



**CONSUMER FINANCIAL
VULNERABILITY INDEX**

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Consumer financial vulnerability improves slightly – but people still at risk

The financial vulnerability of consumers improved slightly during the fourth quarter of 2009, although general levels of vulnerability remain a serious concern, according to the latest results of the Consumer Financial Vulnerability Index (CFVI).

The results indicate that consumer financial vulnerability improved from the third to fourth quarter of 2009 as the economy started to pick up momentum, job losses decreased, and as consumers adapted their lifestyles downwards. However, no significant decline in vulnerability is expected as the underlying causes remain mainly unaddressed. These include high levels of unemployment and poverty, low skills levels, high levels of indebtedness and defaults on repayments, ineffective service delivery, and the impact of HIV and AIDS.

The CFVI was developed by the Bureau of Market Research (BMR) in collaboration with FinMark Trust. This is the second quarterly update.

The overall CFVI and sub-indices are based on a 10 point scale where 0 indicates total financial security and 10 indicates total financial vulnerability.

0-1.99	2.0-3.99	4.0-5.99	6.0-7.99	8.0-10
Financially very secure	Financially secure	Somewhat Financially vulnerable	Financially vulnerable	Financially very vulnerable

With CFVI scores of 5.17 during the second quarter, 5.49 during the third quarter and 5.17 during the fourth quarter it is evident that South Africans remain at risk.

The results of the survey for the second to fourth quarters of 2009 are as follows:

CONSUMER FINANCIAL VULNERABILITY	Second quarter 2009	Third quarter 2009	Fourth quarter 2009
Savings vulnerability	5.74	5.90	5.40
Expenditure vulnerability	5.54	5.45	5.26
Debt servicing vulnerability	4.37	4.76	4.51
Income vulnerability	5.64	6.03	5.81
Overall CFVI	5.17	5.48	5.17

Looking at the different components of financial vulnerability, the scores show that **savings vulnerability** increased from the second quarter to the third quarter but declined from the third to the fourth quarter. This could be explained by the fact that consumers hard hit by the recession adapted their lifestyles downwards and became better able to cope with existing savings. Furthermore, consumers also entered into fewer credit agreements enabling them to save more.

Expenditure vulnerability showed a continuing decline from the second quarter to the fourth quarter of 2009 driven by lower interest rates resulting from lower Reserve Bank repurchase rates.

Both **debt servicing vulnerability** and **income vulnerability** rates increased from the second to the third quarter of 2009 but declined from the third to the fourth quarter. While lower income vulnerability could be attributed to fewer jobs being lost during the third quarter of 2009, lower levels of debt servicing vulnerability could be because of both lower interest rates and lower credit-taking rates among consumers.

Although there is a slight improvement in levels of consumer financial vulnerability, it is clear from the responses of key informants that South Africans are not yet out of the woods. The following findings reflect the views of key informants about the situation of consumers in South Africa:

- 70% of key informants said that the income situation of South Africans did not improve during 2009;
- 65% said that the ability of consumers to service their debt did not improve;
- 60% indicated that consumers' ability to make ends meet did not improve during 2009. Given that nearly half the population are poor, this is serious;
- 61% of key informants said that the ability of consumers to save did not improve;
- 91% of key informants agreed that an increasing number of consumers cannot keep up with payment on financial obligations;
- 85% indicated that a growing number of consumers are in arrears on their accounts for three months or more; and
- 96% said that an increasing number of consumers are making arrangements to pay off their debts over a longer period of time.

Key informants were asked to indicate the main reasons for the bad financial situation of consumers. The major reasons found were firstly, overindebtedness, secondly, consumers spending more than they earn, thirdly, bad financial planning, fourthly, job losses and, fifthly, not having sufficient savings to draw on.

Finally, key informants were also questioned about who they believed are the most financially vulnerable. The results indicate that the most vulnerable consumers are those with an income of less than R30 000 a year as well as consumers who are 18- to 39-years of age.

Overall, the results of the three CFV studies conducted during 2009 indicate that the recession gave rise to increasing levels of vulnerability from the second to third quarter of 2009, with a decline in consumer financial vulnerability during the fourth quarter of 2009. As economic growth improves in 2010, coupled with higher levels of job creation, lower levels of consumer financial vulnerability are expected. However, no large-scale decline in vulnerability is expected as the main reasons for vulnerability remain largely unaddressed. These include (1) very high levels of poverty, (2) high levels of unemployment, (3) ineffective

functioning of wealth transfer and service delivery institutions, (4) high levels of indebtedness and defaults on repayments, (5) low skills levels, and (6) the socio-economic impact of HIV/AIDS.

For more information contact:

BMR: Carel van Aardt, vaardcj@unisa.ac.za, cell: 082-950-4325



FinMark Trust is an independent trust created with initial funding from the UK's Department for International Development (DFID). The trust supports and promotes institutional and organisational development with the objective of increasing access to financial services to the unbanked and underbanked people of Southern Africa.

The Bureau of Market Research (BMR) was established in 1960 as a collaborative effort between UNISA and industry. The BMR has four focus areas, namely demographic research, behaviour and communication research, income and expenditure research and economic research. The BMR provides contract research, syndicated research, skills development and database mining services to clients and BMR members.