Gordon Institute
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The Impact of Unsecured Lending on the Financial Wellbeing of Consumers

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Abstract

Improving access and building inclusive financial systems is not just a goal but also a necessity for economies at every level of development. Unsecured lending was first introduced with the intention of addressing society's ills yet recent violence experienced at the Marikana mines in Rustenburg aroused the attention of both the general public and government. The impact of unsecured lending on the financial wellbeing of consumers has subsequently been brought under the spotlight. Unsecured lending has taken and will continue to take an increasingly central role in our social, political and economic landscape.

This study intended to determine the impact of unsecured lending on the financial wellbeing of consumers and made use of three research hypotheses towards this aim. A survey was used to gather data which was statistically analysed by means of a quantitative research strategy. The findings of the research indicated that those who make use of unsecured lending as a means of accessing finance have a better subjective view of their financial wellbeing than those who do not make use of unsecured lending, further, consumers who make use of multiple unsecured loans have an improved outlook with regard to their financial position than those who do not make use of multiple unsecured loans.

Keywords

Unsecured lending, Financial Wellbeing, Inclusive Financial Systems, National Credit Regulator (NCR), Garnishee Orders, Gini-Coefficient, Over-indebtedness, National Credit Act (NCA), Interest Rate

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

____________________________ ____________________________

Raphael Rom Date

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Chapter 1: Introduction

1.1 Background

The gap between the "haves" and "have not's" continues to grow as South Africa still maintains the highest "Gini coefficient" throughout the world (a measure of the statistical dispersion of a Nation's income amongst its residents). Access to credit facilities has a direct impact on improving the Gini coefficient (Beck, 2013), however, the impact of access to credit facilities has both its pros and cons to the financial wellbeing of consumers. Based on regulatory as well as other factors, the poor have often been excluded from access to credit facilities and this has raised a number of ethical issues. This exclusion has led to the introduction of unsecured lending to service this segment. Supporters of unsecured lending argue that access to credit benefits economic development, poverty reduction and the improved welfare of all citizens (Hudon, 2009). On the other hand, many protest that whilst some consumers are able to manage their borrowing effectively, the ease of access to credit causes over-indebtedness (Brennan & Gallagher, 2007). These conflicting opinions have given rise to the discussion about the financial wellbeing of consumers of unsecured lending.

1.2 The Importance of Financial Inclusion

Improving access and building inclusive financial systems is not just a goal but also a necessity for economies at every level of development in order to reduce the Gini coefficient and thus create equality in the economy through an emergent middle class (Yago & Allen, 2010). This is essential and can only be achieved through the provision of financial services to all without discrimination. Economies will greatly benefit from tapping into their full potential through the introduction of previously excluded economic citizens, however, the risk of over-indebtedness looms and the cost of a nation in default carries a heavy burden (Kenworthy, 2011). Whilst the literature on this topic is extensive it remains fairly conflicting and the question as to how access to finance affects the financial wellbeing of the consumer has not been adequately dealt with (Korten, 2011).

Many developing countries face challenges that make it difficult for them to arouse and sustain economic growth. These challenges are often born through a lack of access to financial services and unsuitable laws and regulations resulting in the exclusion of many citizens from participating in the economy (The Rt Hon Justine Greening, 2013). This has largely been the case for personal lending and savings services at the poorer end of the income range. Financial exclusion may result in many undesirable outcomes which exclude

individuals from accessing vital services or even finding employment (European Microfinance Network, 2013). The banking sector in South Africa, although decidedly developed, until recently remained significantly concentrated and much of the population continues to remain excluded from formal financial services (Steinman, 2011). The consumer credit industry is one such industry. A lack of access to finance has in the past constrained the growth and competitiveness of developing economies. Unsecured lending has been seen by many as the protagonist for an inclusive financial system. Governments have supported increased access to financial services based on empirical evidence and practices proving their value (Malhotra, Chen, Criscuolo, Fan, Hamel & Savchenko , 2006).

One of Government's most important responsibilities is to build an economy that meets the needs of all its economic citizens; this includes both its people and its enterprises. The government has realised the benefits that unsecured lending can achieve and continues to put in place strategies that aim to transform the economy from one that served the wealthy and excluded the poor, to one that harnesses the full potential of all the country's people and resources (The National Credit Regulator, 2010). Tireless work has already been concluded towards the achievement of this aim and the National Credit Act, considered to be one of the most progressive financial regulatory Acts in the world, serves to facilitate the introduction of previously excluded economic citizens.

The challenge of ensuring better access requires financial services to be made available to all, thereby spreading equality of opportunity and tapping into the full potential of an economy. There is undisputed value that can be unlocked through enhancing the quality and reach of credit in order to facilitate sustained growth and productivity. Financial exclusion persists not just in developing countries such as South Africa, but even in many high-income countries. Well-functioning financial systems can boost growth and reduce poverty (World Bank, 2013). The following section will introduce unsecured lending as a means of finance and how it has served to make access to finance accessible to the masses, who were previously excluded.

1.3 Exclusive Financial Systems Give Rise to Unsecured Lending

When Muhammad Yunus, a United States trained economist, made a humanitarian gesture by lending twenty seven dollars to help forty two women in Bangladesh's Jobra village in 1976, he could not have envisaged its social, marketing, banking, and economic impact. Yunus believed in the general economic theory that fiscal and monetary policy could be used to address society's ills. Yunus went on to win the Nobel Peace Prize in 2006 for this social

inspiration which prepared society to redefine its views of banking systems and local economies (Valadez & Buskirk, 2011).

Muhammad Yunus introduced the first form of unsecured credit transaction. Money was being lent through informal channels to people who previously were excluded without any hope of obtaining formal loans. These "unsecured credit transactions," included all transactions in respect of which the lender does not have any security. These loans are sometimes referred to as "signature loans" as the bank retains no right to any of the borrower's possessions. The bank would only be able to place a mark next to the consumer's credit rating (Pritchard, 2013).

1.4 Introducing Unsecured Lending to South Africa

Recovery from the global financial crunch remains fragile. The economic crisis of 2008 did not discriminate and the distress has been felt by all. The knock-on effect has been felt in developing countries and has resulted in high unemployment, growing debt, low growth and limited access to personal finance and has had a particularly severe impact on those in Sub Saharan Africa (Franklin & Giorgia Giovannetti, 2011).

South Africa, as a developing country, relies heavily on Foreign Direct Investment (FDI). In order to attract this FDI, the economy needs to show potential investors substantial growth. Without momentous progression the local economy will be unable to attract foreign speculation. A dwindling economy and high unemployment combined with limited access to financial services for the majority of the population does not bode well for a country and neither does it act as an economic stimulant (African economic Outlook, 2013). In addition, food prices in 2011 were volatile and near their 2008 peak, and millions of people in the Horn of Africa are in urgent need of assistance as a result of devastating drought, conflict, and displacement (Codesria, 2012).

The use of unsecured personal loans as a means of gaining access to finance is by far the most common tool used across the globe. Unsecured lending agreements allow money to be lent from one party to another without any collateral to secure its repayment. These types of loans are often considered high risk as the lender does not have any right to the borrower's property. For this reason, most unsecured loans carry relatively high interest rates and carry other associated costs.

This method of access to finance has allowed individuals the opportunity to accumulate assets and exploit economic opportunities and build businesses which can grow and in turn create new jobs. With so many people struggling to make ends meet, the attraction of

unsecured loans has gathered unbelievable momentum which has led to a dramatic uptake in unsecured personal loans in South Africa.

1.5 The Extent of Unsecured Lending in South Africa

The latest figures reveal an increase in demand for unsecured lending in the South African consumer credit market which has revealed a dramatic 389 % increase from a total of R40.9 billion in December 2007 to a total of R159.3 billion by December 2012. This represents a compounded annual growth rate of 31.2 % compared to 6.6 % for total consumer credit. The total value of new credit granted in South Africa, increased from R109.72 billion to R119.94 billion for the quarter ended December 2012, which reflected an increase of 9.31% when compared to the previous quarter and a dramatic 11.46% compared to a year ago (Hazelhurst, 2013). Most staggeringly, this upturn resulted from a surge in unsecured credit which rose R25.97 billion to R29.07 billion quarter on quarter, an increase of 11.94%.

Growth in lending contributes to a growth in liquidity in the market, which in turn leads to increased consumption expenditure. The enormous growth in micro lending is undoubtedly exciting for investors and lenders alike and by last year most of the major lending institutions had followed in the footsteps of the likes of Capitec and African Bank by rapidly growing their unsecured loan books (Rees, 2013). By September 2012 the unsecured lending boom was at its height. Growth in the extension of unsecured credit was sitting at around 40% per annum.

An additional driver of this behaviour has been the profitability of unsecured lending for the banks. Unsecured lending is vastly more lucrative than home loan lending or other secured forms of credit. High levels of household debt and an increasing reliance on unsecured credit since the credit crisis have combined to a point where South African consumers are particularly vulnerable to macroeconomic shocks. Moody's Investors Services has subsequently cut South Africa's credit rating and has issued warnings amid concerns relating to growth in unsecured lending that may threaten the longer term economic and political stability (Downing, 2012).

Whilst this research focuses on the direct impact of unsecured loans for consumers, the indirect macro risk remains a significant one as was witnessed during the 2008 financial crisis. The National Credit Regulator (NCR) has emphasised its concern regarding the increase in the granting of unsecured credit. The current economic downturn is worsening the situation with 47% of credit-active consumers having compromised credit records. As a

result, the importance of government in placing controls to prevent individuals falling into a debt trap has grown progressively.

1.6 Governments Stepping In

Governments around the world are taking a stance against the ever growing arcade of unsecured lending. Singapore recently announced new rules in a bid to slow down the amount of credit card and other unsecured loans that banks are allowed to extend to individuals. Singapore placed a cap on loan values, to rein in borrowing and thwart the risk of its people falling deeper into debt. These new rules will require banks to review a borrower's total debt and credit limits before permitting a new credit card or unsecured credit facility. The changes to be implemented include a limit on the total amount of unsecured loans an individual may take to twelve times that person's monthly income. These changes appreciate the need for inclusion of the unbanked whilst striving to improve the lending practices of financial institutions. This is expected to force consumers to make better borrowing decisions (Reuters, 2013).

This is an industry that needs to be regulated to ensure that potential consumer abuses are minimised. Consumers at the lower end of the credit access continuum become increasingly vulnerable due to the ever rising cost of living and the accompanying challenge of pacing household and personal income (Motshegare, 2012).

Iceland is another country that has had to cope with unprecedented levels of unsecured consumer debt. This escalation occurred in the context of a consumer culture whose ease of access to unsecured debt during an economic boom in Iceland changed its people's social and economic behaviour. A new-found materialism gave rise to mounting debt, financial worries due to new spending tendencies as well as a lack of money-management skills and compulsive buying. The research contributes to the psychology of materialism and overspending and provides an evidence-based foundation for designing interventions encouraging individuals to improve their financial wellbeing (Garðarsdóttir & Dittmar, 2012). This author also discussed the clear line between the benefits of access to finance and the looming dangers of abuse. The Banking Association of South Africa (BASA) has heightened its awareness as to the effects of the uptake in the local context and will present proposals for banks to improve their management for unsecured lending. These proposals aim to ensure effectiveness and efficiency in the credit market and further protect consumers from the evils of over-indebtedness which were brought to the attention of the general public during the now infamous Marikana shootings.

1.7 Unsecured Lending Blamed For Social Unrest

The violence which occurred on the Rustenburg Platinum-Belt has been blamed partly on the high level of unsecured debt which miners were unable to service or pay back. Workers in many cases were parting with up to 40% of their earnings just to repay unsecured loans. This led to default and outrageous interest rates and fees being charged. Economists have noted that the impact on borrowers unable to pay their debt will continue to cause social as well as political disarray (Mungadze, 2013).

Micro lenders are viewed by many as the villains to the peace. More anger and disorder will be sure to follow with more than 6 500 South African consumers applying for debt counselling on a monthly basis. No mean feat considering debt counselling only had its inception in 2007. According to the National Credit Regulator's Credit Bureau Monitor, to date more than 360 000 consumers have applied, these figures were released in December 2012 and reveal a disturbing repayment pattern. Of the 19.69 million credit-active consumers, just less than 20% were 3 or more months in arrears, 13% had adverse listings and over 14% had judgments or administrative orders. These statistics paint a gloomy picture, a picture in which South African consumers struggle to manage their debt.

An even more startling figure produced by the Human Sciences Research Council (HSRC) for the Financial Services Board (FSB) showed that only 44% of respondents were financially literate and had indicated that they were able to make a household budget. Of the respondents, 43% revealed that they do not always stay within their budget (Compuscan Academy, 2013). These negative effects are compounded by the lack of knowledge and understanding of the associated perils of over-indebtedness and adversely impact on the financial wellbeing of consumers.

1.8 Risk of Over-indebtedness

There remains a considerable imbalance of power between consumers and credit providers. Consumer education levels are frequently low and many borrowers remain poorly informed about their rights and are unable to enforce such rights through either negotiation or legal action. Commission-driven agents, deceptive marketing practices and weak disclosure can easily cause consumers to enter into unaffordable credit contracts (The National Credit Regulator, 2010). This problem is gaining more and more interest as the South African credit market continues in its upsurge. Exposure to the cost that defaulting on a credit agreement can have to one's personal financial wellbeing as well as the impact on an entire economy is taking a more central role in our understanding of our socio-economic surroundings. This

emergent consciousness has been fuelled by the spiralling influence of debt experienced during the Global Economic Crisis, a disaster which we have yet to fully recover from.

Nearly 44% of the world's population lives on an average of two dollars a day or less. An amount that is almost impossible to imagine unless you have at some stage experienced it for yourself (Collins, Morduch, Stuart & Orlanda, 2009). How do these people put food on their tables, educate their children, purchase property, or handle emergencies? Every single day more than a billion people around the world must answer these questions.

Unsecured credit is a double edged sword. Whilst it allows many people access to products or services that cannot realistically be acquired out of a single month's income, it can also be a precarious instrument that can lead to high levels of debt and over-indebtedness. The credit market is not a risk-free arena and as such often leads to financial hardship and may destroy a household's wealth. Taking on extra loans in order to pay back existing loans can lead people into a debt spiral out of which it may be impossible to escape

This research identifies the causation between unsecured personal loans and the financial wellbeing of consumers. Unsecured lending has gained unbelievable momentum and is now raising social, economic and political questions as to its benefits. This research will endeavour to enhance the understanding of a very relevant topic that is undoubtedly at the forefront of societies' minds. By gaining an understanding of the factors affecting financial wellbeing, the relevance of financial wellbeing on an individual's personal wellbeing and how unsecured lending impacts on the financial wellbeing of consumers.

Chapter 2: Literature Review

2.1 Introduction

Providers of unsecured credit have struck oil. Since 2009 the value of unsecured credit in South Africa has grown at a compound rate of 44% compared to just 3% for mortgages over the same period (Wood, 2012). The number of indebted consumers has skyrocketed in the year after the National Credit Act was introduced, whereas the volume of vehicles, homes, furniture and semi-durable goods sold on credit has plummeted (Radebe, Planting, Motloung, 2008). Is this a coincidence or a consequence of the act, and has the legislation saved the economy from an impending credit crisis or created a bad-debt bubble?

South Africa has some of the most effective Credit legislation in the world. The National Credit Act was designed to protect the debtor from reckless lenders, in order to maintain and where possible improve their financial wellbeing and is considered extremely progressive in setting the standards for legislation in this sphere globally (Gordhan, 2011).

The Global Financial Crisis (GFC) and the results of the crisis will linger beyond the recession as financial stability has not yet been secured internationally. South Africa's, financial sector successfully weathered the crisis however a million people lost their jobs. Financial stability is not the only objective and the financial sector needs to do more to support the real economy. One of the more significant areas highlighted for improvement is further inclusion of consumers who do not have access to financial services. Improving access will play a vital role in transforming society, with the desire of bringing a better life for all.

2.2 Disproportionate Access

Financial market imperfections such as information irregularities and transaction costs are likely to be especially binding on the poor and uneducated. The less fortunate generally lack collateral and credit histories, thus limiting their opportunities to access finance and in turn leading to persistent inequality. Scholars have long argued that financial market frictions can be the critical catalyst for generating poverty traps or persistent income inequality (World Bank, 2008). Poor individuals have to rely on their own personal wealth if the financial system is not inclusive. The void is often filled by "loan sharks" who charge inconceivable rates of interest and often indulge in aggressive and illegal tactics to ensure that they collect money successfully (Panorama, 2009).

The effective management of economies in both high and low income countries requires credit to play a central role to the welfare of its citizens (Hudon, 2009). More than two billion people globally lack access to formal credit markets which as discussed, often leads to difficulties. This is demonstrated by the plight of the poor in developing countries when contrasted with poor people who have access to finance in developed countries and it further highlights the disparity and the growing economic gap that is fuelled by access or lack thereof to credit (Rodrik and Rosenzweig, 2009). Critics of microfinance doubt whether access to finance may contribute to a substantial reduction in poverty, claiming that microfinance does not reach the poorest of the poor (Scully, 2004), or that the poorest are deliberately excluded from microfinance programmes (Simanowitz, 2002).

When micro finance began in the early 1970s, its core aim was to fill a void by providing access to financial services to those who had previously been excluded. This emerging industry brought about hope for so many people to improve their personal welfare which would in turn fuel their local economies (Hudon, 2009).

2.3 The Development and Use of Unsecured Lending Models

Mohammad Yunus had a vision of unleashing the productive potential of millions of poverty stricken people (Collins et al, 2009). His vehicle to achieve this was unsecured loans. The broader financial needs of poor income homes are in many ways similar to the needs of richer households and require mechanisms to manage cash flows as well as strategies for accumulating assets in both the short and long-term. Financial activities are most often driven by a basic set of needs, such as the need to get food on the table every day, deal with illness, pay school fees. Access to capital for new consumers serves to generate income which in turn may facilitate these responsibilities. These needs are as important for employed people in cities as they are for village women running microenterprises (Collins et al, 2009).

Expanding access to financial services holds the potential to help ease poverty and spur economic development. In Practice it has not been so easy. Commercial banks have faced challenges whilst trying to expand access to poor and low-income households in developing economies (Rodrik and Rosenzweig, 2009). The first attempt at improving access to the financial system was promulgated through the Usury Act of 1992 with the intention of giving wider entrée to financial service by removing the interest rate cap on loans smaller then R6000 and less than 36 months in duration, this made way for the first regulated unsecured loans. The impact was astonishing and by 1999, the microloan book in South Africa had grown to R15 billion, having been driven in principal by non-bank lenders (Theobald, 2013).

Newer models granting consumer’s access to personal loans, have gone well beyond their predecessor’s which centred on providing “microcredit” for small business investment (Rodrik and Rosenzweig, 2009). There is an original focus on new credit mechanisms and devices that seek to help households manage cash flows, save money, and cope with the inherent risks of debt. Innovations in credit markets can thus, in principle, bring gains in both efficiency and equity. The common assumption that the marginal return on capital is large when capital is scarce reinforces the claim that the “unbanked” poor have sizeable returns to reap from financial access and so, in turn, does the economy (Mwangi & Songwe , 2009). Unfortunately money is often borrowed as a result of greed.

2.4 Unsecured lending on the Up and Up

Certain dimensions of microcredit may be changing society for the better whilst others remain in doubt. Consumers often spend excessively for personal supremacy, status, image, or other avaricious desires, while other consumer actions are associated with anxiety, suspicion and cynicism (Dean, So-Hyun, Clinton, Fischer & Lambert, 2013). Unsecured lending which originally started as a humanitarian and philanthropic concept has now matured as a business and continues to surge in South Africa. This section discusses how unsecured lending continues to grab market share in the Personal Loan segment at the cost of other loan models such as mortgages.

The annual growth rate for unsecured loans peaked at 67% in the first quarter of 2011, this has moderated somewhat. Unsecured credit accounted for R29.07 billion (24.24%) of total credit granted. On a year on year basis the rand value of unsecured credit agreements increased by R2.62 billion (9.91%). The number of accounts for unsecured credit increased by 20.84% for the quarter ended December 2012. On a year on year basis the number of accounts for unsecured credit increased by 2.83%. The rand value of the gross debtors book for unsecured credit showed an increase of R19.28 billion (Consumer credit market, 2012).

At First Rand Bank the average margin earned on unsecured loans is 17.99% whilst its margins on mortgages are a mere 1.46%. This is not unique to First Rand. Nedbank earns 14.1% from unsecured loans and 1.7% from home loans; Absa achieves 13.5% versus 1.9% on mortgages. This has caused a significant contraction in the mortgage market which has resulted in consumers increasingly having to turn to the considerably more expensive unsecured loan market to fund consumption needs.

Consumers who, in the past were able to borrow against their mortgage bonds to fund consumption are now reaching out for a more expensive alternative, in that of unsecured

micro loans. South African banks used to provide up to a one hundred and 10% mortgage loan. Recently a home owner would be fortunate to achieve an 80% loan against a property and would have to raise the remainder by way of an unsecured loan at exceedingly preposterous rates. For a R500 000 loan, the debtor would have to fork out up to R10 000 per month in capital and interest repayments. Almost double the amount one would have paid on a straight mortgage facility. This makes it extremely difficult for new owners to enter the market and disrupts the aims of an inclusive economy. This shift in banking behaviour has meant that the flourishing black middle-class has not translated to proportionally greater ownership of property (Theobold, 2013), as well as resulting in increased loan impairments.

Impairments are a great risk to any Financial Service Provider and the associated pain is being felt by some of the smaller banks in South Africa. The South African Reserve Bank (SARB) is still comfortable with the levels of unsecured credit in the market, however supervisors from the central bank continue to monitor this segment for potential risk and have engaged with selected banks on the high growth rate of unsecured loans. Analysts and investors have been increasingly worried and the National Credit Regulator has commenced workshops in low income areas encouraging those drowning in debt to get help (Eyewitness News, 2013).

Supply-side economics has played a major role in driving this upsurge. With the implementation of the Basel 3 capital accord, banks have been forced to focus on shortening the term of their lending books, shifting from 20-year loans to short-term loans, which has led to a structural change in the consumer credit market.

Many believe the amount of unsecured credit has exceeded the population's ability to repay it (Rees, 2013). The exceedingly high interest costs and the burden of the garnishees have reduced the disposable income of a huge portion of the population, which in turn has undermined economic growth. Has unsecured lending improved access to the economy and enhanced the financial wellbeing of consumers or has it permanently damaged their financial well-being?

2.5 Benefits of Unsecured Lending

Many people campaign in favour of the role of micro financiers. They perhaps appreciate the industry as a necessary evil. By restricting the granting of loans as well as the rates charged even further, they believe certain consumers who would otherwise have no means to access credit might remain excluded. Those disqualified would potentially seek other channels of securing cash under significantly less favourable terms. Consumers may exceed the limit on

their credit card or bounce a cheque, both of which would incur far greater financial penalties than a micro loan. This is where lenders and policy makers have struggled to find common ground. Policy makers believe more should be done to educate consumers about financial literacy. In practice this has been extremely difficult. Most attempts to inform and coach consumers about credit are rejected by consumers as they want loans and they want them as quickly as possible (Mtyala, 2013).

Microfinance loans have a significant direct impact on life satisfaction. Microfinance Institutions (MFIs) like to claim that their impact goes beyond the mere advancement of money and that their impact is not limited to providing those excluded with liquidity. They say that by rescuing from exclusion, "the uncollateralized, underprivileged borrowers", they are significantly affecting the dignity, social recognition and self-esteem of these consumers, not to mention the future economic opportunities that the “improved” financial wellbeing may give rise to (Becchetti & Conzo, 2013).

Some have even taken the argument further as to the question whether access to credit should be a human right. In contrast to this standpoint are those who argue that the arduous repayment process can be very costly for the borrower. The price of the cash and the related risk of over-indebtedness are repeatedly highlighted as potential perils in the economic and anthropological literature (Hudon, 2009).

The impact of unsecured lending especially in the case of personal loans, conjures polarized opinions. Unsecured lending proponents claim that this unprecedented phenomenon is actually a good thing. They believe it buoys the economy and provides credit to those who were previously denied access. The poor and previously unbanked are now able to buy the possessions they really need and improve their financial position by gaining access to food, healthcare and jobs. Advocates of unsecured lending exclaim that opportunities have arisen for their customers through this unsecured channel to finance their cars, houses, businesses and extend their education (Becchetti & Conzo, 2013).

Former payday borrowers have shifted into “incomplete and plausibly inferior substitutes,” such as bank overdrafts and late bill payments according to Zinman, J. (2010). The research suggests that there certainly remains a need for Payday loans. In Wilson, et al. (2010) researchers conducted an experiment to measure the extent to which access to payday loans or lack thereof would aid or encumber consumers to weather personal expenditure shocks. It was found that payday loans allowed consumers to absorb expenditure shocks with much more comfort than those in a comparison group who did not have access to

payday loans. The study also found that those who borrowed beyond their means and took loans beyond their threshold fared worse than those without access.

Most recently, studies have chosen to focus on the consumer outcomes associated with payday lending. A study found that after payday loans were banned in Georgia and North Carolina, more cheques were bounced by households. There were subsequently more complaints received by the Federal Trade Commission about lenders and debt collectors and a substantial increase in consumers filing for Chapter 7 bankruptcy followed (Morgan and Strain 2008). America has been referred to as the vanguard of consumption and has developed a consumer culture that is bent on actively pursuing and consuming goods and services to satisfy practical as well as materialistic and self-indulgent urges. The ensuing financial problems are frequently a result of attitude or behavioural problems, rather than money problems (Dean, So-Hyun, Clinton, Fischer & Lambert, 2013).

2.6 Risks Associated with Unsecured Lending

Although consumers can increase lifetime utility by borrowing, less educated consumers are more vulnerable to less flattering sources of credit. There are many undesirable market practices that quickly fill the gaps that are formed when credit is either declined or is not accessible (Gordhan, 2011). Consumers who qualify for secured credit are often denied these products and offered unsecured loans instead at much greater interest rates by the same credit provider. The credit provider now secures a much higher profit margin and the consumer is often left with no alternative but to accept the unsecured loan. There is no overt contravention of the NCA through these practices, yet the ethics are somewhat questionable. The customers are encouraged to take smaller loans which entices repeat business. The recurring disbursements are further compounded by the initiation fees charged with each new application. In essence, the consumer is not being newly contracted with each new disbursement and should only be liable for the original initiation fee (Motshegare, 2012).

There are of course, those who argue that unsecured loans take advantage of vulnerable and uninformed borrowers and often create “debt spirals” (Edmiston, 2010). Repeated borrowing causes debt spirals as consumers use new loans to pay off old ones. The interest rates as well as the term over which these loans are engaged gains further momentum during this “perpetual” cycle.

Exploitation and abuse of garnishee orders has been receiving increasing publicity. These Garnishee deduction orders are attained by way of a court order and served by a sheriff or

messenger of the court. The order enforces an employer to make deductions from the salary of an employee who has defaulted on a credit agreement. These salary deductions must continue to be deducted until such time as the debt has been paid-up in full. A court may only make such an order where it is satisfied that there is a valid underlying debt. Lenders have been seen to manipulate the use of these court orders and have used many tactics, including, wrongfully claiming that their debtors are defaulting by bribing corrupt officials to issue such garnishees (Jones, 2013). The creditors are then charging additional legal fees to the debtor whilst having already secured the outstanding debt against the salary of the debtor. These irregular garnishees are seen to have created financial misery for hundreds of thousands of South Africans. At Marikana, as a result of Ganishees being deducted, the miners were left with too little money at the beginning of the month to meet their basic living needs.

Impoverished communities are the main target and financially vulnerable consumers are paying the highest interest rates. These consumers have the most limited set of financial skills and their situation is worsened by extended periods of unemployment as well as often being victimised by unscrupulous loan sharks and collection attorneys. The consequence being that these consumers are left with the highest debt-to-disposable income ratio (Allwright, 2012).

Within months of Marikana, Ministers Pravin Gordhan, Trevor Manuel and Rob Davies had made the connection linking lending and collections abuse to Marikana and called on the banks to stop abusing South Africa's poor. The NCR subsequently conducted a raid of loan shark premises and discovered gross lending irregularity. It is the NCR's role not just to promulgate legislation but also to ensure it is enforced, and, where there are abnormalities, to establish a task team to investigate abuse and take punitive action through the correct channels. The NCR has warned that they are currently consulting with the department of Justice (DOJ) with a view to altering the laws governing garnishee orders. South Africa's major banks have all subsequently agreed to stop using garnishees. The major credit providers are acting in a far more circumspect manner regarding their collections and the agents used (Rees, 2013)

Employers are now questioning the plausibility of garnishee deductions that they are forced to perform on behalf of lenders. A forensic investigation conducted on a South African company found that 30% of employees had garnishee orders. The worst affected employee had twelve garnishee orders. Unbelievably, certain of these employees had a zero-based pay packet instigated by the high number of garnishee orders. The impact of these stop orders has been felt solely by the employees who have been feeling the burden of irregular

debt, interest, costs and fees. This abuse, exploitation and maladministration is currently being investigated (Allwright, 2012). The use of garnishee orders is widespread amongst lenders. Although African Bank and Capitec Bank have argued that only 2% of their entire book was recovered via garnishees, it could still be argued that the garnishee process has given lenders the tacit assurance that a large percentage of their book could be recovered through the legal mechanism.

The NCA, in its investigation has uncovered widespread abuse, mistreatment and maladministration across the whole spectrum of service providers involved in garnishee orders. The impact of the issues fell solely on the vulnerable employees because they were suffering the financial burden of irregular debt, interest, costs and fees (Allwright, 2012). The impact of this was that whilst the loans were intended to assist the borrowers in improving their standard of living, they instead led to worry and anxiety about their financial position.

The impact of unsecured lending has caught the attention of policy makers and as such, interventions have been put in place to protect consumers. Local as well as international interventions will now be discussed.

2.7 Protection for Borrowers

In the wake of the 2008 financial crisis, many policymakers are considering further strengthening the protection offered to consumers of unsecured loans (Edmiston, 2010). There is a volume of literature that has examined unsecured personal lending and its dangers; however there hasn't yet been much focus on any unintended consequences of the restriction of such lending.

The role of the financial sector is central to supporting the real economy which includes production, distribution or trade, and consumption of all goods and services. The financial sector therefore carries risks to the greater economy, particularly when it recklessly chases short-term artificial profits, as was the case preceding the 2009 global financial crisis (Gordhan, 2011). The international community has focused significant attention on improving the regulation within the financial sector not just to protect the financial wellbeing interests of borrowers of unsecured lending, but also in respect of the macro economy as a whole.

In a bid to stop micro-finance institutions (MFIs) from charging usurious rates of interest in India, the Finance Ministry asked state-owned banks to ensure that such institutions refrained from charging a loan rate of above 24%. The lending rate cap has been created with the purpose of protecting rural consumers. The micro-financiers take loans from the banks and then lend the moneys to their customers at cumbersome interest rates.

Government is now insisting that public sector lenders cap their lending rates at no more than 24% as a precondition for accessing bank finance (Rediff Business, 2010). The Indian Finance Minister intends that these initiatives should ensure that consumers are not left in a disproportionately poor financial position as a result of making use of an unsecured loan.

2.8 South Africa Appoints the National Credit Regulator (NCR) to Protect the Financial Wellbeing of Consumers

South Africa adopted the National Credit Act in 2008. The NCA has received divergent opinions as to whether or not it has opened up the poor, who were previously unbanked, to the risk of over-indebtedness. The act sought to protect consumers of debt by fixing the interest tariffs at what was deemed to be “acceptable rates” and further pursued the elimination of informal lenders more popularly characterised as “loan sharks” (Gordhan, 2011). The NCA endeavoured to achieve this by passing legislation that required all credit providers to register with the National Credit Regulator. The actual interest rate is capped by the NCR at 5% per month but once initiation fees and monthly subscription fees are included the total cost of credit can exceed 27000%. This calculation is based on a Wonga R100 loan repayable after one day, retrieved from wonga.com.

The NCR has a mandate to protect consumers. Micro-financiers are required to conduct continuous affordability and risk assessments and not over extend consumers by contracting them to amounts equivalent to their full income. Failing this, consumers are left with little or no safety buffer for unexpected events that may or occur down the road. The NCR wants to deter providers of credit from advancing high loan values over longer terms to higher risk customers (Motshegare, 2012). The other side of the coin can be as ominous, as mentioned previously, with the practice of issuing many small loans with individual initiation fees and charges which increase the cumulative spend. Credit providers continue to take advantage of consumers who show a lack of discernment or prudence in their financial behaviour.

The manner in which unsecured lending is conducted is being investigated to determine whether the market approach could or is giving rise to the provision of reckless credit and over-indebtedness of the consumer as envisaged in the NCA. At the conclusion of this investigation relevant action may need to be taken. The granting of a loan is often accompanied by minimal affordability assessments and risk reviews resulting in consumers achieving levels of credit that exceed their comfort. The spiralling consequence leaves consumers requesting a credit product that is more expensive than it should actually be. The

NCR is cautioning credit providers to be judicious in their market practices and particularly to ensure compliance with the conditions and requirements of the NCA (Motshegare, 2012).

2.9 Financial Wellbeing

The World Health Organisation (WHO) defines “Quality of Life” as “the individual’s perception of their position in life in the context of the culture and value systems in which they live and in relation to their goals, expectations, standards and concerns” (World Health Organisation, 1997). Financial wellbeing sits centrally to overall wellbeing. The Quality of Life assessment instrument developed by the WHO incorporates areas such as physical health, psychological, level of independence, social relationships, environment, spirituality, religion and personal beliefs. In terms of this classification, financial aspects fit under the environment category and can be related to the “financial resources” and “freedom” sub-groupings within “environment”. While “financial resources” are self-evident, financial means could also be argued to impact freedom in various ways.

Families in the United States are finding it increasingly difficult to stay in the same place or to reduce the amount that they are sinking behind, thus causing financial distress and frustration with their personal finances (Garman, 2005). A national team of academic scholars have concluded that one in four workers in the United States are seriously worried and unhappy with their personal financial situations. This has negative connotations for their families, co-workers, employers and constitutes a serious social problem. The public and government need to recognise and adopt the massive task in addressing the financial distress problem with its ramifications and then take appropriate actions. These problems can no longer be ignored and their existence cannot be denied (Garman, 2005)

The concept of financial wellbeing is a difficult one to describe exactly, although, logically it should be situated in concepts of general wellbeing. Many attempts have been made to provide both qualitative and quantitative measures of financial wellbeing but there remains little agreement as to the best way to measure the construct, or even which construct was being measured. (Prawitz, Garman, Sorhaindo, O’Neill, Kim & Drentea, 2006). They further report that many researchers have shown economic distress to be a good predictor of lower levels of overall wellbeing.

There is currently a gap in the research as to what exactly is meant by the term financial wellbeing (Xiao, 2008). From the above definition of general wellbeing, an easy way to think about financial wellbeing is the status of being financially healthy, happy and free from worry.

Objective indicators such as household income serve best to measure facets of the financial condition itself rather than one's feeling about the situation. Objective indicators have been favoured to predict one's perceptions about the financial condition. These indicators do not measure the depth of one's feelings about one's financial position nor the reaction to it. Researchers have found that specific subjective measures should be used to predict individuals' judgments about their financial condition and that subjective judgments such as satisfaction with funds as well as standard of living were important predictors of perceived economic wellbeing Prawitz, Garman, Sorhaindo, O'Neill, Kim & Drentea, 2006). They also observed that subjective measures, such as reported levels of financial stress and risk tolerance, were related to financial satisfaction.

Periodicals by the World Bank endorse the relationship between access to financial services and the classic economic development indicators. Credit is instrumental for creating income and proponents of universal access to credit thus consider and argue that it aids advancing development and is a motivation in overcoming poverty (Hudon, 2009).

2.10 New Challenges

Increased diversity of products and the unpredictability of the global economy in the twenty first century has caused the growing complexity of financial decisions. Consumers now face many new challenges regarding economic and financial activities brought about by the swell in unsecured lending. For this reason, in the last decade, the prominence of financial management skills in personal and work life has amplified and research in this area continues. (Taft, Hosein, Mehrizi & Roshan, 2013)

The "WHO's" Quality of Life assessment is a very broad and holistic evaluation of an individual's life circumstances, concerned with the end states rather than the means of getting there, while finance concepts speak more to the means than the end. Economists have taken the view that wellbeing depends primarily on objective life circumstances, whilst psychologists have focused instead on how people feel about their own circumstances (Garmaise, 2010).

Interest in the concept of the financial health of individuals and families is continuing to develop. The term, "financial wellness" can be referred to as an individual's financial health. Financial wellness is an all-inclusive, multidimensional concept which includes financial satisfaction, objective status of financial situation, financial attitudes, and behaviour. Financial behaviour imitates a person's economic wellbeing. Financial and Economic wellbeing are often used interchangeably. Financial wellbeing can, however, be thought of

as a broader aspect of an individual's financial life with economic wellbeing usually referring to an individual's income level. Financial satisfaction is usually measured by looking at an individual's level of income, money for family necessities, ability to handle financial emergencies, amount of money owed, level of savings, and money for future needs (Xiao, 2008). Personal financial management can be an important factor in the definition of financial well-being. For this reason behavioural assessments of personal financial management have been used to measure financial wellbeing. Financial management includes

- financial planning for long-term and short-term financial goals;
- financial management of income and credit;
- financial practices through the purchase of housing, insurance, automobile, and other durable and non-durable consumer goods and various services including banking, insurance, and investment; and
- investment for the future.

Breen described financial wellbeing as having enough income and assets, quality health and personal care, the right mix of products and services, as well as legal readiness and professional guidance (Breen, 1991). The broader concept of wellbeing can be defined as the state of being healthy, happy, and free from worry (Zimmerman, 1995).

There are two ways in which one can view the concept of financial wellbeing, it can be thought of as a concrete and empirical concept which is also known as financial wellness or it can be thought of as a more cognitive concept. It is this second idea that is referred to as financial wellbeing (Xiao, 2008). South Africa makes use of a Living Standards Measure (LSM) which is used predominantly in segmentation for marketing purposes. This is an entirely objective measure which quantifies facets of the financial condition itself rather than the feelings about the situation.

The importance of the distinction between these two measures is highlighted by the assertion that a decline in income reduces subjective wellbeing by twice as much as an equivalent gain increases it. This evaluation will seek to use both subjective and objective judgements in isolation to draw conclusions about to the financial wellbeing of the consumer.

The next stage is to decide on whether to use a relative scale or an absolute scale for the objective analysis. The USA has employed a fixed income measure known as the Federal

Poverty Level (FPL). The European Union makes more considerable use of the relative scale which fluctuates over time as living standards and income oscillate. Most European Union States define financial wellbeing in relation to median income in each member country (Burkhauser, 2009). The list of indicators is extensive and includes material hardship indicators and asset based indicators, debt to income ratios and instalment to income ratios amongst others (Susan, Parish, Roderick, Rose, Jamie, Swaine, 2010). Whilst this list is not exhaustive, the research will use all the variables at its disposal in determining causation between short term unsecured personal loans and financial wellbeing or lack thereof in the medium to long term.

2.11 Conclusion

These findings point to the necessity for consumers to improve the management of their finances. When consumers find themselves in a tight financial situation, the ability to manage their debt may become all the more challenging, leading to over-indebtedness. Amongst the reasons that consumers acquire credit and loans, 20% of users had borrowed money to pay off debts. This precarious tendency sends consumers tumbling head first through a debt-spiral which can prove challenging to break free from. It is essential that consumers learn to manage their finances and their debt better. (Compuscan Academy, 2013)

Many questions regarding microfinance remain unanswered. In particular, questions as to the nature of impact of micro financing on the social and economic situation of the poor in developing nations. So much effort and resources have been put into developing microfinance as an instrument to combat poverty. From its philanthropic and benevolent birth in Bangladesh to the savage aggression of debt collectors, the jury is out on the impact of microfinance on the wellbeing of the poor in developing nations. Does microfinance have a measurable impact on the social and economic situation of consumers? Microfinance continues to receive criticism.

Chapter 3: Research Hypotheses

3.1 Purpose of the Research

As stated in Chapter 1, the main purpose of this study was to determine the impact of unsecured lending on the financial wellbeing of consumers. The study also focused on the impact that access to finance has on the financial wellbeing of consumers.

The relationship between unsecured lending and wellbeing receives considerable interest. Research has been conducted by a team who recently directed a field experiment in South Africa to scale the consumer effect of credit extended at an annual rate of 200% (Karlan and Zinman. 2009). These loans, which were comparable in structure to payday loans, were found to produce significant net benefits to consumers along several magnitudes. All of this speaks to the impact on financial well-being. Among these were employment, income, and a measure of subjective well-being. The impact on maintaining ones current employment was noteworthy in comparison to those without access. Loans were also seen to loosen binding liquidity constraints.

For this study, the Research Hypotheses make use of the IFDFW scale which will be introduced in the following chapter.

This chapter will introduce the three hypotheses that this research aims to answer

3.2 Research Hypotheses

3.2.1 Hypothesis 1:

Null hypothesis ($\mathrm{H_0}$): The mean IFDFW score is equal for those using unsecured finance and those not using unsecured finance ($\mu_{\mathrm{Unsecured}} = \mu_{\mathrm{Secured}}$).

Alternative hypothesis ($\mathrm{H_1}$): The mean IFDFW score for those using unsecured finance is lower than that of the respondents not using unsecured finance ($\mu_{\mathrm{Unsecured}} < \mu_{\mathrm{Secured}}$).

3.2.2 Hypothesis 2:

Null hypothesis ($\mathrm{H_0}$): The mean IFDFW score is equal for those using unsecured finance and paying multiple instalments to that of other respondents ($\mu_{\mathrm{Unsecured\ and\ Multiple\ instalments}} = \mu_{\mathrm{Other}}$).

Alternative hypothesis ($\mathrm{H_1}$): The mean IFDFW score for those using unsecured finance and paying multiple instalments is lower than that of other respondents who are not paying multiple instalments ($\mu_{\mathrm{Unsecured\ and\ Multiple\ instalments}} < \mu_{\mathrm{Other}}$).

3,2,3 Hypothesis 3:

Null hypothesis, H0: All respondents have the same IFDFW score irrespective of the monthly repayment amount.

Alternative hypothesis, H1: At least one category of repayment amount has a different IFDFW score.

3.3 Conclusions

Using the above questions this paper will investigate the impact of unsecured lending on the financial wellbeing of consumers.

Chapter 4: Research Methodology

4.1 Introduction

This chapter describes the research methodology and provides a set of techniques and principles for systematically collecting, recording, analysing and interpreting the data.

The objective of the study was to identify the impact of unsecured personal loans on the financial wellbeing of the consumer. The research took a close look at the factors affecting financial wellbeing, the relevance of financial wellbeing towards an individual's personal wellbeing and how this is measured.

4.2 Choice of Methodology

A good research design can ensure the study is effective and efficient. According to Fourie (2001, p. 141) "All data, all factual information, all human knowledge must ultimately reach the researcher either as words or numbers. If the data is verbal, the methodology is qualitative; if it is numerical, the methodology is quantitative". Blumberg, Copper & Schindler (2005, p. 195) define research design as, "the plan and structure of investigation so conceived as to obtain answers to research questions." A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem."

In this study a quantitative, descriptive research strategy was used to examine the effect of unsecured lending on the financial wellbeing of consumers. Zikmund (2003) explains that the major purpose of descriptive research is to describe the characteristics of a population or phenomenon. According to Neuman (1994), "Descriptive research focuses on "how" and "who" questions ie:"How did it happen?" "Who is involved?"

4.3 Research Design

This study made use of a study based on Churchill and Lacobucci (2005) where there are three classes of evidence that can be used as circumstances for making inferences on causality. Concomitant variation refers to the manner in which variables adjust together in the way prophesied by the hypothesis. The time occurrence of variables denotes the order in which variables change with the causal variable shifting first. The removal of other causal factors means that other factors had either to be kept constant, or the results had to be attuned to remove the effects of the other factors (Churchill and Lacobucci, 2005).

4.4 Unit of Analysis

De Vos (2003) identified the object, phenomenon, entity, process or event being studied, as the unit of analysis. The unit of analysis for this study was consumers of unsecured lending.

4.5 Population

Arkava and Lane (as cited in De Vos, 2003) stated that the universe consists of all possible subjects that possess the attributes in which the researcher is interested. The universe for this study was defined as any individual that has access to unsecured lending. The population sets boundaries within the universe through specific wanted criteria, according to Arkava and Lane (as cited in De Vos 2003).

4.6 Sampling Method

Sampling is the procedure of devising conclusions pertaining to a quota of the population (Zikmund, 2009). Saunders and Lewis (2012) describe the sampling frame as the complete list of all members of the total population from which a sample is selected. The research sampling frame was unknown which indicated the appropriateness of using a non-probability, purposive sampling technique (Saunders et al., 2012). Further, purposive or judgement sampling is appropriate when the researchers are required to make use of their own judgement to select respondents based on a range of criteria for the purpose of the study (Zikmund, 2009).

The purposive sample chosen for the research consisted of loan applicants who called into the call centre of an established South African Micro-Lending firm requesting short term unsecured loans. (Company name will not be given to maintain the confidentiality of both applicants and company involved in this research). The sample was defined as all applicants of unsecured lending through the call centre that were prepared to answer the questionnaire in the required time period. All volunteers' responses were voice recorded.

4.7 Sample Size

In terms of the sample size and survey distribution, the questionnaire was conducted telephonically by two call centre agents who requested the participation of loan applicants through the call centre. These call centre agents were able to achieve 112 responses to the questionnaire within the required timeframe.

4.8 Research Instrument

Researchers have for many years examined both objective and subjective measures in an attempt to describe the financial condition of individuals. A vital part of general psychological wellbeing is contentment with various aspects of life. One of those domains is one's financial condition. These measures have been valuable in contributing to the body of knowledge about an individual's perception of the economic situation, however there has been little agreement as to the best way to measure the construct. That was until the Incharge Financial Distress Model was introduced. The IFDFW scale provides a score representing the combination of responses to eight individual indicators; the score reliably and validly measures the latent construct of perceived financial distress/financial wellbeing (Garman and Sorhaindo et al, 2005). The IFDFW Scale employs correlates or indicators of the variable rather than the variable itself; this measure is indirect and provides an approximation of the "real" measurement of the construct. Scores on the scale will thus only be able to measure the variables indirectly (Prawitz, Garman, Sorhaindo, O'Neill, Kim & Drentea, 2006).

The IFDFW is scored on a Likert scale of 1 to 10 and participants are asked to indicate the degree to which each item describes their perceptions of the various aspects of their own financial wellbeing. Higher scores indicate greater satisfaction, comfort and lower stress levels whereas lower scores indicate the opposite. The item scales are summed to obtain a total score for each scale respectively. Four objective questions were asked prior to the IFDFW Questionnaire, seeking to determine information about the respondent's financial situation. The questions are listed below

- Are you currently repaying a loan?
- How many loans are you currently repaying?
- How much is your monthly spend on loan repayments?
- Are you employed?

4.9 Data Gathering

All data was collected through a call centre. The questionnaire was administered by two call centre agents. The call centre agents kept both a written record as well as voice recordings. According to Neuman (1994, p.28), a survey researcher asks people questions in a written

questionnaire, (in this case performed telephonically through a call centre), the researcher is unable to manipulate any situation or condition; respondents simply answer the questions.

4.10 Data Analysis

The questionnaire that was utilised for this study consisted of several questions that were used to analyse the impact of unsecured lending on the financial wellbeing of consumers. On completion of data collection, the data was captured in Excel and then exported to SPSS (Statistical Package for the Social Sciences) and now called 'Statistical Product and Service Solutions' for analysis. SPSS is a powerful computer programme which can be used to carry out a wide variety of statistical analysis easily.

Descriptive statistics such as:

- Frequency Distributions,
- Cross-Tabulations,
- Mean and Standard Deviation were used to summarise the data.
- Graphs such as pie charts and bar graphs were used to present the descriptive statistics. (Pie charts were used in cases where there were less than five categories whilst bar graphs were used where there were many categories of a variable).

4.10.1 Cronbachs Alpha

Cronbach's alpha was used to assess the internal consistency (reliability) of items in the Financial Distress/Financial Wellbeing (IFDFW) scale. Internal consistency describes the extent to which all the items in a test measure the same concept or construct. The value of the Cronbach's Alpha ranges from zero to one and the closer the Cronbach's alpha coefficient is to 1 the greater the internal consistency of the items in the scale

4.10.2 Factor Analysis

Factor analysis was carried out to investigate the dimensionality of the Financial Distress/Financial Wellbeing (IFDFW) scale. Factor analysis was chosen as a data-reduction technique in order to transform the IFDFW scale into the required data to meet the stated research objectives.

4.10.3 Independent Sample T-test

An independent sample t-test was used to compare two means of two independent random samples. The samples are independent in the sense that they are drawn from different populations and each element of one sample is not matched with its corresponding element of the other sample. Independent samples t-test was used to compare independent samples such as the respondents who use unsecured finance against those who use secured sources.

4.10.4 Anova

One-way analysis of variance (ANOVA) was conducted to assess whether there was a significant difference in the average Financial Distress/Financial Wellbeing (IFDFW) scale by loan repayment amount categories. The goal for conducting one-way analysis of variance is to test for differences among the means of the different levels of a factor and to quantify these differences. If there are two treatment levels, this analysis is equivalent to the independent sample t-test.

4.10.5 Research Hypothesis

4.10.5.1 Research Hypothesis 1:

Independent sample t-test was applied to assess whether there was a difference in the Incharge Financial Distress/Financial Wellbeing scale (IFDFW) depending on whether one uses unsecured finance or not. The null hypothesis was that there is no relationship between source of finance and IFDFW ($\mu_1 = \mu_2$) and the alternative hypothesis was that persons who make use of unsecured finance have lower Financial Distress/Financial Wellbeing scale (IFDFW) than those using secured sources. ($\mu_1 < \mu_2$). The test was conducted at a 5% significance level and the test was one sided.

4.10.5.2 Research Hypothesis 2:

Independent sample t-test was applied to assess whether there was a difference in the Incharge Financial Distress/Financial Wellbeing scale (IFDFW) depending on whether one uses unsecured finance and has multiple instalments outstanding or not. The null hypothesis was that there is no relationship between source of finance and multiple instalments outstanding and other respondents IFDFW ($\mu_1 = \mu_2$). The alternative hypothesis was that those who use unsecured finance and multiple instalments outstanding have a

lower Financial Distress/Financial Wellbeing scale (IFDFW) than those using secured sources or one instalment. ($\mu_1 < \mu_2$). The test was conducted at a 5% significance level and the test was one sided.

4.10.5.3 Research Hypothesis 3:

One-way analysis of variance (ANOVA) was conducted to assess whether there was a difference in the IFDFW by repayment amount. ANOVA is used to test for differences among the means of the different levels of a factor. If there are two factors, this analysis is equivalent to the independent sample t-test comparing two group means. In this case the factor is the repayment amount category. The null and alternative hypotheses were:

H0: All respondents have the same IFDFW irrespective of the monthly repayment amount.

H1: At least one category of repayment amount has a different IFDFW score.

The analysis was conducted at a 5% significance level and the results are shown below.

4.11 Ethical Considerations

Once approval was obtained the researcher explained to participants telephonically what the research study was about including information on the following:

- Explaining in general and brief terms and purpose of the study.
- Explain the approximate time required to complete the survey.
- Explain the benefits that would be derived by participating in this research and that the researcher does not foresee any risks to participants taking part in the research.
- Explaining that participants had the right to withdraw at any stage prior to submitting questionnaires and that by submitting their questionnaire they had given informed consent to the survey.
- Explaining that participation was completely voluntary and no-one would be advantaged or disadvantaged in any way if they did/did not participate in the research.
- Ensuring the anonymity of the participants and confidentiality of the data.

No names or ID's were asked for, and therefore anonymity was assured. Although the call reference codes of the surveys could identify participants, these were deleted once the surveys had been downloaded to ensure the anonymity of participants.

Participants were informed that confidentiality would be adhered to as only the researcher and his supervisor would have access to the data. Under no circumstances would data be shared or distributed.

4.12 Research Limitations

The sample did not include individuals that do not have access to short term unsecured lending. Further to this, the sample should have been extended to include individuals who were not trying to access loans which may have created a bias in favour of unsecured lending.

The percentage of the respondent's salary going towards loan instalment repayments should have been measured although this would have been quite difficult as loan applicants are not always entirely forthcoming regarding the extent of their over-indebtedness, especially during the loan application process which was the point at which the questions and survey were disseminated.

A longitudinal study would have been beneficial to compare the results of respondents who previously did not have any unsecured loans to a point in time where they had used unsecured lending as a means to gain finance.

Given the above limitations of the study, it was expected that the chosen method would have been able to provide enough reliable data to answer the research hypotheses.

This chapter introduced the research methodology and will serve as the basis on which further discussion regarding the results will take place in Chapter 5 and Chapter 6.

Chapter 5: Presentation of Results

5.1 Introduction

This chapter presents the data collected and the results of the statistical analysis. The results of the research hypotheses are presented by listing each hypothesis from the survey in order of relative importance. The results of the

5.2 Profile of Sample

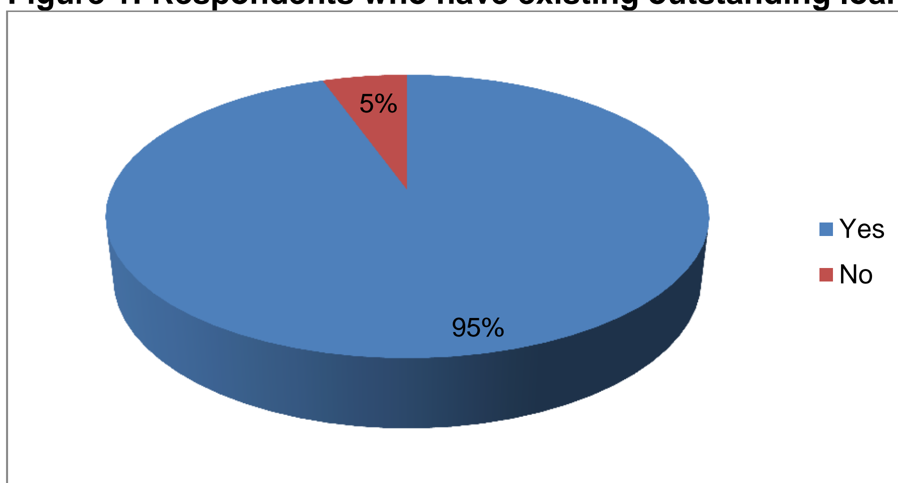
5.2.1 Existing Loan Profile of Sample

The sample consisted of 112 respondents, of whom 110 answered the question as to whether they were paying instalments towards an outstanding unsecured loan or not. Of those who responded to this question (110), 95% indicated that they were paying a loan and the other 5% were not. The results are illustrated in figure 1.

Table 1 Respondents who have existing outstanding loan instalments

Status of Loan Instalments				
Status of Loan Instalments	**Frequency**	**Percentage**	**Cumulative Frequency**	**Cumulative Percentage**
Have Current Outstanding Loan Instalments	**104**	**95%**	**104**	**95%**
Do not have outstanding loan instalments	**6**	**5%**	**110**	**5%**

Figure 1: Respondents who have existing outstanding loan instalments



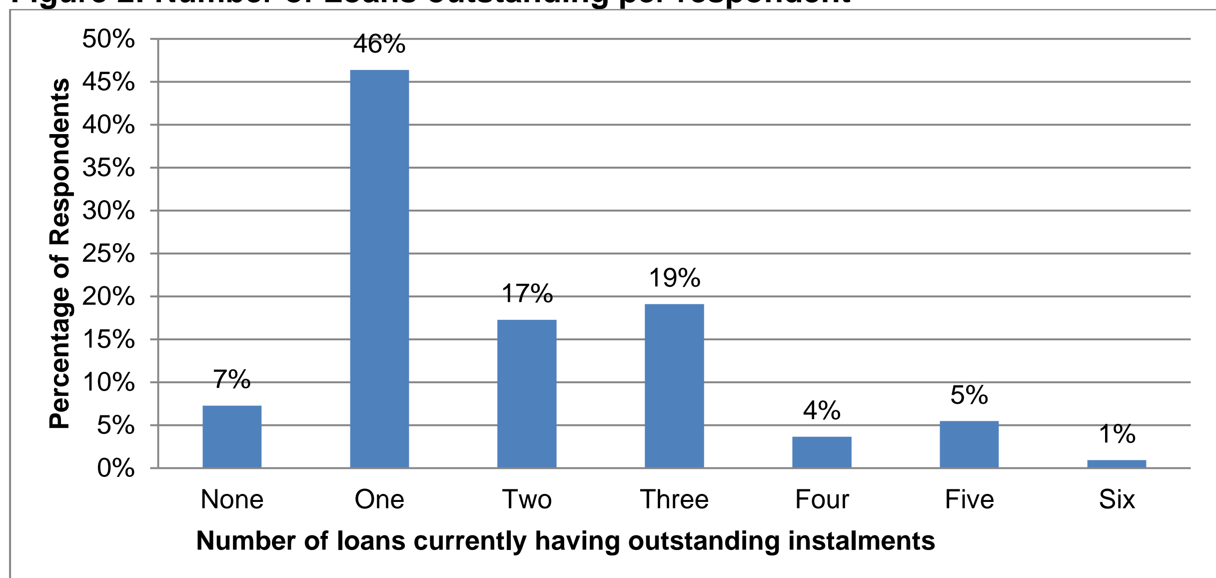
5.2.2 Profile of Number of loans outstanding per respondent

Almost half of those repaying loans (46%) were repaying one loan, 17% were repaying two loans, 19% three loans. There were however 7% who have loans but are currently not repaying any. The results are indicated in table 3 and figure 3 below.

Table 2: Number of Loans outstanding per respondent

Number of loans with outstanding instalments				
Number of Loans with Outstanding Instalments	Frequency	Percentage	Cumulative Frequency	Cumulative Percentage
None	8	7%	8	7%
One	52	46%	60	53%
Two	19	17%	79	70%
Three	22	20%	101	90%
Four	4	4%	105	94%
Five	6	5%	111	99%
Six	1	1%	112	100%

Figure 2: Number of Loans outstanding per respondent



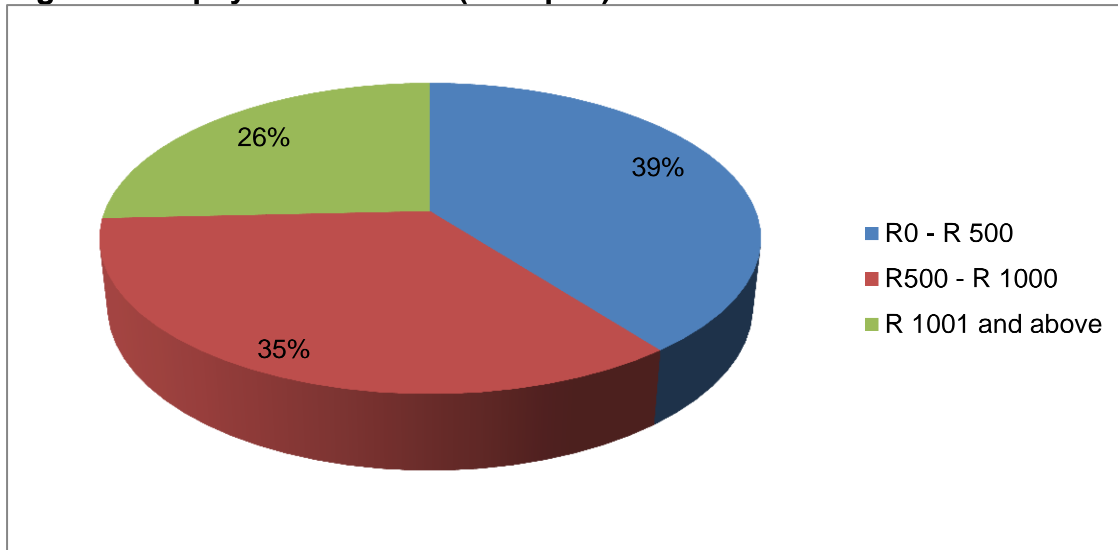
5.3.1 Profile of Amount repaying per month

39% of the respondents were repaying between 0 and R500 per month, 35% were repaying between R500 and R1000 per month and the other 26% were paying more than R1000 per month. The results are indicated in Figure 4.

Table 3: Repayment amount (Grouped)

Instalment Amount Repaying Monthly				
Instalment Amount Repaying Monthly	Frequency	Percentage	Cumulative Frequency	Cumulative Percentage
R0-R499	44	39%	44	39%
R500- R999	39	35%	83	74%
R1000 and above	29	26%	112	100%

Figure 3: Repayment amount (Grouped)



5.3.2 Average Monthly Payment Amount

The table below shows that the average monthly repayment amount is R964.38 with a standard deviation of R1079.14. The minimum repayment amount was R0 with the highest pegged at R5 917.00.

Table 4

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
How much is your monthly spend on loan repaying	101	R0	R5 915	R 964.38	R 1079.14

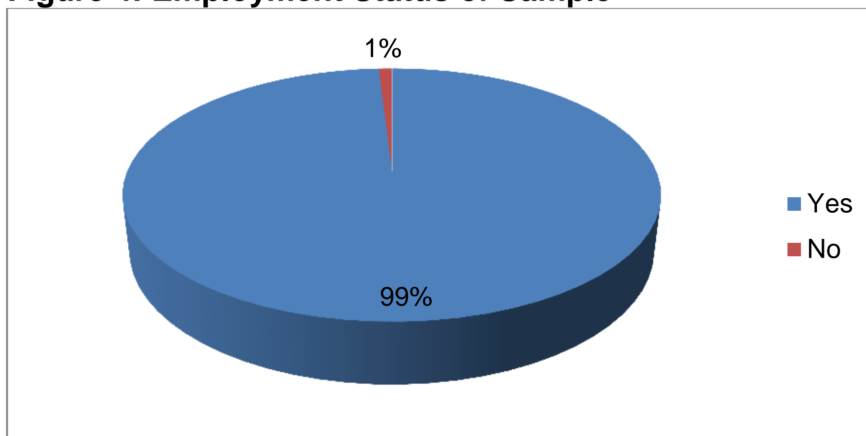
5.4 Employment Profile of Respondents

104 respondents indicated their employment status. Of the 104 who indicated their employment status, almost all (99%) were employed and only 1% of respondents were not employed. The employment status is a factor that could affect one's subjective feelings toward their financial wellbeing. The relevance of distinguishing between those employed versus those who aren't is thus justified.

Table 5: Employment Status of Sample

Employment Status				
Employment Status	**Frequency**	**Percentage**	**Cumulative Frequency**	**Cumulative Percentage**
Employed	**103**	**99%**	**103**	**99%**
Unemployed	**1**	**1%**	**1**	**1%**

Figure 4: Employment Status of Sample



5.5 Presenting results of the IFDFW Scale

5.5.1 Reliability

Cronbach's Alpha, as discussed in chapter 4 was used here to test the reliability of the results. The alpha value was 0.461, which was lower that the acceptable minimum value of 0.5. The removal of Question 5 (How often does this happen to you? You want to go out to eat, go to a movie or do something else and don't go because you can't afford to?), from the scale however it indicates that the alpha value would increase to 0.576. The variable was removed and the Cronbach's alpha was re-run without question 5. Thus, there was no internal consistency on the scale for motivation.

Table 6

Reliability Statistics	
Cronbach's Alpha	N of Items
.461	7

Table 7

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Question1	38.265	72.989	.301	.386
Question2	38.451	68.844	.395	.342
Question3	39.304	71.224	.425	.343
Question4	39.245	84.603	.041	.493
Question5	39.520	66.668	.061	.576
Question6	39.069	77.154	.254	.411
Question7	38.029	77.356	.260	.409

5.5.2 Cronbach's Alpha Re-run after Removing Question 5

Although the Cronbach's Alpha value of 0.569 was now above the minimum acceptable value, at 0.569, the removal of Question 4 (How confident are you that you could find the money to pay for a financial emergency that costs about R5,000?) from the scale would improve the alpha value from 0.569 to 0.633. Question 4 was removed and the Cronbach's alpha re-run without questions 4 and 5.

Table 8

Reliability Statistics	
Cronbach's Alpha	N of Items
.569	6

Table 9

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Question1	32.415	48.855	.282	.536
Question2	32.538	42.003	.501	.425
Question3	33.396	47.632	.415	.479
Question4	33.368	57.244	.054	.633
Question6	33.189	49.831	.322	.518
Question7	32.123	50.356	.321	.519

5.5.3 Cronbach's Alpha Re-run after Removing Question 4 and Question 5

The Cronbach's Alpha improved to 0.626 after the removal of question 4 and question 5. It can be noted from the tables below that removal of any other question will worsen the Cronbach's Alpha and hence no other question was removed.

Table 10

Reliability Statistics	
Cronbach's Alpha	N of Items
.626	5

Table 11

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Question1	26.426	38.864	.355	.586
Question2	26.509	33.243	.566	.465
Question3	27.352	41.520	.351	.586
Question6	27.185	42.377	.304	.608
Question7	26.157	42.171	.330	.596

Factor analysis was conducted to assess the dimensionality of the construct. The results are indicated below;

Table 12

Component Matrix	
	Factor Loading
Question1: What do you feel is the level of your financial stress today?	.624
Question2: How do you feel about your current financial situation	.806
Question3: How do you feel about your current financial situation	.595
Question6: How often does this happen to you? You want to go out to eat, go to a movie or do something else and don't go because you can't afford to?	.541
Question7: How frequently do you find yourself just getting by financially and living paycheck to paycheck?	.578

Extraction Method: Principal Component Analysis.

All the retained 5 questions had high factor loading (above 0.5) and were retained in one factor.

5.4 Summated Scale

A summated scale was constructed by finding the mean of the 5 questions that were retained within the construct. The mean IFDFW Scale was 6.68 with a standard deviation of 1.494.

Table 13

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
IFDFW Scale	112	1.00	9.20	6.68	1.494

5.5 Hypothesis Testing

5.5.1 Consumers of unsecured lending have lower Incharge Financial Distress/Financial Wellbeing scale (IFDFW) compared to those who do not make use of this source of finance

The results are shown below:

Table 14
Results for Hypothesis 1:

Group Statistics					t-test for Equality of Means	
	Is the is loan unsure	N	Mean	Std. Deviation	Sig.	One Tailed P-Value
IFDFW Scale	Yes	24	6.06	2.01	-2.325	.011
	No	86	6.86	1.30		

The results reveal that the IFDFW Scale for respondents using unsecured sources of finance (6.06) were significantly lower than those using secured sources (6.86). This is because the p-value of the t-test (p-value = 0.011) is lower than 0.05 (the significance level).

5.5.2 Hypothesis 2: Consumers of unsecured loans that have multiple instalments outstanding have lower Incharge Financial Distress/Financial Wellbeing scale (IFDFW) compared to other respondents

The results are shown below:

Table 15
Results for Hypothesis 2:

Group Statistics					t-test for Equality of Means	
	Unsecured and Multiple	N	Mean	Std. Deviation	Sig.	One Tailed P-Value
IFDFW Scale	Yes	12	5.68	1.289	-2.496	.007
	No	98	6.81	1.492		

The results reveal that the IFDFW Scale for respondents using unsecured sources of finance and having multiple instalments outstanding (5.68) were significantly lower than for those using secured sources or have one instalment or both (6.81). This is because the p-value of the t-test (p-value = 0.007) is lower than 0.05 (the significance level). Thus the null hypothesis is rejected and it is concluded that those who use unsecured finance that have multiple instalments outstanding have a lower Incharge Financial Distress/Financial Wellbeing scale (IFDFW) compared to other respondents.

5.5.3 Hypothesis 3: Incharge Financial Distress/Financial Wellbeing scale (IFDFW) depends on the repayment instalments

Table 16
Results for Hypothesis 3:

Descriptives			
IFDFW Scale			
	N	Mean	Std. Deviation
R0 - R 500	40	7.27	1.109
R500 - R 1000	35	6.65	.998
R 1001 +	26	5.67	1.916
Total	101	6.64	1.463

The mean IFDFW score is increasing as the repayment amount is decreasing. This indicates that those with low monthly repayment amounts have higher financial distress/higher financial wellbeing. The ANOVA table below tests the hypothesis that these differences in IFDFW scores are significant or not.

Table 17

ANOVA					
IFDFW_Scale					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	40.382	2	20.191	11.400	.000
Within Groups	173.572	98	1.771		
Total	213.953	100			

The p-value of the F test in the ANOVA was less than 0.05. The multiple comparisons below indicate where the differences lie.

Table 18

Multiple Comparisons					
Dependent Variable: IFDFW_Scale LSD					
(I) Monthly Repayment	(J) Monthly Repayment	Mean Difference (I-J)	Two tailed P-Value	95% Confidence Interval	
				Lower Bound	Upper Bound
R0 - R 500	R500 - R 1000	.61857*	.047	.0073	1.2298
	R 1001 +	1.60077*	.000	.9355	2.2661
R500 - R 1000	R0 - R 500	-.61857*	.047	-1.2298	-.0073
	R 1001 +	.98220*	.005	.2984	1.6660
R 1001 +	R0 - R 500	-1.60077*	.000	-2.2661	-.9355
	R500 - R 1000	-.98220*	.005	-1.6660	-.2984
*. The mean difference is significant at the 0.05 level.					

Conclusion of Results

Chapter 5 presented the results for each of the research hypotheses. The research sample details were presented and the sample profiles were also briefly described. A detailed discussion around the results will be conducted in Chapter 6

Chapter 6: Discussion of Results

6.1 Introduction

In this chapter the results as presented in Chapter 5 will be discussed. The discussion will be presented in light of the literature review from Chapter 2 as well as the research objectives in Chapter 3. The research Hypotheses will be discussed in separate sections.

The results from the questionnaire that have been presented in Chapter 5 are central for the purposes of this study as this allowed the researcher to perform both descriptive statistics as well as inferential statistics. Descriptive statistics allow a researcher to describe or summarise their data for a study to include the sample size, mean, percentage and a range of scores on a study measure. Inferential statistics are used to assist a researcher in making statistical inferences, which is to draw conclusions about the data (Albright et al., 2009). Most of this chapter will focus on presenting the results of inferential statistics used for the above data.

6.2. Cronbach's Alpha for the IFDFW Scale

The purpose of testing the reliability of the theories or categories in this instance was to guarantee that we measure what we intend to measure, with the results being both dependable and valid. The Cronbach Alpha test was used to measure reliability of the data obtained for each hypothesis. Item analysis is conducted to measure the reliability of the data obtained and to assess the reliability of the different dimensions or constructs in the questionnaire via Cronbach Alpha values. The reliability of the items that constitute a construct (or factor) were tested for internal consistency using the Cronbach Alpha test. According to Taras, Rowney and Steel (2009, p. 368), "a Cronbach's Alpha value ranges from 0.41 to 0.94."

Table 3 on page 34 in Chapter 5 revealed that, while the questionnaire aimed to determine the financial wellbeing of consumers by making use of the IFDFW scale, the following two questions did not appear to be as reliable;

- How confident are you that you could find the money to pay for a financial emergency that costs about R5,000? And,
- How often does this happen to you? You want to go out to eat, go to a movie or do something else and don't go because you can't afford to?

The questionnaire was however completed in full and these two questions were only omitted once their lack of reliability was determined, thus allowing the Cronbach Alpha to be of an acceptable score of 0.626 which is higher than the 0.6 required cut-off. The construct was therefore considered to be viable and reliable.

6.3 The Mean for the IFDFW

A summated scale was constructed by finding the mean of the 5 questions that were retained within the construct. The mean IFDFW Scale was 6.68 with a standard deviation of 1.494.

6.4 Research Hypothesis 1

The primary objective of Research Hypothesis 1 was to investigate the relationship between the use of unsecured lending and the financial wellbeing of consumers of unsecured lending. In order to achieve this objective an evaluation of the subjective feelings of consumers towards their own financial wellbeing was measured through the use of the IFDFW scale.

The null hypothesis stated that there is no difference between the financial wellbeing of consumers (measured by the IFDFW scale) of unsecured lending and the financial wellbeing of those who do not participate in the consumption of unsecured loans. The alternative hypothesis stated that the financial wellbeing of consumers of unsecured lending is greater.

Null hypothesis ($\mathrm{H_0}$): The mean IFDFW score is equal for those using unsecured finance and those not using unsecured finance ($\mu_{\mathrm{Unsecured}} = \mu_{\mathrm{Secured}}$).

Alternative hypothesis ($\mathrm{H_1}$): The mean IFDFW score for those using unsecured finance is lower than that of the respondents not using unsecured finance ($\mu_{\mathrm{Unsecured}} < \mu_{\mathrm{Secured}}$).

The research findings are summarised and discussed below.

Consumers of unsecured lending have lower Incharge Financial Distress/Financial Wellbeing scale (IFDFW) compared to those who do not make use of this source of finance. The null hypothesis is rejected if the p-value of the t-test is less than 0.05 (the significance level).

The results reveal that the IFDFW Scale for respondents using unsecured sources of finance (6.06) was significantly lower than for those using secured sources (6.86). This is because the p-value of the t-test (p-value = 0.011) is lower than 0.05 (the significance level). Thus the null hypothesis is rejected and it is concluded that those who use unsecured finance have

lower Financial Distress/Financial Wellbeing scale (IFDFW) than those who do not make use of unsecured lending.

6.4.1 Hypothesis 1 Conclusions

The objective of Hypothesis 1 was to investigate the relationship between consumers of unsecured lending and their financial wellbeing and to compare this relationship to individuals who had not made use of unsecured loans previously. In order to achieve this objective an evaluation (making use of the IFDFW scale) was conducted. The results indicated that those individuals who had previously made use of unsecured lending as a means of finance had a higher IFDFW score and hence viewed their personal financial wellbeing in a significantly healthier light than those who had previously never made use of unsecured lending.

Whilst the literature on this topic is extensive it remained fairly conflicting and the question as to how access to finance affects the financial wellbeing of the consumer had previously not been adequately dealt with (Korten, 2011). The above results contradict the opinions of Brennan & Gallagher, (2007) who are of the belief that unsecured lending has a negative impact on the financial wellbeing of consumers, as consumers are unable to manage their borrowing effectively and as a consequence of the ease of access to credit, often fall into over-indebtedness.

There is a vast amount of literature presented in this study which highlighted the benefits of inclusion. This first hypothesis corroborates the evidence presented in Becchetti & Conzo, (2013) who said that by rescuing from exclusion, the uncollateralized, underprivileged borrowers, they are significantly and positively affecting the dignity, social recognition and self-esteem of these consumers, not to mention the future economic opportunities that an “improved” financial wellbeing may give rise to.

Unsecured lending has been seen by many as the protagonist for an inclusive financial system. The result of this hypothesis is further reinforced by Hudon (2009) who argued that access to credit benefits amongst other things, the improved welfare of a nation’s citizens and the European Microfinance Network, (2013) who contended that financial exclusion may result in many undesirable outcomes which may exclude individuals from accessing vital services or even finding employment. This perspective has been strongly supported by governments throughout the world who have argued that increased access to financial services has a direct impact on the improvement of the macro economy (Malhotra, Chen, Criscuolo, Fan, Hamel & Savchenko , 2006).

6.5 Hypothesis 2:

The primary objective of Research Hypothesis 2 was to investigate the relationship between consumers of multiple unsecured loans and the financial wellbeing of consumers of unsecured lending. In order to achieve this objective an evaluation of the subjective feelings of consumers towards their own financial wellbeing was measured through the use of the IFDFW scale.

The null hypothesis stated that there is no difference between the financial wellbeing of consumers (measured by the IFDFW scale) of multiple unsecured loans and the financial wellbeing of those who do not have multiple unsecured loans. The alternative hypothesis stated that the financial wellbeing of consumers of multiple unsecured lending is greater than the financial wellbeing of consumers who do not have multiple unsecured loans.

Null hypothesis (H_0): The mean IFDFW score is equal for those using unsecured finance and paying multiple instalments to that of other respondents ($\mu_{\text{Unsecured and Multiple instalments}} = \mu_{\text{Other}}$).

Alternative hypothesis (H_1): The mean IFDFW score for those using unsecured finance and paying multiple instalments is lower than that of other respondents ($\mu_{\text{Unsecured and Multiple instalments}} < \mu_{\text{Other}}$).

The research findings are summarised and discussed below.

The results reveal that the IFDFW Scale for respondents using unsecured sources of finance and having multiple instalments outstanding (5.68) was significantly lower than those using secured sources or having one instalment or both (6.81). This is because the p-value of the t-test (p-value = 0.007) is lower than 0.05 (the significance level). Thus the null hypothesis is rejected and it is concluded that those who use unsecured finance that have multiple instalments outstanding have a lower Incharge Financial Distress/Financial Wellbeing scale (IFDFW) compared to other respondents.

6.5.1Hypothesis 2 Conclusions

The objective of Hypothesis 2 was to investigate the relationship between consumers of multiple unsecured loans and their financial wellbeing and to compare this relationship to individuals who had not made use of multiple unsecured loans. In order to achieve this objective an evaluation (making use of the IFDFW scale) had to be conducted. The results indicated that those individuals who had previously made use of multiple unsecured loans as

a means of finance had a higher IFDFW score and hence viewed their personal financial wellbeing in a significantly healthier light to those who had previously not made use of multiple unsecured loans.

These results agree with the literature presented by Compuscan Academy, (2013) that presented statistics which showed that only 44% of respondents were financially literate and had indicated that they were able to make a household budget. These negative effects are compounded by the lack of knowledge and understanding with so many consumers completely unaware of the predicament that they are faced with until they reach the point where they are unable to make the repayments and default. The same argument was brought to the fore in Mtyala, (2013) who said that most attempts to inform and coach consumers about credit are rejected by the consumer as they want loans and they want them as quickly as possible.

Unsecured loans have allowed individuals the opportunity to accumulate assets and exploit economic opportunities. With so many people struggling to make ends meet, the attraction of accessing multiple unsecured loans has gathered unbelievable momentum. The psychology of materialism and overspending which was raised in Garðarsdóttir & Dittmar, (2012) is clearly evident in the South African context and the results of this hypothesis conclude that consumers are happiest when their short term instant gratification needs are satisfied.

The turning point referred to in Mungadze (2013), where workers in many instances were parting with up to 40% of their earnings just to repay unsecured loans should not be discounted. Once these consumers defaulted, outrageous interest rates and fees followed. Economists have noted that the impact on borrowers unable to pay their debt will continue to cause social as well as political disarray. The respondents to the questionnaire conducted for this study were at an earlier stage in the borrowing cycle and thus have not yet reached the point of default. The social and political disarray referred to in Mungadze (2013) seems only to apply to those who have reached the point where they are either denied further loans or have realised the perilous financial situation they are confined to.

6.6 Hypothesis 3:

The primary objective of Research Hypothesis 3 was to investigate the relationship between the value of consumers' monthly repayments and their financial wellbeing. In order to achieve this objective an evaluation of the subjective feelings of consumers towards their own financial wellbeing was measured through the use of the IFDFW scale.

The null hypothesis stated that there is no difference between the financial wellbeing of consumers (measured by the IFDFW scale) who had varying monthly instalment values. The alternative hypothesis stated that the financial wellbeing of consumers with varying repayment values ensures the subjective view that a consumer's financial wellbeing differs.

Null hypothesis, H0: All respondents have the same IFDFW score irrespective of the monthly repayment amount.

Alternative hypothesis, H1: At least one category of repayment amount has a different IFDFW score.

The research findings are summarised and discussed below.

The mean IFDFW score is increasing as the repayment amount is decreasing. This indicates that those with low monthly repayment amounts have higher financial distress/higher financial wellbeing.

The results indicate that those with the highest repayment amounts (R 1001 +) had the lowest IFDFW scores which were significantly lower than those repaying R501 – R1000 and those repaying R500 and below (p-values of 0.005 and 0.00 respectively). Those repaying R501 – R1000 per month in turn have an IFDFW score that is significantly lower than that of individuals repaying R500 and below. This means that the higher the repayment amount, the lower the financial distress/higher financial wellbeing.

6.6.1 Hypothesis 3 Conclusions

The primary objective of Research Hypothesis 3 was to investigate the relationship between the value of a consumers monthly repayments and their financial wellbeing. In order to achieve this objective an evaluation of the subjective feelings of consumers towards their own financial wellbeing was measured through the use of the IFDFW scale.

Hypotheses 2 and 3 are very closely linked and the results are consistent with one another. These results confirm that consumers, who make greater use of unsecured loans and thus have higher repayment instalments, subjectively view their financial wellbeing in an improved light. This confirms the findings of Garðarsdóttir & Dittmar, (2012) and Mtyala, (2013).

Chapter 7: Conclusion

7.1 Introduction

The study evaluated the effect of unsecured lending on the financial wellbeing of consumers. This was achieved by answering the three research hypotheses which allowed the researcher to make the recommendations and conclusions that follows.

7.2 Research Findings

The first intended finding of this research was to identify if the financial wellbeing of consumers of unsecured loans was greater than individuals who had not consumed unsecured loans. The research found that access to unsecured lending has a positive impact on the subjective view of a consumer's financial wellbeing. The outcome of this confirmed the results found in Becchetti & Conzo, (2013). It was thought, based on prior research by Brennan & Gallagher, (2007) that the risk of over-indebtedness may have caused contradictory results however this did not materialize.

The second finding made by this study showed that borrowers who make use of multiple unsecured loans have a better opinion of their financial wellbeing than those who make use of one or less unsecured loans. The findings agree with Garðarsdóttir & Dittmar, (2012) as well as Mtyala (2013) in that borrowers remain in a bubble whilst they are accessing unsecured loans. The satisfaction of being able to access luxury's that previously were out of reach and the confidence in knowing that it would be possible to access funds if an emergency arose are factors driving a borrowers subjective interpretation of their financial wellbeing.

The third finding of this study showed that borrowers of unsecured loans with higher repayment instalments find their financial wellbeing to be better than those with lesser repayment instalments.

7.3 Recommendations to Stakeholders

Countries have a lot to benefit from an inclusive financial system. As described in the report unsecured lending plays a massive role in driving this fundamental economic requirement.

Unsecured lending plays a leading role in advancing the economic freedom of so many citizens, but it does so at a great risk.

Consumers must be educated regarding the risks of falling into a debt spiral. When money is borrowed to meet the instant gratification needs of consumers, the risks of over indebtedness increase. It would be unrealistic for lenders to be required to determine what the purpose of accepting a loan request is however it is imperative that consumers are educated about the inherent risks as well as clearly informed as to interest and other fees charged.

Whilst South Africa has some of the most progressive credit legislation in the world, certain principles are not strictly enforced by providers of credit. Unsecured lenders are able to make huge profits and as such must take on a greater responsibility in protecting consumers from spiralling out of control. Detailed credit checks and informing credit bureaus of every credit transaction will further improve the transparency between borrowers.

This research discovered that individuals who enter the borrowing cycle generate growing confidence regarding their financial wellbeing as they take on more loans. Policy makers must create and amplify the stigma of over-indebtedness which will serve to deter borrowers from over–extending themselves.

7.4 Limitations of this Research

This study has some limitations that warrant mentioning.

Firstly, the sample did not include individuals that do not have access to short term unsecured lending. If the sample would have been extended to include individuals who were not in the process of trying to access loans it may have eliminated a bias in favour of secured lending.

The second limitation was that the percentage of the respondent's salary going towards loan instalment repayments was not measured.

The third limitation was that a cross-sectional study was chosen due to the time frame given for this research. A longitudinal study would have assisted the researcher in comparing the results of respondents who previously did not have any unsecured loans to a point in time where they had made use of unsecured lending as a means of finance.

7.5 Recommendations for Future Research

Whilst this study has contributed to the body of knowledge on how unsecured lending affects the financial wellbeing of consumers, several limitations of the research were highlighted above in section 7.4.

Areas for future research are suggested below:

- A longitudinal study should be conducted to track and understand the consumer's interpretation of their financial wellbeing from the point of entering the borrowing cycle.
- The study should be conducted with an extended sample that includes individuals who do not have access to unsecured loans.
- Data should be gathered that accurately reflects the percentage of an individual's consumable expenditure being used to repay unsecured loans in order to give greater depth the results obtained through the use of the IFDFW model.

7.6 Concluding Statement

The main objective of this study was to determine the impact on the financial wellbeing of consumers of unsecured loans. In order to achieve this objective an evaluation of the subjective opinion of a borrower's financial wellbeing was conducted by making use of the IFDFW scale in answering the three Research Hypotheses It was found that those who make use of unsecured lending as a means of accessing finance have a better subjective view of their financial wellbeing than those who do not make use of unsecured lending, further, consumers who make use of multiple unsecured loans have an improved outlook with regard to their financial position than those who do not make use of multiple unsecured loans.

This study has provided a window into the impact of unsecured lending in South Africa. The literature showed that there are many differing views as to the impact of unsecured lending but what cannot be negated, is the importance of improved access to the financial system. There remains a vociferous public opinion against this form of lending which is having a great bearing on the behaviour of unsecured lenders. The major lenders are already tightening up their lending criteria and have announced increasing decline rates on unsecured loan applications in the lower market segments. With better education for

consumers and enhanced transparency between lenders, the benefits of unsecured lending will be further bolstered against the perils.

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Appendix

InCharge Financial Distress/Financial WellbeingScale©

Directions: Circle or check the responses that are most appropriate for your situation.

1. What do you feel is the level of your financial stress today?

1	2	3	4	5	6	7	8	9	10

Overwhelming Stress High Stress Low Stress No Stress at all

Dissatisfied

2. How do you feel about your current financial situation?

1	2	3	4	5	6	7	8	9	10

Feel Overwhelmed Sometimes Feel Overwhelmed Not Worried Feel Comfortable

3. How often do you worry about being able to meet normal monthly living expenses?

1	2	3	4	5	6	7	8	9	10

Worry all the Time Sometimes Worry Rarely Worry Never Worry

4. How confident are you that you could find the money to pay for a financial emergency that costs about R5,000?

1	2	3	4	5	6	7	8	9	10

No Confidence Little Confidence Some Confidence High Confidence

5. How often does this happen to you? You want to go out to eat, go to a movie or do something else and don't go because you can't afford to?

1	2	3	4	5	6	7	8	9	10

All the Time Sometimes Rarely Never

6. How frequently do you find yourself just getting by financially and living paycheck to paycheck?

1	2	3	4	5	6	7	8	9	10

All the Time Sometimes Rarely Never

7. How stressed do you feel about your personal finances in general?

1	2	3	4	5	6	7	8	9	10

Overwhelming Stress High Stress Low Stress No Stress at all