subject of the credit agreement[s] are not excluded from this ambit of this Act”, i.e., the consumer protection rules will still apply to the products being purchased through unsecured credit transactions, credit cards, or store cards (National Consumer Commission, 2009). The NCA has been amended since its inception in 2005 to better represent the changing needs of the market and is under constant review for improvements. The efficacy of the credit legislation is therefore evaluated in this section.

9.3.1. Efficacy of the National Credit Act 34 of 2005

CREDIT INDUSTRY: How well do you believe the National Credit Act and its regulations do to govern access and usage of unsecured credit transactions, credit cards, and store cards to consumers? Why do you say this?

There is a degree of **uncertainty** in the credit industry as to whether the credit legislation is able to effectively govern the environment in South Africa, as only a third registered outright positive opinions. Regulatory and industry associations in the credit market were the most negative about the legislation, as all individuals in this category highlighted the need for improvements.

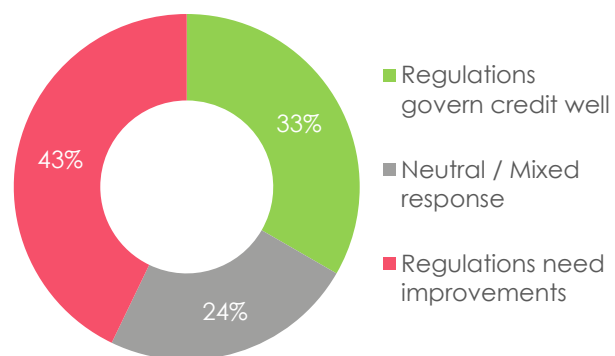


Figure 63: Efficacy of the National Credit Act

The most commonly occurring criticism of the legislation is how it **does not cater for implementation**. Many members of the credit industry compared the adequate wording of the legislation with the contrastingly poor results of those in charge of actioning the mandate. Again, the high levels of over-indebtedness were used as evidence to this point, as well as the poor performance ratings among the consumer sample.

The poor results were noted most consistently in the **informal markets**, where the NCA's regulations do not take effect. Given the socio-economic status of informal market participants, most of these consumers are only able to use credit without collateral, i.e., “unsecured” credit. This becomes a legislative concern, according to members of the credit

industry, as there is no section in the regulations that deals directly and solely with informal lending, apart from some inclusion of stokvels.

The **lower-income segments** also posed some problems, as some banks highlighted their confusion, and a subsequent need for guidance, with application criteria among consumers earning up to R10,000 per month, despite a universal framework for credit applications being available.

Once again, the **financial literacy and education** of credit consumers was also a key concern among those individuals evaluating the legislation, as credit providers found it difficult to provide this education to consumers on their own. However, a few industry associations and banks thought legislation to be too “pro-consumer”, making it difficult to grant credit alongside certain regulations.

Those who were more **positive** about the efficacy of credit legislation in South Africa highlighted changes to the regulations as examples of success, such as the laws being available in all official languages and the amendments made in 2018 to income verification standards. Banks were the most positive about the legislation in general, as they thought it had formalised access to lower-income households and protected consumers, in general, from unfettered access to credit. The formal market, which is largely seen as the beneficiary of the regulations, receives enough guidance to partially self-regulate.

9.3.2. Gaps in the National Credit Act 34 of 2005

CREDIT INDUSTRY: What gaps, if any, are there in the National Credit Act and its regulations that can perhaps generate unsustainable growth in credit? Please explain.

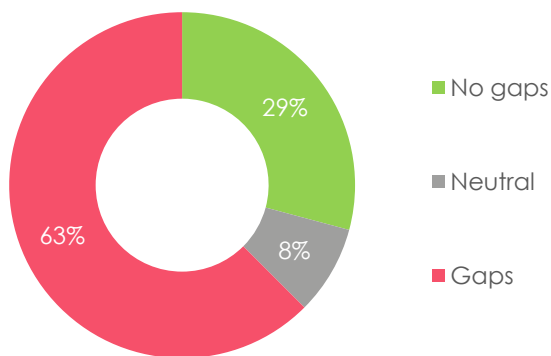


Figure 64: Gaps present in the legislation

The credit industry was asked about what gaps they thought were present in the legislation, and once again, most of them were able to identify **regulatory shortcomings**.

However, some respondents thought there were **no gaps** in the legislation, as the regulations were clear in their prescribed living expenses (while still being flexible) and the data used by the regulator were being monitored. In a few cases, the legislation was adequate,

but the performance of the regulator was not up to standard, especially when enforcing punitive laws for mismanagement of applications, etc.

On the other hand, banks were most forthright with their opinion that there were **gaps** in the NCA around unsecured credit transactions, credit cards, and store cards. The following list highlights specific components of the legislation that were isolated by the credit industry that require attention and revisions.

- There is a claimed contradiction between **Regulations 42 and 43** in the Act regarding initiation fees and loan values.

- Some banks believed the **minimum expense schedules** provided in the legislation were incorrect in terms of what the expenses of consumers were, i.e., the costs stated in the legislation were different from the actual costs incurred by the consumer.
- The **rates and fees** described in the regulations also need to be revised, according to certain portions of the credit industry.

The remaining feedback provided by members of the credit industry in this study was given as comments on how to improve the credit environment. They included:

- Using the legislation to force credit line providers to **cooperate and communicate** more directly with each other around the outstanding credit a consumer may have. Improvements to communication were also needed between the regulator and impacted parties when new legislation is being prepared.
- Incorporating **advanced technological practices** into the legislation so that the interface between the regulator and credit providers is more efficient and informative for both parties. More digital influences on legislation and governance are discussed in [Section 9.3.4](#).
- Focusing more on the **informal/illegal market**, as stricter regulations (often only for the sake of compliance) are forcing consumers into an informal market that very little is known about. One suggestion was to make better use of development credit, whereby consumers can be educated and empowered, while building themselves financially.
- **Simplifying the regulations** in an attempt to reduce the number of needed intermediaries, like lawyers, and therefore reducing the overall cost of compliance.
- Being **stricter with consumers** by writing further legislation that forces more accurate descriptions of a consumer's current credit position. Indeed, there were also suggestions that debt salesmen go through an accreditation process to assist in this regard.
- More attention and scrutiny in the **corporate and banking environments**, where unsustainable growth is allegedly generated by an oversupply of credit. However, over-regulation in this regard is also criticised, as strict measures can force organisations to develop alternative income streams as substitution products that may take advantage of the consumer. Wherever regulations have reduced the potential earnings of credit providers, a larger impact is felt by smaller businesses, which ultimately leads to a more monopolised market governed by regulations that only relate to and benefit the largest corporations.

From a more neutral perspective, the credit industry believed that regulation tends to focus on rules for credit provision but lacks what is needed to enforce the laws from a consumer standpoint. In this case, regulations need to be pre-emptive and not reactionary. According to banks, many of their concerns over the legislation can be found in court proceedings to date.

9.3.3. Legislative improvements from literature

Potential improvements to credit legislation have also been found in the existing secondary research conducted in South Africa's credit environment. In some instances, these improvements have been addressed through formal judicial rulings, while others are noted as areas for improvements by those analysing the environment.

- Concern was raised by some literary (Sguazzin, 2019) and credit industry sources over the tendency to look for large value loans with lengthy credit terms. As such, it was recommended that legislation more directly address the concept of a **maximum term length** for the benefit of the consumer.
- In Section 3(e)(i) of the Act, it states that one of the purposes of the Act is to protect consumers by speaking to and **altering the current disparity in the negotiating power between consumers and credit providers**, and that education regarding consumer rights and credit was the tool to be used to do achieve this (Stoop, Pearson, & Kelly-Louw, 2017). Given the existing power parity between consumers and credit providers, this goal is not being effectively achieved.
- As Stoop, et al. (2017) rightfully highlights, South Africa's apartheid history means the national **focus has been more on improving the financial inclusion of South Africans** than educating consumers and increasing their informed financial participation. Those that were suddenly included in the market found themselves in problematic financial situations due to their lack of knowledge.
- The accumulation of private debt (including consumer debt), macroeconomic debt and sovereign debt crises are closely related, and **countries with economic downturns tend to have private debt booms indicating financial instability and growing inequality** (OHCHR, 2020). Given South Africa's economic difficulties, an oversupply of private consumer debt could contribute to a worsening economic climate.
- Some of South Africa's poorest consumers were targeted by credit providers through their SASSA grants. It was found that this program could lead to over indebtedness, as **SASSA grants were converted into collateral for additional consumer credit**. The financial products offered to grant holders by the provider, Net1, were inappropriate and took advantage of those in already strained financial situations, as they then did not receive the full value of their grants. The NCR needs to assess the impact of cash transfers and regulate the effects of credit on the recipients of grants (Torkelson, 2020). There is a definitive gap in the legislation around how grants can be used as collateral for credit. Net1 did not market their products to a low-income sector generally, but rather to SASSA grantees specifically.
- Rees (2019) refers to a High Court application made by Summit Financial Partners with the Stellenbosch Law Clinic and others where "they are challenging the notorious '*ultra in-duplum*' provisions in S101 and 103 of the NCA, which they argue should include all legal fees incurred by a credit provider in recovering an unpaid debt. In effect this would mean that **a consumer could not be held liable for more than double the outstanding principal debt** as at date of default".
- Numerous cases have focused on section 24 (**the right to access to courts**) and section 26 of the constitution (**housing clause**) and made judgements regarding the importance of judicial oversight when a debt is enforced and executed against a

debtor's property. Their findings have included that it is unconstitutional when a debtor's property is seized and sold without court oversight (which occurs in the informal market) and someone's residential property cannot be sold to pay for a debt without considering the full context of the case.

- Several court rulings have seen judges denounce lenders' behaviour while also focusing on the **human rights of the borrowers**. This links to the HRC's view (The Human Rights Commission, 2017) that over-indebtedness has repercussions for peoples' right to dignity and their socio-economic rights, as it directly affects their ability to afford their basic necessities. In all the landmark judgements, courts displayed a clear intent to protect borrowers from abusive practices and they have helped strengthen the legislative framework (Rees, 2020). These have included the following rulings:
 - A court ruled that excessive charges associated with collections via the notorious **Emolument Attachment Order system** have a "direct impact" on a range of constitutionally enshrined legal rights, stating that "the ability of people to earn and support themselves and their families is central to the right to human dignity" (Maregele, 2015).
 - A judgement made against credit providers who overcharged customers in legal and interest fees. It is believed that this ruling should go a long way to put an end to the widespread practice whereby collections attorneys, acting on behalf of lenders, interpreted section 101 (1) of the NCA (designed to limit the amount borrowers can be charged in the collection of debt) in such a way as to **exclude legal fees** (Ryan, 2019).
- There have been challenges to the National Credit Act regarding the constitutional right to equality (Standard Bank of South Africa Ltd v Hunkydory Investments 194 (Pty) Ltd (No 1; Investec v Louw and Standard Bank of South Africa Ltd v Dlamini). These cases questioned the potential, unequal application of the act to juristic persons and natural persons. It was suggested that these do not get the same protection under the law. The courts have all come to the same conclusion that **the NCA Act is not intended to generally protect juristic persons** (Brits, 2017).

9.3.4. Impacts of digitisation on governance

Digital technologies and migration will undoubtedly change the credit landscape. A prevalent form of digitalisation in credit are Peer-to-peer (P2P) microloans, which are showing increased access to credit. Such loan systems are financed by social investors. Borrowers are entered into a platform and social investors choose who they want to finance. The interest for these transactions is split between the investors who receive 2%, the platform running the operation which receives 2% and the rest of the interest is invested back into communities through literacy training sessions (Parks, 2018). It is not clear what the total interest charged is, but the amount invested back into the local communities have shown to make a difference.

Other developing credit industries, such as those seen in Azerbaijan (Downey, 2018) and Samoa (Ventura, 2018) are being improved by digital technologies, especially in the case of centralised credit databases. Information accessibility is being improved with the migration of credit records onto cloud services that are accessible to more industry stakeholders and credit providers. A similar approach to information sharing in South African could mitigate the uptake of further debt by the already over-indebted.

10. CONCLUDING REMARKS

The purpose of this research study has been to better understand elements of the consumer credit environment in South Africa, particularly in relation to unsecured credit transactions, credit cards, and store cards. The attributes of this environment have been analysed and compared with the economic and social status of its consumers, and the financial wellbeing of the providers, to identify the causes of fluctuations in market demand and supply.

A combination of credit industry and consumer perspectives in this study have helped to identify where the frictions and harmonies between the three market participants lie (the consumer, the provider, and the regulator). At their cores, both consumers and providers are trying to gain as much financial advantage as possible using the systems available to them, and it is incumbent upon the NCR to regulate this relationship and prevent an imbalance toward one side or another by investigating complaints and developing policy, among other tasks.

To understand the potential for imbalance, the **unsecured credit transactions, credit cards, and store cards** were summarised statistically. The representative sample in this study, which was questioned around one (1) selected debt instrument, indicated that most were taken out to fund monthly or short-term expenses, with only unsecured credit transactions being used for long-term projects, like house renovations. In terms of debt size in the consumer sample, unsecured credit transactions hovered around R50,000, credit cards R20,000, store cards R5,000 and informal loans R1,000. The default rates among the three formal products prior to COVID-19 were almost identical at 40% of the consumer sample each, although informal loans defaulted with a much higher frequency (almost 60%).

Since 2017, approximately 42% of consumers have taken out more unsecured credit transactions, credit cards, and store cards, which has been attributed to the **poor general economic performance over the past four years**. As such, granting of formal credit has become restricted, driving more of those in debt cycles into the informal market. Store cards and credit cards have been some of the easiest to obtain though, which explains the comparatively stronger uptake in the market. In terms of unsecured credit transactions, the credit industry noted that banks had increased the maximum lending amount (from approximately R150,000 to R300,000) in an attempt to counteract the loss of supply through risk adjustments.

As a ratio of income-to-debt, the **lower-income segments** were definitively more negatively impacted than higher incomes, and naturally corresponded with a higher number of informal loan holders. More than half of the loan holders chose the informal option because it was accessible or because they did not meet bank requirements.

The **financial impact of COVID-19** has also been significant, with more than 50% of unsecured credit transaction, credit card, and store card holders borrowing more money directly because of the pandemic and lockdowns. The associated job and income loss has prompted almost 60% of the population to look for an additional source of income.

Another key barrier to the sustainable uptake of unsecured credit transactions, credit cards, and store cards has been the **cost of credit**. The members of the credit industry who were interviewed in this study highlighted a belief that the average consumer was unaware of the

total costs of incurring debt, and rather only focused on how much they would have to repay each month. This was then confirmed by the consumer sample, who also showed a degree of uncertainty around their interest rates and the nature of credit life insurance schemes.

This unexpectedly high cost of credit (from the consumer's perspective) therefore plays a role in boosting **over-indebtedness**. Indeed, South Africa has one of the highest rates of indebtedness in the world and it is particularly prevalent in the lower-income bands, where economic contraction has spiked the rates of payment defaults. More than 40% of the study's population had defaulted on their repayments, with most citing unemployment as the cause. Although debt counselling is seen as a countermeasure for this indebtedness, very few had decided to take up these services, therefore highlighting ineffective remediation strategies.

The longstanding effects of over-indebtedness in which unsecured credit transactions, credit cards, and store cards play a significant role, have real-world **socio-economic impacts** on those who experience it. Certainly, consumers and the credit industry alike believe that unsecured credit transactions, credit cards, and store cards are needed and appreciated services. However, the way in which they have been implemented has not empowered the economically-disadvantaged as originally intended and, according to the credit industry, is getting worse. Considerable divides in success lie along income and education lines, as approximately 70% of those earning less than R10,000 per month were not comfortable in their financial position.

There was consensus among the credit industry that the regulator should not make it easier to obtain credit, but rather maintain a specific set of principles as established in the **legislation**, such as the equitable distribution of credit and the remediation of over-indebtedness. The efficacy of this legislation was questioned by most members of the credit industry, who were able to identify key problems in the regulations and provide suggestions on where improvements were needed. This included a stronger acknowledgement by the regulator that the informal, unregulated environment was troublesome (for both consumers and providers) and that rapid technological changes were not being catered for.

The **financial education** of the credit consumer was also a major source of controversy, as knowledge of the repo rate showed significant and direct stratification across formal education levels (less than 30% of high school graduates knew what the repo rate was). It was also evident that consumers did not fully understand the gravity of being over-indebted, as they welcomed more debt when available and viewed their credit with fondness.

In response to economic decline, the regulator has intermittently **revised the legislation**, e.g., in 2014 and 2018, which has often had a restrictive effect on the issuance of unsecured credit transactions, credit cards, and store cards by their providers. The chief shortcoming of these measures, according to the credit industry, is that they only work within the confines of the formal or regulated market. Therefore, formal institutions are confined by strict regulations that are a response to a problem originating in a different sector, and this over-regulation can limit credit access through banks, and push more consumers into the informal market. As such, we can conclude that participants in the informal market are in a dire situation. Before the economic contraction of COVID-19, they were already financially pressurised, and now their incomes, jobs and sources of formal credit have been removed, threatening their basic survival. Given the NCR's mandate to protect the previously disadvantaged, more needs to be done to empower credit consumers.

Nonetheless, the market for unsecured credit transactions, credit cards, and store cards is complex and must be sustained in the face of competing interests. The vulnerable are exploited in an economy that continues to marginalise and disempower the lower-income segments. In this case, specific measures undertaken by the regulator, e.g., changes to proof of income requirements, are being implemented to address a more permanent and ingrained economic deterioration, which the lower incomes feel the pressure of most keenly. Although outside of the NCR's mandate, reducing the consumer's need for credit and improving their livelihoods should be prioritised over how best the market can be governed.

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