

Impact of HIV/ AIDS on the Retail Banking Market

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A research report submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfilment of the requirements for the
degree of Master of Business Administration.

November 2002

Abstract

The South African business environment is challenged by the increasing prevalence of HIV/AIDS amongst people that constitutes the market place. While all organisations will feel the impact, consumer oriented businesses are directly and more immediately affected. The key driver for growth in the retail-banking sector is the increase in transactional volume underpinned by a growing customer base.

The study examined perceptions amongst senior managers in retail-banking business units at the four major banks. A different, but similar, set of questions was posed to professional service providers that had a good knowledge of retail banking. The responses to the questionnaires were analysed to extract the understanding of the extent and nature of the impact of HIV/AIDS on the retail banking market as well as to identify the differences in perceptions with respect to the Home Loans, Credit Card and Asset Finance business units.

There was unanimous belief that HIV/AIDS will impact on retail banking. There was a perception that the Home Loan business unit was likely to be most impacted with the Asset Finance business unit being least affected. It was felt that payment defaulting resulting from an increased healthcare cost in households with HIV positive individuals will first affect Credit Cards, then Asset Finance and lastly Home Loans as people are not likely to give up the roof over their heads.

Declaration

I declare that this research project is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

Vasagi Nalini Moodley

15 November 2002

To my husband

Leventhiran Govindaraj Moodley

my daughter

Loshnee Luvendrie Moodley

and my son

Rasikan Leventhiran Moodley

for their patience, understanding and support
during the course of this programme

Acknowledgements

I am grateful to

My supervisor, Mr Albert Wöcke for his guidance through this process

My employer, Citibank SA for the time and resources made available to me to complete this project

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CHAPTER 1: INTRODUCTION

Beyond war and technology there has been a development that continues to challenge mankind's ability to manage his environment. The influence of disease and its capacity to surprise even the most enlightened nations remains a significant threat.

There are several plagues or epidemics that have threatened the health of nations across the globe. Such outbreaks of disease can influence the future of countries and in some instances specific industries. Given the importance of economic growth to all countries in the world, the understanding and management of epidemics is critical for economic progress.

South Africa is on the brink of a full-blown HIV/AIDS crisis. Recent demographic work summarized in two reports prepared by ING Barings (1999, 2000) estimates that since the onset of the epidemic, more than half a million South Africans have died of AIDS-related causes. By 2015, life expectancy in South Africa is forecast to fall from its pre-epidemic high of 65 years to only 40 years. While modification of high-risk behaviours could reduce AIDS-related death rates, due to the long delays between infection and death (approximately 8-10 years), an immediate behaviour change would reduce the number of AIDS deaths primarily in the 2010-2015 periods. With an HIV infection rate currently estimated at more than 12 percent of the population (and projected to increase), prospects for

avoiding a major human development crisis over the next decade and beyond are dim.

The key challenge now is how to deal with the impending crisis. The epidemic has moved beyond its earlier status as a health issue to become a development issue, with social, political and economic dimensions.

In this study, the focus is on the economic dimension. Some attention will be paid to understanding the decisions when confronted with HIV in the household.

Much attention has been focussed on the impact of HIV on the employees in various industry segments. These concerns point to an economic impact arising from the productivity of the workforce. There will be direct impacts on the training budgets and the rates of appointment. Ultimately these concerns are centred on the cost base or denominator of an organisation's profit formula. The revenue or numerator aspect of the formula has not been allocated a significant proportion of time.

All publicly owned businesses are mandated to consistently increase shareholder wealth. The most potent driver of growth must be sales volume through which sales revenue and ultimately earnings growth will be realised.

In the context of this rationale, the retail-banking sector has a direct line of sight between transaction or contract volumes and sales revenue growth. Since there are a finite number of contracts that any one individual can conclude in his or her personal capacity, the growth of this sector is best served by a large and growing customer base with reasonable levels of affordability. The particular area of study in this document is that of retail banking in South Africa. The objective is to dimension the impact that the HIV/AIDS epidemic will have on the retail banking market place and to capture the responses that are being developed by this industry to counter the potential impact.

Overview of the Research Report

The research report is structured in the following manner:

Chapter 2: Literature Review

This chapter provides an overview of the literature reviewed for the study. The key concept, namely HIV/AIDS is explored in terms of its economic and social impact in South Africa. Particular attention is paid to the impact of HIV/AIDS on the consumer market. An overview of the banking industry is first discussed as a prelude to the impact on the lending industry as well as the impact on credit risk. Progress in the Life Assurance industry is presented to offer a benchmark.

Chapter 3: Research Problem and Methodology

In this chapter the research problem is discussed as well as the methodology used to investigate the research propositions. Attention is paid to the questionnaire construction, the method of data collection, the sampling method and sample size, and the method of data analysis.

Chapter 4: Analysis of Results

The research results obtained from the questionnaires are presented in this chapter.

Chapter 5: Interpretation of Results

In this chapter the results of the research are discussed in terms of the literature review.

Chapter 6: Conclusions and Recommendations

This chapter contains a summary of the research results and conclusions as well as recommendations for further research.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter introduces the existing documented research on the impact of HIV/AIDS. The literature review first looks at the economic environment in detail and the influence of the epidemic at that level. The research then goes into the social impact paying particular attention to orphans and demographics. The influence that HIV/AIDS has on consumer markets is addressed thereafter. An overview of the banking industry is discussed before the lending industry findings are captured with particular emphasis on credit risk. And finally, a comparative study is made of developments in the life assurance industry to offer a benchmark.

2.2 ECONOMIC IMPACT OF HIV/ AIDS

Any estimates of the macroeconomic consequences of the HIV/AIDS epidemic should be treated with circumspection (Abt Associates, 2001). Economists have great difficulty in predicting the effect of economic factors that have been studied for the past 10 years. According to Abt Associates (2001), predicting the outcome of a new phenomenon like AIDS is far from an exact science. Having said this, the epidemic has the potential to restrict economic growth.

Recent estimates (Abt Associates, 2001) have suggested that HIV/AIDS could reduce GDP growth rates by an average of between 0.3 and 0.4%

per annum over the next 15 years. The impact on human and social development is expected to be much more profound than reflected in very limited indicators such as GDP or per capita GDP. Increased illness and deaths, and reduced expectancy, will clearly compromise development objectives. Affected people, particularly orphans, will also have greatly reduced chances of fulfilling their human potential. Apart from the disadvantages of reduced nurturing, many affected children will have less educational and other opportunities. HIV/ AIDS is also likely to increase socio-economic disparities (Abt Associates, 2001)

According to Abt Associates (2001), HIV/AIDS will impact on the economic lives of South Africans, South African firms and the national economy in many respects. HIV/AIDS will impact on, inter alia, labour supply and demand (due to people dying of AIDS-related diseases in their key productive years), skills availability, the health sector, households, and production and productivity. These impacts are discussed in greater detail below.

Since HIV/AIDS primarily affects working age-adults, it can be expected that substantial losses in labour supply will be incurred due to AIDS-related diseases. Abt Associates (2001) indicates in this regard that the labour loss due to AIDS-related diseases could amount to 40 to 50 per cent of the current workforce of some companies. The impact of workforce losses on a company will depend on the nature of the business,

its production processes, the products being manufactured and the services being rendered.

In the report by ING Barings (2000), the following was documented on the impact of HIV/AIDS on labour supply and productivity. The demographic analysis has shown that the infection rates among the South African workforce are higher than for the population as a whole (ING Barings, 2000). We can thus expect the labour force to be disproportionately affected by the epidemic. Here we are trying to model the effect of AIDS-related deaths across the various skills groups on overall labour supply. Any change to the overall labour supply in the economy will affect potential output (which is determined by labour and capital supply as well as technology). ING Barings (2000) indicates that with unemployment in excess of 30%, South Africa is currently faced with a surplus labour situation. So, in theory, the available pool of unemployed can easily replace employees who die of AIDS-related causes. However, while South Africa has a large pool of unskilled labour available, it already faces a labour shortage at the skilled and highly skilled level. At the higher skills levels, the replacement of employees who have died is more difficult. Since the withdrawal of one unit of highly skilled labour is expected to have a more negative impact on potential output, it is proposed that an adjustment be made to the labour supply numbers that accounts for the importance of skill (ING Barings, 2000). Assuming that the average wage is reasonable proxy for skills, the units of labour is weighed by their wage

rate relative to the economy-wide average so as to arrive at a weighted aggregate labour supply.

It is also anticipated that HIV/AIDS will impact negatively on production and production costs. Barker (1999) indicates that there will be reduced production and increased absenteeism due to AIDS, as well as a loss of experienced staff. It appears from Barker's (1999) analyses by means of the Doyle model that, of the adults that will be affected by AIDS, over 90 per cent will be in their key productive years, aged between 20 and 50. Production costs could also be affected because of higher group insurance, more expensive medical aid contributions, the cost of recruiting replacement labour and losses in foreign direct investment brought about by lower levels of investor confidence because of high HIV prevalence rates among the economically active population.

There is little publicly available data on the impacts of HIV/AIDS on firms/businesses in South Africa. The quality of much of the information is uncertain. Published studies of impact on business in other countries are limited and have often been conducted at relatively early stages of AIDS epidemics. Nevertheless, they give useful information on many dimensions of impact. (JP Morgan, 2001)

JP Morgan (2001) reports that HIV/AIDS in workforces will impose direct and indirect costs on companies.

Direct costs will result from increasing claims on medical, pension, life and disability cover by employees with HIV/AIDS.

- *Worker absenteeism* due to illness, funeral attendance or caring for sick family members. Funerals can be a major cause of absenteeism. In many cases whole workplaces or government departments have closed down when employees and managers attend funerals of colleagues.
- *Higher recruitment and training costs.* Replacement involves time and training. Many new employees or trainees will themselves become ill with AIDS.
- *Loss of skilled workers.* This can disrupt production in individual companies and increase market wages for people with scarce skills. An increasing proportion of workers will be inexperienced, reducing potential for experienced workers to provide formal or informal training. Loss of skilled workers was the most common concern.
- *Reduced job performance* of infected employees due to physical disability or stress created by knowledge of diagnosis and stigmatisation.
- *Stress and reduced morale* caused by illness and death of fellow employees, friends and family members. This effect is widely reported in countries with advanced epidemics.

- *Potential labour relations' breakdowns and litigation costs* in companies, which manage human resource issues arising from HIV/AIDS poorly.

The contribution of various types of costs to overall HIV/AIDS costs varies, and some cannot easily be quantified. Indirect costs can often accumulate for a long time before companies recognise their significance. Studies consistently show that non-health care and indirect costs can contribute a very substantial proportion of costs. The greatest contributor to costs tends to be absenteeism, followed by training and recruitment costs.

Even if direct impacts at the macroeconomic level are limited, impacts on broader development and the business environment in South Africa are likely to be severe in the medium to longer term. Government efficiency and the education system are very vulnerable. Increased poverty and inequality, and massive numbers of orphans who lack nurturing, will predispose to social instability. AIDS among political, labour, business and other leadership, the military and police may also be destabilising.

HIV/AIDS appears unlikely to be a dominant factor in determining returns on most investments in South Africa over the next 10 years. In some cases, it may however be a key issue, and most companies will experience significant cumulative costs of HIV/AIDS over time. Business has a direct interest in ensuring that HIV/AIDS does not unnecessarily

affect its costs, or the business environment. Active management of HIV/AIDS impacts by companies is possible, and will be relevant well beyond 2010. Companies which clearly assess and address HIV/AIDS risks and issues in a strategic manner are likely to offer better investment prospects than those that ignore the epidemic until the impacts become obvious.

Human capital realisation, skills availability and skills shortages in South Africa will also be affected by HIV/AIDS. Although AIDS will impact more on the semi- and unskilled segments of the labour force, ING Barings (2000) is of the opinion that the impact of AIDS on the skilled and highly skilled segments of the labour force will be substantial. It is anticipated that about 13,1 per cent of the highly skilled segment and 22,8 per cent of the skilled segment of the labour force will be HIV positive by 2005. Such high levels of HIV among the highly skilled and skilled segments will lead to much lower human capital realisation rates and will exacerbate existing skills shortages (Barker 1999). Whiteside (as referred to by Barker, 1999) is of the opinion that higher skilled workers might even be affected by HIV/AIDS to a greater degree than lower skilled workers since they earn higher salaries that enable them to 'purchase beer and sex', and since they are more mobile than lesser skilled workers and the unemployed.

Probably the most direct impact of HIV/AIDS will be on the South African health sector. According to Bollinger & Stover (1999) AIDS will affect the

South African health sector in two ways: firstly, the number of people requiring services from the health sector will increase and, secondly, health care for AIDS patients is generally more expensive than for most other medical conditions. It appears from calculations made by Bollinger & Stover (1999) that the per capita cost of AIDS treatment varies between R 150 000 and R 300 000 over a period of 13 years, an amount that is expected to impact severely on government and medical funds in South Africa when multiplied with the number of HIV positive people in South Africa.

As regards the future impact of HIV/AIDS on real growth of the gross domestic product (GDP), Arndt & Lewis (2000) are of opinion that in the absence of HIV/AIDS real GDP growth would have increased from about 2,3 per cent per annum in 1998 to about 3,75 per cent per annum by 2010. However, due to the anticipated impact of HIV/AIDS on the economy, they maintain that these higher levels of real GDP growth will not materialise. Instead, they expect real GDP growth to decline from about 1,9 per cent in 1998 to about 0,9 per cent by 2008.

In their research on the impact of HIV/AIDS, Bollinger & Stover (1999) anticipate a significant impact on firms. They are of the opinion that AIDS-related illnesses and deaths among employees would both give rise to an increase in firm expenditures and a reduction in firm revenues. The major factors leading to more firm expenditures are increased health care costs,

burial fees, training costs and recruitment costs. On the other hand, firm revenues could be negatively affected by employee absenteeism due to illness, time spent on training and higher levels of labour turnover.

Bollinger & Stover (1999) go on to describe the manner in which HIV/AIDS will impact on the macro-economy:

- HIV/AIDS reduces the number of suitably qualified workers available since the virus has a particularly severe impact on the age cohorts of people in their productive years. As HIV-related diseases progressively debilitate HIV-positive workers, their productivity also declines.
- Due to the impact of HIV/AIDS on labour supply, higher wages result owing to worker shortages. Higher wages, in turn, give rise to higher production costs, which, in turn, lead to lower levels of international competitiveness. A loss in international competitiveness leads to lower levels of foreign direct investment and foreign exchange shortages.
- It is also anticipated that greater health expenditures and a loss of worker income will give rise to lower government revenues and reduced private savings, which, in turn, will result in a significant drop in general savings and capital accumulation. This will give rise to slower employment creation in the formal sector of the economy.

- Lower levels of labour productivity and investment due to HIV/AIDS will also give rise to lower levels of job creation in the formal sector. This will result in a situation where a substantial number of workers will not be able to obtain jobs in the formal sector and would thus have to take up low paying jobs in the informal sector of the economy.

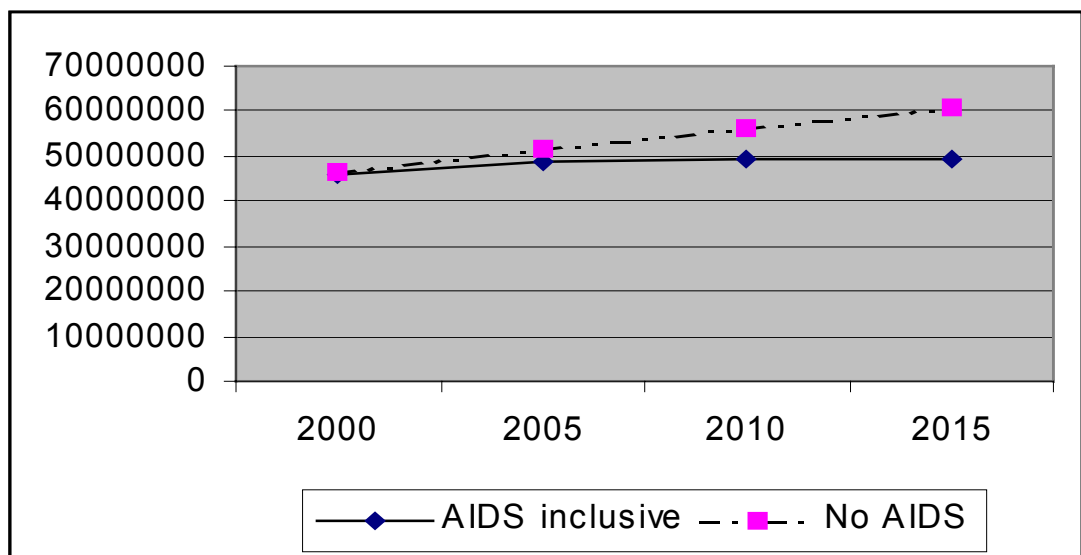
Arndt & Lewis (2000) anticipate that the overall impact on the macro-economy will be small at first but will increase dramatically over time.

As regards the impact of HIV/AIDS on the health sector, Bollinger & Stover (1999) refer to a health economics model designed by the United States Bureau of the Census, pertaining to South Africa. By making use of this model, they determined the total direct costs of HIV/AIDS for the South African health sector in relation to various possible AIDS impact scenarios. A low AIDS impact scenario showed that the expenditure on HIV-related diseases would increase from about 0,5 per cent of total health expenditure in 1991 to 34 per cent in 2005. On the other hand, a high impact scenario reflected that expenditure on HIV/AIDS-related diseases as a percentage of total health expenditure could increase from about 0,8 per cent in 1991 to about 75 per cent of total health expenditure in 2005.

2.3 SOCIAL IMPACT OF HIV/ AIDS

ING Barings (2000), using the ASSA600 model developed by the Actuarial Society of South Africa (ASSA), predicts a population of about 49,4 million for South Africa by 2015 while it would have been 60,9 million in the absence of AIDS (see figure 1 below). It is clear from figure 1 that, although it is expected that HIV/AIDS will have a massive impact on the size and growth of the South African population during the next fifteen years, it is unlikely that the epidemic will lead to negative population growth and an absolute decrease in population numbers (Whiteside & Sunter 2001).

Figure 1: The Impact of HIV/AIDS on Future Population Outcomes



Source: ING Barings (2000)

Although HIV/AIDS is not expected to give rise to negative population growth, it is expected to have a significant impact on life expectancy and

fertility rates in South Africa. As regards life expectancy, it appears from available statistics that the average life expectancy at birth of South Africans has already declined from about 63 in 1996 to about 55 in 1999 (Whiteside & Sunter 2000) and is expected to decline even further to below 45 years by 2008 (United Nations 1998). As regards fertility, it should be noted that the impact of HIV/AIDS on fertility would be threefold:

- Firstly, HIV/AIDS will lead to a reduction in the number of births since many women die during their reproductive years.
- Secondly, HIV/AIDS will reduce fertility due to the physiological effects of the disease. And,
- Thirdly, fertility will decline through the increased use of condoms due to higher levels of AIDS awareness (Whiteside and Sunter 2000).

Except for the above-mentioned impact of HIV/AIDS on population size and growth, life expectancy and fertility, it is also expected that HIV/AIDS will impact on dependency ratios in South Africa. AIDS will give rise to the death of many young adults, which, together with higher levels of aging of those people who are older than 50 and who are less affected by HIV/AIDS, will give rise to increasing old age dependency burdens.

According to Bollinger & Stover (1999), the economic impact of HIV/AIDS on households is multi-faceted, namely:

- (1) AIDS results in the loss of the income of the AIDS patient - who in many cases will be the breadwinner,

- (2) The expenditure of the household on medicines and medical services may increase dramatically,
- (3) The death of household members who were economically active may result in a permanent loss of income for the household and
- (4) Members of the household who are not sick because of AIDS-related diseases (although they may be HIV positive) may be obliged to stay home to care for AIDS sick household members, thus being forced to stay away from school or work,
- (5) Should both parents die, the children become orphaned leading to lower levels of social and human capital development among children, and
- (6) The number of burials will increase dramatically with the consequence that households will have to pay much more for burials. In addition, Abt Associates (2001) indicates that high expenses on medicines and treatment often reduce the household's ability to pay for education, food, housing, home maintenance and basic utilities. Furthermore, surviving family members may be forced into very low paid work, prostitution, crime or sexual relations with richer community members, which, in turn, place such family members in the high-risk group with respect to HIV infection.

Perhaps one of the most tragic long-term legacies of the HIV/AIDS epidemic is the number of AIDS orphans. (Primarily in the 10 to 14 year old age group as parents die). Abt Associates (2001) indicates that in

South Africa alone it is estimated by the year 2005 there will be over 1 million AIDS orphans. Caring for them is one of the biggest challenges. There is a high risk of them developing antisocial behaviour and becoming less productive members of society. There are already cases throughout Africa of child or grandparent headed households. The increased level of poverty has forced children into crime and prostitution in order to survive.

In a paper for the Medical Research Council, Dorrington et al (2001) estimated the percentage of adult deaths (for the ages 15 to 49) that could be attributed to AIDS-related diseases, using available death registration data. Some of their findings are presented in table 1 below for the period 1995 to 2001.

Table 1: Percentage of Adult Deaths (15 to 49 years of age) that could be attributed to AIDS-related Diseases

YEAR	PERCENTAGE OF ADULT DEATHS (15 TO 49 YEARS OF AGE) THAT ARE AIDS RELATED
1995/1996	9 per cent
1996/1997	14 per cent
1997/1998	19 per cent
1998/1999	26 per cent
1999/2000	33 per cent
2000/2001	40 per cent

Source: Dorrington et al (2001)

It appears from table 1 that there has been rapid growth in the percentage of adult deaths (between the ages of 15 to 49) that could be attributed to AIDS-related diseases, namely from 9 per cent during the period 1995 to 1996 to about 40 per cent by 2000 to 2001, constituting a 444 per cent growth over a period of five years. On the basis of available statistics, Dorrington et al (2001), estimate that there were about 230 000 to 290 000 AIDS-related deaths among the total South African population in 2000, a figure that is expected to rise to between 400 000 and 500 000 in 2004, and to between 700 000 and 850 000 in 2008.

In addition to the broader social impact of the disease, the AIDS epidemic is shrouded in fear and discrimination. In many instances society does not have the safety nets in place to deal effectively with the epidemic and instead of providing community support, often AIDS victims are seen as outcasts and left to fend for themselves. In some communities the number of AIDS sick and dying has resulted in the whole communities being exposed to a “culture of death” (Abt Associates, 2001).

2.4 IMPACT ON CONSUMER MARKETS

The enormous scale of the South African HIV/AIDS epidemic has led to concerns that it could have a substantial impact on growth potential in markets for goods and services in the country. Very little research into the issue is available in the public domain. There is difficulty in generalising about markets and HIV/AIDS impacts, as the many different types of

goods and services each have different factors influencing market size. The extent to which HIV/AIDS influences demand and market growth will often depend on interactions between a number of these factors.

According to JP Morgan (2001), certain goods and services may be particularly susceptible to lower absolute numbers of potential consumers. Markets for goods and services that are relatively saturated and depend critically on population size, such as basic foodstuffs, could be particularly vulnerable. However, markets for many goods and services in South Africa are constrained more by the spending power and patterns of potential consumers than their number. Where demand for goods is far from saturated, new earners and consumers will replace many consumers who die or have reduced disposable income through AIDS, provided that overall GDP and consumption expenditure is not very adversely affected by the epidemic. Thus the overall impact on growth in most markets is likely to be surprisingly small.

Nevertheless, growth potential for firms with certain market characteristics may be more vulnerable to HIV/AIDS. These characteristics include the following.

- *Target markets where consumers are particularly susceptible to AIDS.* These would include those consumers who are in the 30-40 year age band, from middle and low-income groups, and in provinces or areas

with advanced epidemics (JP Morgan, 2001). Thus large segments of the upwardly mobile “emerging market” will be at relatively high risk. Certain markets involving people with specific risk, such as migrants, would be particularly vulnerable.

- *Dependence on Credit.* HIV/AIDS illness, deaths and expenses not only among account holders but also their extended families have the potential to increase rates of bad debt. Relevant sectors for scrutiny include consumer durables and vehicle sales, but risk of default even on short-term credit may increase substantially as HIV/AIDS stresses household budgets. There are already reports of 50% increases in death and funeral benefit claims on retailers in KwaZulu-Natal who offer these along with other products (JP Morgan, 2001).
- *“Luxury”, non-essential goods with high-income elasticity of demand.* There are likely to be more susceptible to household expenditure shifts to HIV/AIDS items and reduction in incomes due to HIV/AIDS impacts at household and labour market level. Experience in Africa has indicated that HIV-affected households tend to divert expenditure primarily from durable goods and semi-durables such as clothing, rather than non-durable goods. This effect could be increased if credit policies begin to tighten in view of increased lending risks created by AIDS/AIDS. Up to date information on income elasticity of demand for various goods and services is not available.

- *Insurers and long - term lenders.* These sectors face increased risk and possibilities of substantially shrinking markets for traditional products. Many have however already begun adapting products to reduce their exposure.
- *Suppliers of the informal sector or other clients who are severely impacted by HIV/AIDS.* JP Morgan (2001) indicates the informal sector and small businesses may be particularly vulnerable to impacts when key individuals become ill or die within businesses or intermediary positions. While the overall size of the informal sector might not fall rapidly, this could significantly increase transaction costs in this market.
- *Low diversification.* Firms with more diverse consumer bases and product lines may be better protected against the influence of any relatively rapid impacts of HIV/AIDS, and have more time to identify and implement appropriate strategy around responses to HIV/AIDS.

Certain markets may actually expand due to AIDS. These would include health care goods and services markets, as well as funeral-related services.

HIV/AIDS could impact on the growth of many markets. However, non-AIDS factors such as the overall economic environment seem likely to be

dominant in most markets until 2010. In addition, impacts on markets are likely to be gradual, and most companies will have time to adapt strategies to deal with them. However, certain firms may well need to consider HIV/AIDS impacts, particularly in decisions on longer-term strategy or large capital investments, which may be sensitive to HIV/AIDS influences on demand. The significance of several of the potential influences on markets mentioned above is not yet completely clear. Further research into areas such as consumption patterns of households directly or indirectly affected by HIV/AIDS could be illuminating (JP Morgan, 2001). Many firms may benefit from monitoring key indicators of possible HIV/AIDS impacts on markets, particularly in regions with more advanced epidemics in South and Southern Africa.

HIV/AIDS could reduce the absolute number of potential customers, making markets that are relatively saturated and which depend critically on population growth the most vulnerable. The impact of the epidemic on specific markets will depend on the demographic profile (e.g. age, sex, income level, geographic location) of consumers. Where demand for goods is far from saturated and growing strongly, many of the consumers who die or have their disposable income reduced by HIV/AIDS will be replaced by new earners and consumers. Yet even the strongest markets will wilt if overall GDP and consumption expenditure are badly hit by the epidemic.

According to Whiteside & Sunter (2000), in South Africa, labour market adjustments to HIV/AIDS, such as increasing capital intensity or using less skilled labour that is cheaper to replace, may exacerbate economic and political polarisation. Market growth for goods and services targeted at upwardly mobile households may also be severely affected. A major concern for retail sector in South (and southern) Africa is the provision of credit. Many of the clothing chains offer credit, which is written off in the event of the customer's death. In addition, store cardholders may be offered funeral benefits in the event of their or their dependants' deaths. Retailers of household appliances and furniture will also be affected since many of these goods are sold on hire purchase. Although customers are required to buy life insurance, there is likely to be a higher frequency of defaults (Whiteside & Sunter, 2000).

The effect of increased illness on markets is a major issue for companies that sell most of their products and services locally. Exporters to markets overseas may not have a similar problem. At the very least, a company should do what the JD Group did and assess the composition of its customers, their vulnerability to contracting the disease and how they will react in terms of changing their expenditure patterns (Whiteside & Sunter, 2000).

Vulnerability levels of particular markets will be influenced both by the nature of the goods or services produced and the demographic and risk profile of consumers.

Affected households will divert expenditure to HIV/ AIDS – related needs such as health care and funeral expenses. Non-essential goods with high elasticities of demand are likely to be more susceptible to household expenditure shifts than staple products. Poor households will be pushed further into poverty. Many middle-income households will become poor, and market growth for goods and services targeted at upwardly mobile households may be negatively affected (Whiteside & Sunter, 2000).

The risk of default on credit payments will also increase in response to the epidemic. Pre-loan testing for HIV will offset some of this, but for long-term loans, such as mortgages, testing will be of limited value as borrowers could become infected after approval of the loan. Long-term lenders and insurers have already begun adapting products to reduce their exposure. Furthermore, affected households will need to draw on savings for more immediate needs, thus reducing savings levels and credit supply (Whiteside & Sunter, 2000).

Table 2: How Households Spend Their Money

Quintile*	1	2	3	4	5
% of household expenditure	61	20	10	6	3
Major spending Items (%)					
Housing	17	15	13	13	14
Food	12	23	34	43	51
Transport	12	8	6	4	3
Healthcare	5	5	2	1	0.6
Clothing	3	5	6	6	5
Drinks	2	2	3	3	2
Furniture	4	6	4	4	2
Tobacco	1	1	2	2	2
Fuel & power	0.1	1	2	3	5
Fuel & power	0.1	1	2	3	5
Income Tax	18	12	9	4	1
Personal Care	2	2	3	3	3
Total	74	80	83	86	89

Key to above table

Household expenditure survey *	
Quintile 1	Over R52 800
Quintile 2	R23 940 to R 52 799
Quintile 3	R 12 660 to R 23 939
Quintile 4	R 6 868 to R 12 659
Quintile 5	R 0 to R 6 867

Source: JP Morgan (2001)

2.5 THE BANKING INDUSTRY IN SOUTH AFRICA

The South African banking sector is very sophisticated and can compare with the best in the world. It is made up largely of 5 banks that own more than 82% of the total bank assets. They are ABSA, Standard, Nedcor, First Rand (big four) and Investec. The impact of globalisation has resulted in foreign players being present, Citibank being the most significant. Local players are expanding out; pricing is co-ordinated and access to

infrastructure in terms of payments and clearing is owned by the big four banks (cartel). The industry is now in transformation and consolidation.

Banks have both corporate customers as well as consumers (“ordinary man in the street”). Retail banking concentrate their services and credit extension to the consumer sector of the banking market. Some of the product offerings are: mortgage bonds, asset finance, credit cards, overdraft facilities, savings accounts and advances. The gross saving by private households is equal to about 3% of GDP despite household’s increased appetite for consumption spending and debt accumulation. Typically home loan term varies between 20 years up to a maximum of 30 years, minimum term is 5 years. Average life of a mortgage loan is 7 years. In the card market, an interest free period of 55 days is offered by majority of credit card issuers. An average spread between credit and debit interest rates is 13.5%. Other loans and advances consist of: personal loans, revolving credit facilities, study loans and micro lending.

Of all the developing countries in the world, South Africa has the banking industry most capable of supporting the rapid development of its economy, and making a material contribution to the upliftment of the poor.

South Africa’s banks have a major role to play in transformation. A growing vibrant, normalised economy will clearly be a benefit to both the banks and the country as a whole. As participants to making such a scenario happen, South African banks have recognised the need to involve themselves in

the extension of banking services (transacting, lending and savings) to low income earners as a means to leading to their financial empowerment.

Retail Banking is facing a number of challenges:

- Increasing complexity of the business - core systems, channels, customers segments and new products; customer expectations
- Intense competition within the Industry;
- A demanding regulatory, statutory and political environment.

Retail banking in South Africa is under mounting pressure, particularly where the country's biggest four banks are concerned. Persistent demands that the banks extend services to low-income South Africans, which produces significantly lower returns than other business areas, is part of the problem.

2.6 IMPACT OF HIV/ AIDS ON THE LENDING INDUSTRY

According to Bayley & Porteous (2001), in assessing how HIV/AIDS will affect the lending industry it is useful to devise product maps, which can identify levels of risk, and exposure to highly infected demographics. The product-mapping diagram (Figure 2) below indicates that the majority of longer-term products such as mortgage bonds fall into the LSM 8 and above. The lower level LSM 4 to 5 levels have a high demand for credit financing in the durable and motor vehicle categories. The rural poor LSM 1 to 3 and the urban fringe LSM 4 to 5 generally have a bank transaction

account, but do not have access to formal credit. Short-term credit is generally sourced from informal lenders in South Africa.

Figure 2: Product Market Mapping

PRODUCT MARKET MAPPING

		Life Insurance			
Financial products	Secured credit	Long term			Bond
		Durables		HP-furn. Car	HP-furniture/ Car HP-furniture/ Car
	Unsecured credit	Med. Term	No		Micro-loan: Bank Credit card-revolving
		Short term	Mashonisa F&F	Mashonisa F&F	Micro-loan: Bank Overdraft Credit card
Transaction		Bank	Bank (45%)	Bank (70%)	Bank (98%)
		LSM1-3 Rural poor	LSM4-5 Urban fringe	LSM6-7 Mid/Emerge	LSM 8 Upper, sub

Source: Bayley & Porteous (2001)

Assuming that HIV is prevalent primarily in the lower level LSM categories then the product map below illustrates the potential level of HIV impact on various financial products in the market place. Retail organisations selling furniture and motor vehicles are likely to have the highest exposure to the epidemic. As mortgage bonds are generally in the higher income levels, the associated exposure to HIV/AIDS is likely to be less. This was confirmed with African Union for Housing Finance (AUHF) members as a consistent assumption throughout Africa.

2.7 IMPACT ON CREDIT RISK

The exposure to HIV/AIDS in lending organisations in the form of credit risk arises from the loss of cash flow from formal employment once the client is unable to work due to illness or if there is an AIDS related death during the term of the loan (The Banking Council, 2002)

The longer the term of the loan the higher the potential exposure the lending organisation will have to the epidemic. It is essential that accurate records be maintained to monitor trends and to identify “suspected death/illness due to AIDS”. If the credit life is outsourced to an external assurer then close working relationships are strongly recommended in order to monitor and respond appropriately to the risk involved.

One of the strategic options available in managing the risk is to provide for the risk and/or pass on the risk to the client in the form of increased premiums. In a recent study conducted with 50 senior managers and 51 chartered marketers (Naidu, 2001), credit granters advised that they would adopt the following strategic responses to the HIV/ AIDS risk:

- Revisit credit policy
- Provide better measurement tools
- Provide for extra reserves
- Introduce shorter terms

Longer term lending such as mortgages will require strategic thinking in terms of the options available to them. Requiring all clients to take credit life with a compulsory HIV test will reduce the risk exposure, however this could reduce the potential market for the products. There is also the risk of legislation, which prohibits anti-selection based on HIV status. Reputation risk is also increased if certain benefit groups are excluded from products as a result of HIV testing (Bayley & Porteous, 2001).

Also the lack of pre death cash flow will inevitably lead to the loss of the house, which presents social and moral problems in evicting the family. Pricing for the increased risk is also an option, which also reduces the potential future market for mortgage products.

One of the suggestions to the HIV/AIDS epidemic is for business to adopt a national non competitive approach to addressing the risk exposure through a national insurance fund, similar to SASRIA which is riot and security insurance, adopted as a result of political and riot risk by the insurance industry in South Africa (The Banking Council, 2002).

2.8 IMPACT ON THE LIFE ASSURANCE INDUSTRY

This section deals with the impact of HIV/ AIDS in the Life Assurance industry that is also part of Financial Services. Even though the business model in Life Assurance is different to retail banking, their target market is

the same and therefore it is relevant to understand how this industry is dealing with the impact of HIV/AIDS.

Life assurers deal in death. Their financial soundness depends on how accurately actuaries can predict the lifespan and general health of their policyholders.

Simply put, if too many clients die sooner than anticipated, the assurer is faced with paying out larger than anticipated benefits: in short, too much too soon.

Since the onset of the HIV/AIDS epidemic – and in southern Africa in particular – roughly 20 years ago, the life-assurance industry has slowly but surely become aware that this scenario's a reality. As the virus spreads, each year more and more of the lives assured is ending prematurely, particularly those in-group life schemes run by employers (Parker, 2002).

Douglas Keir, chairman of Swiss Re Life and Health said life premiums in South Africa measured 14% of gross domestic product, compared to a world average of 5%. Keir asserts that South African life assurers are also at the forefront of the industry. This is a sophisticated and innovative industry that often leads in terms of new developments. The emergence of

the HIV/ AIDS epidemic has certainly presented a challenge (Parker, 2002).

The first step towards managing the impact of the epidemic on the industry in South Africa was taken in 1987. The Actuarial Society of South Africa (ASSA) set up its AIDS Committee, to assist the actuarial profession (and later the wider public) in estimating the impact of the AIDS epidemic in South Africa (ASSA, 2002).

ASSA is the professional watchdog body that oversees actuarial practice in the country. It sets the standards for those who calculate risk in the financial sector.

The ASSA AIDS Committee released its first model in 1996 – ASSA500 – to predict the impact of HIV/ AIDS on a national and regional level. Since then the model has been updated twice, the most recent being ASSA2000.

The 1996 release of the ASSA model served as a wake-up call for life insurers, many of who were spurred into adapting their policies and services to meet the AIDS threat. The ASSA model shows that average life expectancy at birth is expected to decline from about 52 in 2002 to about 40 by 2010. Over the same period the total number of HIV positive people is likely to increase from 6 558 628 to 7 252 801. ASSA predicts

262 209 people will die from AIDS in 2002; by 2010 the figure will be 779 098 (Parker, 2002).

While ASSA was making these depressing projections, one of South Africa's major insurance companies, Metropolitan, was already taking the AIDS threat seriously. Spurred on by MD Peter Doyle, the company started collecting data on the pandemic as early as 1998 (Metropolitan, 1990). Doyle made his own projections on factors such as decreasing life expectancy and HIV- positive status. These were based on the worst-case scenario in that they assumed no medical, social or behavioural intervention. Doyle's numbers (Metropolitan, 1990) have now, unfortunately, been discovered to mimic the real-life scenario and could in fact be somewhat conservative if one takes into account the high prevalence of HIV in certain areas of the country.

As a result of Doyle's actuarial model, the company realised that the AIDS pandemic in South Africa had not yet peaked.

In August 2001 Capital Alliance, in partnership with the Southern African HIV Clinicians Society, launched LifeAid – the first South African AIDS – specific insurance scheme designed to enable employers to provide a realistic annuity which helps employees access standard of care management, including anti-retroviral therapies.

The scheme treats AIDS as a manageable chronic disease, and allows employees to remain productive for as long as possible by providing an annuity care of HIV – positive members. A portion of the profits from Life Aid goes to the HIV Clinicians Society to assist with training doctors in HIV/ AIDS management.

The industry is apparently holding its own in the face of the epidemic. The future rests on the continued flexibility and sensitivity regarding policies and schemes offered, and continued support of AIDS education, research and support programmes (Parker, 2002).

2.9 CONCLUSION

The HIV/AIDS epidemic has reached most parts of the country in a significant way. Most organisations have started to address the prevalence of HIV amongst their employees and programmes are being developed in this regard.

The economic impact from reduced productivity and loss of income amongst HIV positive individuals is coupled with the changing profile of the consumer goods market and reduced available spend.

The social impact translates into changing household expenditure patterns as the pressure of increased healthcare costs are felt by households

supporting HIV positive individuals. The high prevalence of HIV amongst the young adult population also predicts that the profile of the economically active population will change over the next decade.

The financial services industry interfaces with individuals in their personal capacity through the retail-banking sector. The exposure of customers of this market is considered to be similar to other consumer goods markets. However, in the context of lending, retail banking is likely to be exposed to reduced market size and increased bad debt provisions.

The life assurance industry provides a useful benchmark for the lending sector in terms of its management of the risks associated with a market that has a high HIV prevalence rate.

CHAPTER 3: RESEARCH PROBLEM AND METHODOLOGY

This chapter will discuss the problem that was explored and the research methodology that was used to perform the study. Attention will be paid to the research problem, the overall research design, questionnaire construction and method of data collection, sampling method and sample size.

3.1 RESEARCH PROBLEM

The study will attempt to identify the impact that the HIV/AIDS epidemic was perceived to have on the retail banking market. The research will particularly attempt to identify the relative impact of HIV/AIDS on each of the three key retail business units.

The hypothesis that will be tested is as follows:

- The impact on Home Loans, Credit Cards and Asset Finance business units will differ from each other.
- The business units have not developed detailed plans to manage the impact of HIV/AIDS on their respective businesses.

3.2 RESEARCH DESIGN

The survey method is generally used when the researcher wishes to elicit opinions and not “hard facts” (Pirow, 1993). Since the object of this research was to canvass individual’s views of developments in the retail

banking industry, the survey method was deemed to be the most appropriate. The research was designed in the following manner:

Firstly, a literature review was conducted in order to apply theory to the research questions. In other words, to discover those factors which are likely to be influenced by HIV/AIDS in the context of retail banking.

Secondly, the results obtained from the literature review were used to form the research propositions. These propositions were then used to form the basis of the items in the questionnaire.

Thirdly, the copies of Questionnaire One were handed to a sample of senior managers in the banking industry. Copies of Questionnaire Two were emailed to senior managers in the financial services industry and familiar with retail banking. Finally, these were collected and analysed in order to test the research propositions.

3.3 QUESTIONNAIRE DESIGN

Pirow (1993) states that the questionnaire is the most frequently used method of collecting data for survey research. Given the constraints of time and manpower and the sensitive nature of the topic under study, it was felt that a questionnaire would best be able to answer the research questions for the following reasons:

- Questionnaires provide greater assurance of anonymity for candidates (Bailey, 1982)
- Questionnaires can cover a much wider sample (Oppenheim, 1976)
- Questionnaires are generally cheaper than interviews and are less time consuming

Although questionnaires have numerous advantages over interviews, for example, the questionnaire for the study was designed and presented with following pitfalls in mind:

- The researcher introduces the topic and the questionnaires telephonically before mailing the questionnaire to the targeted sample. The researcher is available to assist the respondents if the questions are not adequately understood.
- The possibility exists that questions may be worded in such a way that they lead the respondent to a particular response. The questions were phrased in the neutral to avoid this trend.

The constructs to be used in the questionnaire were generated in the literature review and validated by conducting a pilot study with five managers representative of the final sample to be used.

After the initial testing it was decided to introduce two different questionnaires to capture a wider range of responses. Questionnaire One was presented to senior managers of the targeted business units, namely Home-loans, Credit Cards and Asset Finance. This questionnaire was

largely of a qualitative nature and required the response of current and future plans to address the impact of HIV/AIDS in the retail banking market.

Questionnaire Two was designed to gather the same information but from respondents that were not part of the senior management of any of the three business units at the four banking groups. These were respondents that had a good knowledge of the retail-banking sector or worked as professional service providers to the retail banks. The questions were phrased in the form of multiple-choice options.

Questionnaire Two was considered necessary by the researcher to address the concern of triangulation (Saunders et al, 2000). Triangulation refers to the use of different data collection methods within one study in order to ensure that the data are telling you what you think they are telling you.

The questions were developed in English and contained the following sections:

- Covering letter: This section explained the purpose of the questionnaire, stated a few definitions to aid interpretation and assured confidentiality and anonymity of feedback.
- Biographical details: This section was included in order to facilitate meaningful analysis

- Questions: This section contained 14 questions that required either a cross (X) or an explanation.

3.4 SAMPLE SIZE AND SAMPLING METHOD

The sample for Questionnaire One was selected from senior managers at all the four major retail banks in South Africa, namely ABSA, FNB, Nedcor and Standard Bank.

The sample for Questionnaire Two was selected from senior managers in the banking industry as well as professional service providers to the financial services industry such as the large auditing groups.

Given the limited expertise that exists in this field, there was no opportunity to apply a random sample selection. Instead the researcher canvassed as many respondents as possible and accepted all responses. While it is accepted that random sampling is the best method of sampling, there is no concern that the responses gathered during this study will be skewed in any way. These respondents were targeted to achieve the objective of triangulation (Saunders et al, 2000) as discussed earlier. These people had a good knowledge of developments in retail banking through their exposure to the business units and were reliable sources to verify the responses received directly from the business units.

3.5 DATA COLLECTION

Questionnaire One was emailed to one individual in each of the four banking groups. This individual forwarded the questionnaire to the appropriate respondent in each of the business units. In some instances a telephonic discussion was held to ensure clarity, and assure the respondent of the confidentiality and anonymity of the feedback.

Questionnaire Two was emailed or handed directly from the researcher to respondents in number of financial services organisations, including the retail banks. These respondents were also assured of the confidentiality and anonymity of their responses.

3.6 CONCLUSION

The research method used was considered appropriate for this type of study. The approach of using two questionnaires on two separate respondents groups was also necessary to achieve triangulation. The method of analysis used in the research is explained in detail in the following chapter. The next chapter also includes a summary of results obtained as well as information concerning the response rate and sample characteristics.

CHAPTER 4: ANALYSIS OF RESULTS

4.1 INTRODUCTION

The data obtained from the two questionnaires was analysed using a combination of qualitative and quantitative techniques. This chapter deals with the content analysis and also describes the sample characteristics. The results were interpreted to draw meaningful findings.

4.2 SAMPLE DEMOGRAPHICS

This section describes the source of the respondents as well as the response rate for each of the questionnaires.

Questionnaire One

This questionnaire was targeted at one respondent in each of the retail banking business units (Home Loans, Credit Cards, Asset Finance) from the four major banks. In total 12 respondents were canvassed to complete the questionnaires. A total of 8 completed questionnaires were received representing 67%. This is considered a good response rate given that senior management response rate to external voluntary questionnaires is generally low. The good response rate was possible because of the researchers follow –up with email and telephonic reminders to respondents.

Although the number of respondents is low in absolute terms, they are still representative of the industry because the number of players in the industry is also small. There are only four significant retail banks in South Africa who collectively command over 90% market share. The distribution of market share amongst the four banks is also well spread and hence the results can be accepted as representative of the industry.

Table 3: Market Share Data (consumer products)

BANK	Home Loan	Credit Card	Asset Finance
ABSA	32.4	21.5	33.8
FIRST RAND	23.6	20.5	30.8
NEDCOR/ BOE	17.1	25.6	9.7
STANDARD	21.1	21.0	15.8
OTHERS	5.8	11.4	9.9
TOTAL	100.0	100.0	100.0

Table 3 is included to present the market share statistics in the retail-banking sector and thereby justify the selection of the four major banks as representative of the sector.

Table 4: Respondent Demographics

Business Unit	Total Available	Total Responses	Response %
Home Loans	4	3	75%
Credit Cards	4	3	75%
Asset Finance	4	2	50%
TOTAL	12	8	67%

Table 4 illustrates the total population of business units that were available as respondents, the actual number of respondents and the percentage response rate.

Questionnaire Two

This questionnaire was targeted at individuals either in the banking industry or professional service providers to the industry that were familiar with developments in the retail-banking sector. The respondents were drawn from ABSA, Deloitte & Touche, Nedcor, Old Mutual, and Price Waterhouse Coopers

Twenty (20) questionnaires were sent to the targeted organisations and with the help of an internal facilitator these questionnaires were presented to the appropriate individuals. Sixteen (16) questionnaires were returned representing a response rate of 80%. This is considered a very good response rate and was possible because of the researcher's ability to

leverage networks within the targeted organisations who acted as facilitators and identified the targeted respondents.

4.3 CONTENT ANALYSIS

The summarised version of all the responses is reflected below each corresponding question.

Questionnaire One

This questionnaire is analysed by exploring the responses to each question and capturing the essence of each comment as well as ensuring that contextually, it receives adequate discussion. This section is focussed on the analysis only and all interpretations are covered in Chapter 5.

Q1: Does HIV/AIDS feature as one of the top ten risks to your business unit?

Respondents from the Home loan units confirmed that it featured on their list. However, in the Credit Card and Asset Finance business units it did not rank amongst the top ten risks.

Q2: If it is a given that HIV/AIDS will impact the financial services market, do you believe that the retail banking sector will be

- *Worse off than the average*
- *Better off than the average*
- *The same as the average*

The average in this context refers to the financial services sector.

Please elaborate on your response?

Respondents were mixed in their responses to this question, with an equal spread of worse than average, better than average and the same as average.

Q3: What is your estimated HIV infection rate amongst the target market of your specific business unit?

Less than 5%	6 respondents
5 –15%	2 respondents
16 –30%	
Greater than 30%	

Q4: In terms of greatest market exposure to HIV/ AIDS, how would you rank the comparative businesses of Home Loans, Credit Cards and Asset Finance?

Your ranking will be relative to each other and not as an absolute value

You cannot allocate the same ranking to two business units.

1= highest 2= medium 3= lowest

Business Unit	1 highest	2 medium	3 lowest
Home Loans	6 responses		1 response
Credit Cards	2 response	5 responses	1 response
Asset Finance		3 responses	6 response

Q5: Would you consider the strategic response from each of these businesses to be different and if so, how?

Actions are focussed on staff primarily and not the market

There will be some form of cross subsidising in the industry

Unsecured and secured lending will call for different approaches to the risks that each attracts

Q6: Research shows that when customers are faced with financial problems, they default on certain commitments.

- *What types of payments will they default on first?*

Insurance premiums, shop credit cards, luxury items, clothing

They also default with smaller institutions first believing that larger institutions have formal collections processes.

- *Why do you think they make choices in this order?*

Default first on the least important items and smallest value items

Primary objective is to keep one's home

Insurance is perceived as giving away money – no return.

Cars and homes can be sold and some or all of their money be recovered and hence these payments are not sacrificed.

Q7: Research shows that people, when confronted with HIV in their household, channel part of their disposable income to the increased health care cost.

- *How do you anticipate they will re-arrange the balance of their spending?*

Stop certain lower priority spending.

Cut back on amount spent on luxuries

Buy used car instead of new car

Repair car instead of replacing

- *Are they likely to give up anything and if so, in what order will they make sacrifices?*

Luxury goods will go first, clothing, entertainment

- *If they spend less on certain items or services instead of stop buying those items completely, what items or services likely to be cut back first?*

Basic foodstuffs, eating out,

Q8: Will there be communication to customers seeking reasons for the defaulting on payments?

Yes

In any event, communication with customers happens as soon as there is any indication of financial stress. They are encouraged to talk to the bank about their situation or advise the bank if they anticipate running into difficulties in the near future

This is standard collection practice amongst all banks

As per normal communication with all defaulting customers

No but the intention is to introduce this as part of the CRM which will help us customers better

Q9: Given that a reduced population growth will reduce the potential number of new customers in a future market, what alternatives are being or could be considered to sustain the business unit's growth?

Developing innovative products, focussing on Financing

Businesses and not individuals, finance for entire market and not just specific segments

Expanding into other viable markets

Diversification of income streams- enter markets where traditionally not strong

Developing strategy to address mortgage lending

Cross-sell, new clients, better service

Unlikely to have material impact on this target market in the short term

Q10: Will your organisation seek to proactively access the “unbanked” sector? If so, how will you assess the risk associated with a higher prevalence of HIV/AIDS in this demographic group?

Using scientifically developed predictive models & software

Special committee formed

Consulting wide range of experts

Targeting “unbanked” sectors (AF) but has not factored in HIV/AIDS

Difficult to tie AF agreements directly to AIDS but insurance policy backing is required

Will go through Banking Council as a channel for assessing risk

Already uses specific insurance packages to cover risk

Cannot discriminate but can make life cover compulsory for all products

Q11: Could linked products (such as insurance policies) be considered a viable option to manage the risk associated with HIV/AIDS related defaulting?

Already being considered

Certainly need to be considered

Q12: Could the lending rate include a premium to cover disability / death benefit contributions?

Rate always includes a risk premium but AIDS premium may have to be different

Difficult to differentiate clients

Possible but may be preferential to introduce a specific fee or premium as with other products (Home Loans)

This might not be a good idea

Q13: Will the recent developments with the LOA, Banking Council and Financial Services Board offer economically viable options for the business, considering the reduced risk?

Interpretation of the question was not uniform and hence responses were difficult to extract

Q14: Will a consolidated industry approach to managing the risk of HIV/AIDS offer your business unit more opportunities to grow?

Offer opportunity to manage the risk better

Does not contribute directly to growth

Q15: Have you had an Actuarial Assessment performed on your staff and target market?

Staff – yes

Target market – not yet, but being considered

Q16: Where do you believe that there are gaps in research that might better facilitate strategy to increase access to lending?

Segmentation to lower levels – focus on niches

Household research

Develop a Scorecard approach

Not aware of any research that has been done regarding access to credit cards in this market

Better understanding who is affected to help draw a picture of current client base in order to make risk provisions

Q17: How do you deal with dependants/orphans of home loan defaulters?

With sensitivity and as humanely as possible

Manage the confusion between demands of other creditors such as the municipalities and the banks

Business principle demand that loan amounts have to be recovered

No different to any other type of areas concerning orphans and other dependants of the customer

Banking Council developing a strategy to deal with this situation

Q18 : What do you think will be the impact of the rumoured legislation that makes it compulsory to offer subsistence communities (where HIV prevalence is highest) housing finance?

This finance will be offered against certain criteria and the risk will be managed accordingly

Summary of Responses to Questionnaire One

Responses to Q1 and Q2 support the view that there is a lack of preparation amongst these business units to manage the impact of HIV/AIDS. When compared to the literature review, responses to Q3 suggest that the respondents are underestimating the impact of HIV/AIDS on their target markets.

Q4 drew a scattered response implying that there is no consistency amongst the senior management in the ranking of the three business units' exposure to HIV/AIDS. Similarly, a varied set of responses was obtained to Q5 supporting the view that no considered view has been developed in the industry at this stage.

For the remainder of the questions in Questionnaire One there was a higher degree of consensus amongst the respondents. These questions related to the prioritisation of spend, defaulting, communication and the potential for businesses to grow in this market.

Questionnaire Two

75% of respondents were of the view that HIV/AIDS had to be amongst the top ten risks for the retail-banking sector. There was one respondent that was unsure and 3 respondents felt that it did not feature as a key business risk.

There were 50% of respondents felt that the retail-banking sector would be worse off than the average of the financial services industry when the impact of HIV/AIDS is considered. 25% felt that the risk for retail banking would be similar to the financial services sector average while another 25% felt that it would be better than the sector average.

More than half of the respondents held the view that the Home Loans market had an infection rate in the range of 16-30%, with most the remaining respondent believing that the rate was lower. Only one respondent considered that infection rate to be greater than 30%.

The view of most respondents (62%) was that the infection rate amongst the Credit Card market was in the range of 5-15%. There were two

respondents that placed the infection rate lower than 5%, while 3 respondents considered it to be in the range 16-30% and just one respondent placed the rate greater than 30%.

The view of most respondents (87%) placed the infection rate amongst the Asset Finance market below 15% and 2 respondents predicting the rate to be above 16%.

With the question that solicited the respondents views on which business unit' market had the greatest exposure to HIV/AIDS, there was little consensus. Most respondents (87%) felt that Credit Cards had a high to moderate risk while the same number of respondents felt that Asset Finance was exposed in a moderate to low manner. Respondents were divided on the perception of exposure of the Home Loans market, with 50% suggesting a high exposure while 30% viewing this market as low exposure.

Over 80% of respondents thought that the strategic response from each of the business units should differ while just three respondents considered it appropriate to have a standardised response for all three-business units.

When asked to rank the order in which payments will be defaulted the responded prioritised the items as follows:

- Insurance premiums

- Clothing
- Hire purchases instalments
- Rates & taxes
- School fees
- Utilities payments
- Home loans

Respondents were almost unanimous (94%) that the retail banks must communicate with the customers seeking reasons for defaulting on payments.

The vast majority (81%) of respondents felt that there was opportunity for growth in retail banking by pursuing the “unbanked” sector, despite the high prevalence of HIV amongst this market. Only one respondent was unsure of growth in this sector while the remaining two respondents did not see any opportunity for growth in this market sector.

All but one respondent favoured the use of linked products (such as insurance policies) to cover the eventuality of disability or death amongst customers to counter the risk of HIV/AIDS related defaulting.

Amongst respondents, 62% favoured the inclusion of a premium to cover disability and death benefit contributions. There were an equal number of

respondents that were unsure versus those that disagreed with the concept of introducing a premium.

Respondents were mainly (69%) unsure of the work that the LOA, the Banking Council and the Financial Services Board were doing to offer economically viable options to reduce the business risk. Of those respondents that were aware of the developments in this area, there was an almost equal split amongst respondents anticipating that benefits will be derived and those believing that no viable benefit will be realised.

Most respondents (69%) believed that actuarial assessments had not been performed on the retail banking markets with just under 20% believing that some assessments had taken place. Two respondents were unsure.

Summary of Responses to Questionnaire Two

Respondents to this questionnaire concurred that the retail banking market will be impacted by HIV/AIDS and that each of the three business units will be exposed to different degrees and their consequent reactions need to be unique. The responses to Questionnaire Two supported the findings that were drawn from responses to Questionnaire One.

CHAPTER 5: INTERPRETATION OF RESULTS

In this chapter the research results presented in Chapter 4 will be interpreted in detail and the results will be related back to the literature review. More specifically, the results will be explored in terms of the hypothesis tabled.

HIV/ AIDS is only considered a risk by the Home Loans and not for Credit Card and Asset Finance. Housing is a basic need and all income levels are part of the Home Loans market. Credit Card qualification criteria generally move it to target semi-skilled, skilled customers and people who require the card for convenience. The premium charges associated with its use also reflect that its target market does not consider it a basic need.

The high prevalence of HIV infections at the lower income and unskilled end of the demographic spectrum will align itself more with Home Loan customers. Asset Finance and Credit Card attract customers at medium income levels and higher. Amongst this customer base there is a significantly lower infection rate and thus a much lower risk to businesses that are engaged with this sector.

However, if the epidemic continues unabated, it could spread to middle and high-income groups through risk prone sexual behaviour patterns. Should this trend develop momentum, it would imply that Home Loans, having flagged it as a key risk, would have developed appropriate

measures to counter/ minimise the risk to the business. Credit Card and Asset Finance may therefore need to develop contingency plans or strategies to counter such possible outcomes of the HIV epidemic.

In understanding the responses to the comparison of retail banking to the broader financial services sector, it must be accepted that respondents from the different business units will base their answers on developments in their environment. Despite this, the results should still show that each of the business units has progressed their thinking and their plans to address the impact on their respective markets.

The Asset Finance market is highly predictable and in line with general financial trends and therefore the same as the average. If the entire financial sector is affected by HIV/ AIDS then Asset Finance will be impacted upon similarly. An important aspect of the response from this business unit is not immune to the adverse impact of HIV/AIDS although it does not operate in the high prevalence sector of the population.

Neal Bruton (2002) reported that the HIV/AIDS epidemic is set to knock domestic car sales. With nearly 5000 AIDS-related deaths a week, “vast numbers” of potential new vehicle customers were dying and still going to die. He said a reduction in disposable income, together with increased spending on medical care, would hurt South Africans’ ability to finance new vehicle purchases.

Although Home Loans is rated as worse than the financial service sector average, in the context of the impact of HIV/AIDS, this response is based on the current market and its profile. Should the younger generation respond positively to educational awareness programmes, and achieve a subsequent decline in prevalence rates, and then the Home Loan business will be better than the average.

Credit Card has been aware of these kinds of risks and have prepared accordingly. The respondents thus felt that they were better than the financial services sector average. The relatively lower limits coupled with existing insurance cover practices auger well for this business.

The predicted infection rate in the target market of the respective business units is as follows:

Home Loans	Below 15%
Asset Finance	Below 5%
Credit card	Below 5%

This prediction is in line with the earlier discussion on the profile of the target customers. Asset Finance and Credit Card have a different target market where the awareness and skills level are much higher, thus the probability of contracting the HIV infection is reduced.

The market exposure of Home Loans to HIV /AIDS is understandably highest given its broader customer base. Credit Card is rated the business with the next greatest exposure to HIV/AIDS with Asset Finance being rated as having the lowest exposure. The average value of the lending amount in the Credit Card business is much lower and attracts a broader market than Asset Finance where the loan amount is significantly higher.

Strategic responses thus far have been mainly focussed on internal employee programmes at many of the financial institutions, which is in line with trends in many other industries. The imperative to understand and manage the market dynamics with respect to HIV/AIDS is becoming more immediate than ever before.

It is recognised by most respondents that there is a need to tailor the strategic response for each business unit in such a way that it best addresses the unique challenges that confront that business unit. Unsecured and secured lending demand very different approaches and any attempt to find a single “best fit” solution will most likely translate into sub optimal responses to all three business units, Home Loans, Credit Card and Asset Finance. It was recognised, however, that a tailored approach would incorporate a degree of cross subsidization across the business units to ensure that all three are competitive and attractive to customers.

Defaulting on payments was explored to the extent that the researcher attempted to draw on the understanding that exists at present within the retail-banking sector.

Respondents understood that customers at certain income levels, who are affected by HIV/AIDS in their immediate families and are then faced with increased healthcare costs or huge funeral expenses, run into financial problems in a relatively short period of time. When confronted with such a dilemma they have very few options and defaulting on some of their payment obligations becomes a readily available alternative.

Respondents held the view that expenditure items like insurance premiums would be the first to be sacrificed. Customers would interpret the benefit of an insurance policy as being of little value in such circumstances. Cars and any household appliances or goods are perceived to have greater value and are therefore not sacrificed upfront. Other payments that are sacrificed earlier in the process of defaulting would be retail shopping credit cards, clothing, and luxury items. Interestingly, it was considered that they would default with smaller institutions first because of the customer perception that larger institutions have formal collection processes in place and will pursue defaulters immediately.

It was suggested by respondents that defaulting would occur on the least important items and the smallest monetary items first. The primary objective would be to keep the important payments on track. Home Loan repayments and the payments for utilities such as water and electricity would be the items that are retained to the end.

In circumstances where households have to accommodate increased healthcare costs related to HIV/AIDS, before defaulting becomes an option, a change in spending patterns is likely.

Firstly, household will quickly adjust to doing without low priority items, and review their purchasing decisions around basic foodstuff and household necessities. Choice of fast moving consumer goods will be made less brand loyalty and greater emphasis will be placed on price and value for money.

At the second level before resorting to defaulting, a lifestyle modification is considered by respondents to be the obvious route. Customers' will then cut back on entertainment spend such as movies and eat out only on very special occasions. The decision to buy a car may also change from purchasing a new car to selecting a used car. In many circumstances the choice may also translate into repairing an existing car instead of buying another car.

In prioritising the order in which defaulting would occur, respondents ranked the items as follows:

- Insurance premiums
- Clothing
- Hire purchase instalments
- Rates & taxes
- School fees
- Utilities payments
- Home loans

This order suggests that Credit Card and Asset Finance payments will be sacrificed before Home Loans. While Home Loans continues to attract attention, the other two business units are in this context, more vulnerable to defaulting.

An industry analysis by JP Morgan (2001) predicted that the way in which households allocate their disposable income is likely to change because of rising pressure on disposable income, due to both increased healthcare and associated costs and loss of household members due to illness and health. Statistics South Africa's most recent income and expenditure survey, conducted in 1995 indicates the spending patterns of different income/ expenditure groups in the economy.

Table 2 in the literature review indicates that the lowest income/ expenditure group (Quintile 5), which accounts for just 3% of household

expenditure, is spending some 90% of its outlay on certain basic items, with some two thirds of spending on food (51%) and housing (14%) alone. If this group increases spending on healthcare (currently under 1% of total spend), it will probably have to trade down (or cut back) on its food purchases. At the upper income and expenditure level (Quintile 1), which accounts for 61% of household expenditure, just 74% of total expenditure goes on the major items detailed above, with more spending on other luxuries and products with greater income elasticity of demand.

Turning attention to the ability to understand and predict when defaulting is driven by HIV/AIDS related factors, respondents were probed on the need to communicate with defaulting customers. Respondents were supportive of the notion that communicating with AIDS related defaulters was necessary and important. However, some respondents suggested that this was being done as standard practice with all defaulters for a long time.

In the document by Abt Associates (2001), it is stated that the greatest barriers to achieving HIV prevention are fear, denial and ignorance. HIV prevention efforts have been plagued above all by silence brought on by the denial and stigmatism that is associated with the disease. In one study of home-based care schemes in southern Africa, fewer than one in ten people who were caring for an HIV-infected patient at home acknowledged that their relative was suffering from AIDS. Patients themselves were only slightly more likely to acknowledge their status.

The communication needs to be sensitive and staff would have to develop the necessary skills to deal with such customers when interviewing them.

The intention to increase the Customer Relationship Management (CRM) training and awareness amongst retail banking staff is viewed as positive. The opportunity exists for the incorporation of HIV/AIDS customers as a focus of the training.

Business growth is always the priority amongst public companies. In pursuing growth, retail banking is dependent to some extent on a growing potential customer base. Should the projected reduction in population growth be realised, retail banks will have to explore alternative growth strategies. Respondents suggested two approaches to addressing growth. The first will involve a better understanding of the risks and developing better management processes to address these risks. An example would be to develop strategies to address mortgage lending.

The second approach is for the retail banks to diversify their product and services offerings to capture differently segmented high margin markets. If the opportunity to grow via an increase in transaction volumes is not available, then growth will be sourced through margin enhancement opportunities.

The opportunities identified by respondents include:

- Expanding into new markets

- Diversifying revenue streams
- Cross-selling across portfolios
- Offering a different level of service
- Targeting new clients with different profiles

Respondents also emphasized that these alternative growth strategies were required for the longer term. There was no indication that retail banking will be negatively impacted upon by the population growth rates in the short term.

The currently “unbanked” sector, which represents the mass market, was always deemed a potential source of growth. However, this market has two key challenges. Firstly, the affordability within this market is very low and to a large extent this market is mainly a subsistence market.

Secondly, and more relevant to this study, the mass market is where the highest levels of HIV prevalence. Respondents are convinced that the “unbanked” sector constitutes a potential growth despite these challenges. These markets have been on the radar screen of some banks but the influence of HIV/AIDS was not critically assessed according to some respondents.

While it is accepted that one cannot discriminate against individuals, respondents suggest that there are innovative ways to pursue this market. Most of the retail banking business units have already formed special task

groups, or have engaged with a wide range of experts. The Banking Council and its work on assessing risk are also considered a channel for entry into this market. There are also scientifically developed predictive models that are being utilized, along with relevant software for capturing key intelligence about this market and identifying economically viable opportunities.

Linked products such as insurance policies are being used as instruments to manage the risks associated with HIV/AIDS amongst the target market. The introduction of other linked products will also be necessary as this market become more sophisticated.

Interest rates for the different products have always included a risk premium but an HIV/AIDS related premium might need to be different. This has to be carefully considered to avoid exposure of individuals' personal HIV status.

The thought of a collaborative approach in the retail-banking sector to manage the risk of HIV/AIDS was considered valuable. Respondents were however, of the view that this was mainly to help reduce the risk of HIV/AIDS and does not contribute directly to growth of the market. It is also clear that in a highly competitive market there is little or no comfort sharing growth ideas and opportunities with your rivals.

Interestingly, almost all respondents stated that while there were actuarial assessments of their staff with respect to AIDS, little or no such work was performed on the target market. Insurance companies perform these assessments routinely on their target markets. It was considered by most respondents to be an important exercise.

In identifying where there still exists gaps in the research, respondents pointed out a few areas such as:

- more market information for the credit card business
- household spending patterns
- greater segmentation of this market

All these were aimed at the mass market where HIV prevalence is the highest.

The final part of the questionnaire probed the approach to the Home Loans on two issues, namely defaulting and new legislation.

While respondents were in agreement that processes exist for managing home loan defaulters, the need for sensitivity was called for. There was also concern that defaulters might confuse the demands of other creditors such as municipalities with those of the banks. There will also be a need to manage bad press related to process for recovering outstanding payments, particularly when it involves household where HIV/AIDS related reasons exist. The negative publicity associated with placing

orphans and dependants “out on the streets “ will not help the image of any bank and will make marketing efforts even more difficult and complex.

The community resistance to lenders evicting AIDS orphans is becoming an increasingly emotive media issue. The extent and reach of the problem in the mass housing market is evident in estimates that by 2015, one child in every three between the ages of 15 and 17 will be an orphan (Actuarial Society of SA, 2002).

Despite banks’ claims that they are giving large sums to AIDS Orphanages, the issue raised is that people’s human rights are being violated as a result of banks refusing to give them loans on the basis of their actual or perceived HIV/AIDS status. Arguments to date suggest that it is the insurers’ problem rather than the lenders’ problem, but this is becoming less effective – particularly as most banks have in-house insurers. Very dangerous precedents have also been set where banks have conceded the loan in order to prevent negative media exposure (Banking Council, 2002).

There were some calls for the banking Council to assist in developing an appropriate strategy to deal with this kind of the outcome for all banks (Gerhardt, 2002).

The rumoured legislation making it compulsory for banks to lend to subsistence communities (where HIV prevalence was highest) was not considered a setback in any way. Respondents were of the view that the criteria for lending will be reviewed to accommodate the associated risks. The risks in the subsistence market go beyond HIV/AIDS. There are economic and social factors that have come to bear heavily on the viability of lending in this market.

The Banking Council (2002) stated that the nature of HIV infection implies that the longer the loan term, the higher the risk of disability and death. The credit risk arises from the client's loss of cash flow from formal employment once he or she is unable to work as a result of illness during the term of the loan and from higher medical expenses.

To the extent that insurance protection on the loan is available to the borrower (with no untoward exclusions), the lender is less exposed and the main risk is related to the borrower being unable to meet escalating insurance premiums over time. One of the strategic options available to manage the risk, is to provide for the risk and/or pass on the risk to the client in the form of increased premiums

The Banking Council (2002), current research indicates that at the bottom end of the market, people tend to be covered by burial policies (of which there is a surplus) and at the top end by medical testing. In the middle

there is a significant gap where people need insurance protection but are not able to satisfy the underwriting requirement.

Where mortgage and non-mortgage lenders offer fixed fee “coupon type” insurance policies which do not require HIV testing, there is a risk to the lender as there is no option to re-price risk where the claims experience shows increased exposure.

Although research indicates that most lenders do not lend in the lower end of the market if insurance is not available, others rely on the security of the assets in the pension fund (The Banking Council, 2002). There is a growing and vociferous lobby of consumers and unions, however, which questions the morality of banks using pension assets as security to pay off the loan, thereby leaving the dependents with no source of income in the event of an AIDS-related death. These are the sorts of moral issues that need to be addressed – possibly in conjunction with the life assurers.

Where there is no life insurance in place, or if payment for HIV/AIDS-related deaths is excluded, there is increased risk of default, repossession and eviction of dependants or disabled borrowers. This translates into additional expense and significant risk to an organisation’s reputation.

It should also be borne in mind that the effect of HIV/AIDS is to shift household consumption expenditure more heavily on to medical and

funeral costs leaving less disposable income to repay loans and meet housing finance payments.

Joffe (2002) reports that the Banking Council is looking into the feasibility of a giant reinsurance scheme that would cover banks against defaults on home loans because of HIV/AIDS. The scheme, which would aim to spread the risk rather than making only high risk people pay for cover, would have to be funded by a levy on all mortgage holders and would require some sort of government guarantee, operating similarly to the Motor Vehicle Accident fund of political risk insurer Sasria.

SUMMARY

The overall response obtained from the content analysis indicates that the retail-banking sector has not developed strategies to manage the impact of HIV/AIDS on the target market.

The majority of responses suggested that the industry is underestimating the impact of this epidemic when benchmarked against the available literature. There were varied responses to the ranking of the exposure of the three business units to HIV/AIDS.

There was consensus on the items that will be sacrificed and the order in which defaulting will occur should HIV/AIDS demand a re-arrangement of household expenditure.

There was consensus that communication with defaulters was important.

CHAPTER 6: CONCLUSIONS & RECOMMENDATIONS

6.1 INTRODUCTION

The purpose of this chapter is to summarise the main findings of the research and to draw final conclusions and recommendations. Specific attention will be paid to the relevance of this research for the industry. Recommendations for future research will also be presented.

6.2 SCOPE OF RESEARCH

The main purpose of the research was to identify the impact that HIV/AIDS was perceived to have on the retail banking market and the relative impact on each of the three retail-banking business units. The research covered all three retailing banking businesses, namely Home Loan, Credit Card and Asset Finance with senior managers and many instances, the business unit head being the respondent. The results of the research can therefore be considered a fair representation of the perceptions and developments in the retail-banking sector.

6.3 CONCLUSIONS

HIV/AIDS has the ability to influence the economic direction of South Africa in two major ways. Firstly the epidemic will undermine the productive capacity of organisations through increased absenteeism and slower rates of output. This will increase the costs of doing business.

Secondly it will significantly reduce the size of the consumer market and thus challenge the opportunities for businesses to grow organically.

In the financial services arena retail banking is the most exposed to the interface with consumer. Most of the sectors of financial services target a wider range of clients from large corporate account to small businesses to high net worth individuals. The retail-banking sector is however, subject to a market that is exposed to HIV/AIDS like most other consumer-oriented industries. The impact on the population growth will influence the capacity of these business units to achieve organic growth targets.

However, the impact on the three business units vary in part because of the lag effect being different for each of these units. In the context of the discussion in chapter 5 on payment defaulting, there is an identified sequence in which non-payment will occur. Of the three business units, Credit Card is most vulnerable in the short term. Asset Finance will be impacted before Home Loans, as customers are unlikely to jeopardise the “roof over their heads”.

The higher predicted HIV prevalence amongst Home Loan customers makes this business unit more vulnerable in terms of the number of defaulters. This is based on the wider range of customers with deeper extension into the low-income population. Credit Card business unit is likely to be affected before Asset Finance based on the levels of

affordability that should reduce the Asset Finance business unit's exposure.

It can be concluded that HIV/ AIDS, will influence the business units in the retail-banking sector to a greater extent than the rest of the financial services sector. It can also be concluded that each of the three business units will encounter varying degrees of impact and over different time horizons.

The Home Loan business unit is most prepared for the adverse effects of this epidemic. The “unbanked” sector of the market has not been fully evaluated and the opportunities it presents, net of the risks, have not been fully dimensioned.

The researcher's view, given the literature on the social prejudice against HIV positive individuals, is that a special approach needs to be developed in communicating with customers that are defaulting as result of HIV/AIDS related issues. They are unlikely to be forthcoming with the underlying reasons for their defaulting.

Managing defaulters in a sensitive manner is important for corporate reputation as socio-political agendas challenge business imperatives.

Should the HIV epidemic continue unabated, retail banks will have to pursue diversified business streams to find new sources of growth.

6.4 RECOMMENDATIONS FOR FURTHER RESEARCH

The following areas of research are recommended for further study:

- The micro-lending market was not included in this study. Given the high levels of poverty and subsistence living that confronts a large proportion of the South African population, it would be important to understand the exposure that banks face through their entry into the micro-lending arena.
- The consumption patterns of households that are already impacted by the HIV/AIDS epidemic are not available at present. It would be valuable to research the shift in household consumption patterns that have developed. This will enable marketers to these households to factor in this new variable into their business models

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APPENDICES

Questionnaire One



GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

Dear Respondent

Please answer in the context of your business unit. As an example, a Card Division respondent must **not** answer on behalf of the Nedcor Group.

INTERVIEW QUESTIONS

1. Does HIV/AIDS feature as one of the top ten risks to your business unit?
2. If it is a given that HIV/AIDS **will** impact the financial services market, do you believe that the retail banking sector will be
 - Worse off than the average
 - Better off than the average
 - The same as the average

The average in this context refers to the financial services sector.
Please elaborate on your response?

3. What is your estimated HIV infection rate amongst the target market of your specific business unit?

Less than 5%	
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5 – 15%	
16 – 30%	
Greater than 30%	

4. In terms of greatest market exposure to HIV/ AIDS, how would you rank the comparative businesses of Home Loans, Credit Cards and Asset Finance?

Your ranking will be relative to each other and not as an absolute value
You cannot allocate the same ranking to two business units.

1= highest 2= medium 3= lowest

Business Unit	1	2	3
Home Loans			
Credit Cards			
Asset Finance			

5. Would you consider the strategic response to HIV/AIDS from your business unit to be different to those from the other business units and if so, how does it or should it differ?
6. Research shows that when customers are faced with financial problems, they default on certain commitments.
- **What types of payments will they default on first?**
 - Why do you think they make choices in this order?
7. Market research shows that people, when confronted with HIV in their household, channel part of their disposable income to the increased health care cost.
- How do you anticipate they will re-arrange the balance of their spending?
 - Are they likely to give up anything and if so, in what order will they make sacrifices?
 - If they spend less on certain items or services instead of stop buying those items completely, what items or services likely to be cut back first?
8. Will there be communication to customers seeking reasons for the defaulting on payments?

9. Given that a reduced population growth will reduce the potential number of new customers in a future market, what alternatives are being or could be considered to sustain the business unit's growth?
10. Will your organisation seek to proactively access the "unbanked" sector? If so, how will you assess the risk associated with a higher prevalence of HIV/AIDS in this demographic group?
11. Could linked products (such as insurance policies) be considered a viable option to manage the risk associated with HIV/AIDS related defaulting?
12. Could the lending rate include a premium to cover disability / death benefit contributions?
13. Will the recent developments with the LOA, Banking Council and Financial Services Board offer economically viable options for the business, considering the reduced risk?
14. Will a consolidated industry approach to managing the risk of HIV/AIDS offer your business unit more opportunities to grow?
15. Have you had an Actuarial Assessment performed on your staff and target market?
16. Where do you believe that there are gaps in research that might better facilitate strategy to increase access to lending?

FOR HOME LOAN BUSINESS UNITS ONLY:

17. How do you deal with dependants/orphans of home loan defaulters?
18. What do you think will be the impact of the rumoured legislation that makes it compulsory to offer subsistence communities (where HIV prevalence is highest) housing finance?

Questionnaire Two



GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

Dear respondent

I am currently completing an MBA degree at the above institution and part of the requirements is that I carry out a research project. The topic of my research is:

“ The impact of HIV/AIDS on the retail banking sector”

The focus of my study is on the impact on the market and **not** on the employees of the retail-banking sector.

I appreciate the time you have set aside to answer these questions. I would like to assure you that your responses are completely confidential. The nature of the research is to establish whether there are significant differences in responses amongst the three business units, namely:

Home Loans
Credit Cards
Asset Finance

The researcher does not need to reveal the actual response from any particular respondent.

Wherever possible please resist defaulting to the “NOT SURE “ option. Please attempt to answer **every** question.

Should you require further clarification please do not hesitate to call me on 083 676 3044.

Please forward your completed responses to the following email address: lmoodley@icon.co.za OR send to my personal fax number (011) 705-3160.

My supervisor for this research is Albert Wöcke and he may be contacted on (011) 771-4172 or email at wockea@gibs.co.za.

Thanking you in anticipation

Regards

Nalini Moodley

QUESTIONNAIRE

Please indicate your area of expertise

Home Loans

Credit Cards

Asset Finance

Other (please specify) -----

Please answer in the context of your knowledge of the three retail banking business units namely

- home-loans
- credit cards
- asset finance

Your responses must focus on just these three business units and not attempt to generalise across all sectors of the banking industry. However, your responses may be informed by your knowledge of the entire retail banking industry.

1. Does HIV/AIDS feature as one of the top ten risks to the retail banking industry?

YES		NO		NOT SURE	
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2. If it is a given that HIV/AIDS **will** impact the financial services market, do you believe that the retail banking sector will be

- Worse off than the average
- Better off than the average
- The same as the average

The average in this context refers to the financial services sector as a whole

3. What is the estimated HIV infection rate amongst the target market for Home-Loans?

Less than 5%	
--------------	--

5 –15%	
16 –30%	
Greater than 30%	

4. What is the estimated HIV infection rate amongst the target market for Credit Cards?

Less than 5%	
5 –15%	
16 –30%	
Greater than 30%	

5. What is the estimated HIV infection rate amongst the target market for Asset Finance?

Less than 5%	
5 –15%	
16 –30%	
Greater than 30%	

6. In terms of greatest market exposure to HIV/ AIDS, how would you rank the comparative businesses of Home Loans, Credit Cards and Asset Finance?
Your ranking will be relative to each other and not as an absolute value
You **cannot** allocate the same ranking to two business units.
1= highest 2= medium 3= lowest

Business Unit	1	2	3
Home Loans			
Credit Cards			
Asset Finance			

7. Would you consider the strategic response from each of these businesses to be different?

YES		NO		NOT SURE	
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8. Research shows that when customers are faced with financial problems, they default on certain commitments. Rank the defaulting order that you anticipate will be followed.
Use numbers 1 to 7
1 = first payment to be defaulted

7 = last payment to be defaulted

Mortgage bond (home loan)	
Rates & taxes	
Hire purchases (furniture & appliances)	
Clothing accounts	
Utilities (lights, water, telephone)	
Insurance premiums	
School fees	

9. Should there be communication to customers seeking reasons for the defaulting on payments?

YES		NO		NOT SURE	
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10. Given that there is a higher prevalence of HIV/AIDS at the lower income levels, should banks consider the “unbanked” sector as a source of future growth?

YES		NO		NOT SURE	
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11. Should linked products (such as insurance policies) be considered a viable option to manage the risk associated with HIV/AIDS related defaulting?

YES		NO		NOT SURE	
-----	--	----	--	----------	--

12. Should the lending rate include a premium to cover disability / death benefit contributions?

YES		NO		NOT SURE	
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13. Will the recent developments with the LOA, Banking Council and Financial Services Board offer economically viable options for the business, considering the reduced risk?

YES		NO		NOT SURE	
-----	--	----	--	----------	--

14. Have you had an Actuarial Assessment performed on your staff and target market?

YES		NO		NOT SURE	
-----	--	----	--	----------	--

Summary of Questionnaire Two Responses