ANALYSING THE FINANCIAL NEEDS ADDRESSED BY SOUTH AFRICAN CONSUMERS WHEN USING CREDIT PRODUCTS

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Abstract

Individuals in South African are experiencing increasing financial stressed due to the deterioration in the economy and restrictions imposed by the National Credit Act, No. 43 of 2005. The paper investigates the financial needs addressed by users of credit products. Human needs are firstly classified according to Alderfer's ERG theory. Hereafter financial needs which individuals addressed when using credit products were analysed. The results indicate that consumers are also using credit products to address other financial needs than that for which the products were developed for. This could be partly due to the limitation in accessing appropriate credit products due to the requirements imposed by the credit legislation.

Keywords: South Africa, Credit Product, Alderfer's ERG Theory

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1. Introduction

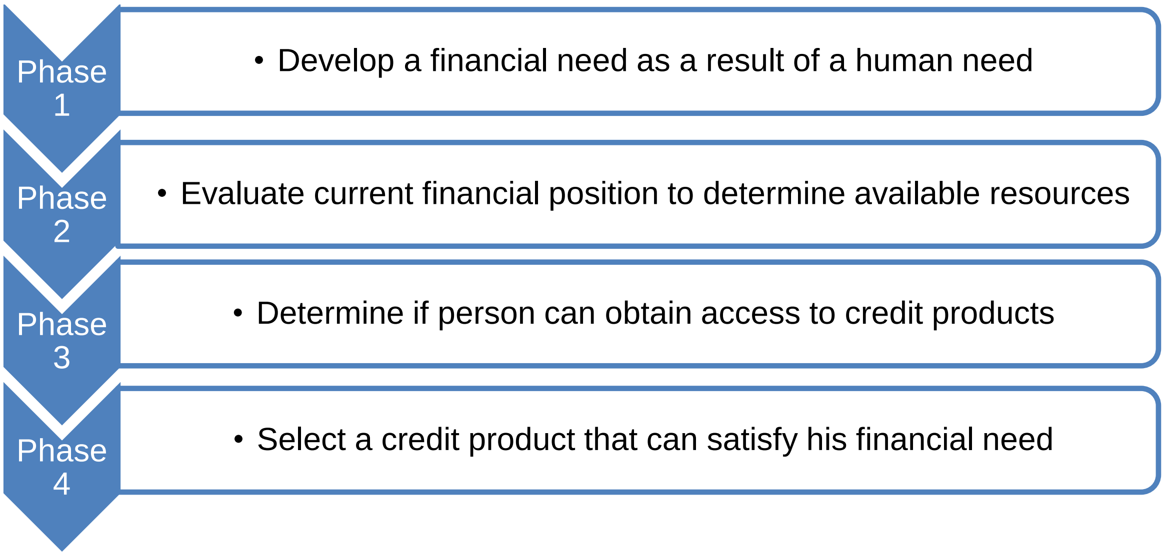
Recently there has been an increasing number of reports indicating growth in the financial stress of South African households and individuals (South African Reserve Bank, 2013; MBD Credit Solutions and Unisa Bureau of Market Research, 2013; Momentum and Unisa Bureau of Market Research, 2012). This trend is also evident from the household debt figure published by the South African Reserve Bank, which grew to R1 494 billion at the end of December 2012 compared to only R697 billion in 2005 (South African Reserve Bank, 2013). Although the household is an important contributor to economic growth, an increase in consumption expenditure and debt without a similar increase in income will have negative long term effects such as over-indebtedness, a decline in saving or bankruptcy and blacklisting of individuals (National Credit Regulator, 2012; Barba and Pivetti, 2009). Understanding credit usage behaviour of household members within the household will assist financial regulators in developing credit policies to prevent a financial crisis developing and providing an enabling environment within which credit products can be provided which meet the financial needs of individuals. Although some research has been done on the use of financial products by South Africans as well as reasons for using credit (South African Audience Research Foundation (SAARF), 2014; FinMark Trust, 2013) this study is the first to investigate which credit products are used when fulfilling different types of financial needs. In this paper the following research question will be investigated: "Do South Africans use credit products to fulfil financial needs as intended?"

The research method applied in the paper consists of two phases. During the first phase a critical literature review is conducted to describe financial needs with reference to the process of selecting credit products to fulfil these needs. In the second phase of the research a quantitative research approach was adopted. The findings are presented to determine whether individuals use appropriate credit products to satisfy specific financial needs.

2. The Process of Selecting Credit Products

The motives for using credit can be found in human needs (Goodall, Rossini, Botha and Geach, 2012). If credit is used to satisfy human needs and wants it is because the individual does not have sufficient resources to satisfy his needs immediately. The process of selecting a credit product to satisfy a specific need can be described by the credit products selection process (refer to figure 1).

Figure 1. Credit products selection process



The first phase of the credit product selection process is driven by the individuals in a household's human needs (Goodall *et al*, 2012; Maslow, 1943). In his theory of human motivation Maslow (1943) was the first to develop a framework describing human needs. In his theory he combined both emotional and physical needs to describe human behaviour. Maslow (1943) identified five different levels of needs. The first level refers to physiological needs, followed by safety and security needs, love and belonging needs, esteem needs and finally self-actualization needs. Through the decades various authors investigating the human needs and wants confirmed the work done by Maslow, for example Oleson (2004) and Seeley (1992). Although Maslow's theory of human motivation provided a sound theoretical framework it did pose some application problems; many of these were resolved by Alderfer when he developed his ERG theory (Alderfer, 1969).

Alderfer combined Maslow's five levels of needs into three levels, namely existence needs, relatedness needs and growth needs. Existence needs consist of material and physiological needs which include primary needs such as the need to eat and drink, to be clothed, to be safe and sheltered as well as the need for physical love and affection (Alderfer, 1969; Ball, 2012). Relatedness needs consist of secondary needs which involve the feeling of being recognised and secure and forming part of significant relationships with others such as family and friends, colleagues and employers (Alderfer, 1969). Examples of relatedness needs include entertainment needs, family and friends needs or communication needs. Growth needs are secondary needs related to the desire to develop oneself to become better (Alderfer, 1969). Growth needs, for example, include educational needs or the need to own one's own business. In order to satisfy these needs individuals normally have to make use of some service or buy some goods. This results in a financial need, as the individual has to determine how he will pay for the need.

The second phase in the credit products selection process entails considering the individual's financial position. If an individual possesses enough assets (savings) such as cash in the bank or investment accounts, the individual can withdraw cash from his assets to fulfil his financial needs (Barba and Pivetti, 2009; Goodall *et al*, 2012). Individuals, who do not possess the necessary cash resources and do not want to wait to satisfy the needs, often use credit to satisfy their needs (Barba and Pivetti, 2009; Mashigo, 2006; Botha, du Preez, Geach, Goodall and Rossini, 2011). To this end certain credit products are specifically tailored to satisfy certain types of needs.

If the individual decides to use credit, he is confronted with the third phase in the process, namely determining if he can obtain access to credit. Previous studies identified that factors such as access to credit and demographic characteristics such as life stages, income, race, gender, and employment status, have an influence on the individual's decision whether or not to use credit (Finscope, 2010; Tippett, 2010; Schooley and Worden, 2010; Brown, Garino and Taylor, 2008; Thums, Newman and Xiao, 2008; Lee, Lown and Sharpe, 2007; Venter and Stedall, 2010; Yilmazer and DeVaney, 2005;).

If the individual has access to credit products the final phase in the process is to determine which product to use. Although the majority of credit products in South Africa was developed to satisfy specific needs the financial stress or over-indebtedness of households could result in individuals using financial products to satisfy needs other than those originally intended. The next section of the paper will investigate the characteristics of credit products to identify the financial needs that should be addressed by the credit product.

3. Financial Needs Satisfied By Credit Products

South Africa has a highly developed financial system (International Monetary Fund, 2008). Despite the existence of numerous credit products, financial institutions are constantly developing new credit products to meet customer needs. To facilitate an analysis of the large number of credit products available, some with similar characteristics but different names, various organisations developed classification frameworks.

The South African Reserve Bank classifies debt, according to the System of National Accounts (SNA), as long term products (credit repayable over a period of more than 12 months) or short term products (products that should be repaid within one year) (United Nations Statistical Commission, 2009). The National Credit Regulator classifies credit products as secured or unsecured credit products (products for which no pledge or personal security is provided) (South Africa, 2006: Regulation 39(3)). Finscope (which conducts annual banking and financial surveys) classifies credit products as informal products (obtained from non-regulated financial institutions) or formal products (obtained from banks or regulated non-banking financial institutions) (Finscope, 2010). Similarly the System of National Accounts, the International Accounting Standards Board, classifies credit products as non-current liabilities (long term) or current (short term) credit products (International Financial Reporting Standards, 2010). By using these classifications credit products can be classified in different groups as formal or informal products, secured or unsecured products, or long and short term products.

In this paper credit products with similar characteristics have been grouped together for analysis purposes. Table 1 provides the main credit product groups as well as a list of the types of products included in the group.

Table 1. Credit product groups

Main credit product groups	Credit products in each main group
Group 1 Informal unsecured short term loans	• Friends, family or colleagues • Loans from spaza shops
Group 2 Informal secured long term loans	• Payday loans • Loans from pawnbrokers
Group 3 Informal unsecured long or short term loans	• Loans from a mashonisa • Loans from societies
Group 4 Formal unsecured short term loans	• Micro-loans • Store cards and garage cards • Credit cards • Overdraft facilities • Emergency loans
Group 5 Formal unsecured long term loans	• Store loans • Personal loans • Educational loans
Group 6 Formal secured long term loans	• Loans against policies • Instalments or lease agreements • Property mortgage loans

The characteristics of the credit products within each main credit product group indicate the purpose of the individual products for example a short term credit product is often used to satisfy a short term financial need normally associated with short term existence needs.

Applying Alderfer's ERG theory to the characteristics of the products in each of the groups the expected need(s) that should be addressed by each of the groups can be identified:

- Informal unsecured short term loans are mainly used to satisfy existence needs as they consist of loans obtained from friends, family or colleagues and spaza shops which are all used to fulfil primary needs. Loans from family, friends or colleagues are usually used to satisfy food, transport, electricity or medical needs (Finscope, 2010). Similarly loans from spaza shops are also used to buy small household items (Spaza News, 2012). This group is therefore classified as satisfy existence needs.
- Informal secured long term loans are mainly used to fulfil existence needs in terms of Alderfer's ERG theory. This loan group consists of payday loans which are mainly used to satisfy primary needs and in most cases loans from pawnbrokers are also used to fulfil primary needs. This group can therefore be classified to fulfil existence needs in terms of Alderfer's ERG theory.
- Informal unsecured long or short term loans are often used to satisfy all three levels of needs in Alderfer's ERG theory as both loans from mashonisas and loans from societies are used to fulfil several needs, for example needs related to emergencies, home improvements, education, business expenses or repayment of debt (Micro Finance South Africa, 2012; Finscope, 2010). This group is therefore

classified as used to satisfy all three levels in Alderfer's ERG theory.

- Formal unsecured short term loans mainly include products which are used to satisfy primary needs. For example, credit cards are often used to pay for food and garage cards to pay for transport expenses (Goodall *et al* 2012; Standard Bank, 2012a). This credit product group is therefore used to satisfy existence needs in terms of Alderfer's ERG theory.
- Formal unsecured long term loans are used to satisfy different types of needs. The loans in this group are used at the user's own discretion as the need arises and therefore do not relate to one specific need (Goodall, *et al* 2012). This group is therefore classified as satisfying all three levels of needs in Alderfer's ERG theory.
- Formal secured long term loans include property mortgage loans and instalment and lease agreements which are usually used to satisfy long term primary needs such as housing and transportation (Investec, 2012; Standard Bank, 2012b). This credit product group is therefore classified to fulfil existence needs in Alderfer's ERG theory.

A summary of the classification of the main credit product groups according to Alderfer's ERG theory is presented in table 2.

Table 2. Main credit product groups classified according to Alderfer's ERG theory

Main credit product group	Classification according to Alderfer's ERG theory
Group 1 Informal unsecured short term loans	Existence needs
Group 2 Informal secured long term loans	Existence needs
Group 3 Informal unsecured long or short term loans	Existence needs Relatedness needs Growth needs
Group 4 Formal unsecured short term loans	Existence needs
Group 5 Formal unsecured long term loans	Existence needs Relatedness needs Growth needs
Group 6 Formal secured long term loans	Existence needs

The objective of this paper is to compare the actual needs that are being addressed by the credit products used by individuals to the needs they were developed for. The reasons provided by respondents were classified as existence, relatedness or growth needs; refer to table 3 below.

Table 3. A framework of financial needs

Alderfer's ERG theory	Different needs for each category of Alderfer's ERG theory
Existence needs	Food Utilities (water) Clothes Shelter (house) Transportation (including buying a motor vehicle) Utilities (electricity) Medical insurance Life insurance Disability insurance Funeral expenses Emergencies Personal care (beauty or barbershop, cosmetics) Household furnishings
Relatedness needs	Utilities (telephone, television, internet) Entertainment (movies, hobbies, sports club) Family and friends Contributions (gifts, school, church) Accessories (designer jewellery, shoes, handbags)
Growth needs	Education Going on vacations

(Source: Xiao and Noring, 1994; Garman and Fogue, 2010)

4. Methodology

To answer the research question of this study, the latest data available for academic purposes which were obtained in the Finscope 2010 survey were used. The survey was performed nationwide by performing face-to-face interviews using a semi-structured questionnaire. The data in the survey was collected by 278 trained interviewers interviewing 3 900 randomly selected respondents of 16 years and older. Regional supervisors quality checked the responses received from respondents before the data was scanned and exported into an electronic format. The coding of data was performed by a panel of experts. Applicable ethical standards were followed during the collection and analysis of data. Table 4 provides an overview of the profile of respondents that participated in the survey, as well as respondents that indicated that they are currently using or had in the past made use of debt.

Table 4. Demographics profile of respondents of sample

Demographic variable*	Total sample N	Debt users N	Debt users distribution **
Sample	3 900	1 729	
Age ***			
16 – 17	135	20	1.16%
18 – 29	1 195	444	25.81%
30 – 44	1 270	632	36.75%
45 – 59	776	402	23.37%
60+	511	222	12.91%
Marital status			
Married civil/religious	1 026	578	33.45%
Married traditional/ customary	308	158	9.14%
Living together	262	125	7.23%
Single/never married	1 727	614	35.53%
Widower/widow	380	158	9.15%
Separated	92	42	2.43%
Divorced	104	53	3.07%
Province			
Eastern Cape	499	217	12.55%
Free State	372	132	7.63%
Gauteng	636	354	20.48%
KwaZulu-Natal	624	295	17.06%
Limpopo	292	92	5.32%
Mpumalanga	336	95	5.50%
Northern Cape	259	123	7.11%
North West	327	114	6.59%
Western Cape	555	307	17.76%
Monthly personal income			
No income	561	155	11.19%
Irregular monthly income	426	148	10.69%
R1 – R999	531	204	14.73%
R1 000 – R1 999	684	269	19.42%
R2 000 – R3 999	314	161	11.62%
R4 000 – R6 999	283	157	11.34%
R7 000 – R9 999	187	117	8.45%
R10 000 – R14 499	123	88	6.35%
R14 500 – R19 499	57	32	2.31%
R19 500+	67	54	3.9%

** Excluding refusals/uncertainties*
*** % calculated based on the number of credit users*
**** Continuous variable categorized for reporting purposes*

Of the 3 900 respondents, 1 729 respondents indicated that they had used credit products in the past or were currently using credit products. Table 5 presents the number of each credit products used by respondents. It should be noted that most respondents used more than one credit product, with 18 using 7 or more different credit products.

Table 5. Credit products used when fulfilling needs

Credit products used to fulfil needs	Number of times the credit product was used
Informal unsecured short term loans	**1 217**
Friends, family or colleagues	1 083
Loans from spaza shops	134
Informal secured long term loans	**141**
Payday loans	130
Loans from pawnbrokers	11
Informal unsecured long or short term loans	**245**
Loans from a mashonisa	125
Loans from societies	120
Formal unsecured short term loans	**556**
Credit card	398
Garage card	158
Formal unsecured long term loans	**530**
Personal loans	478
Store loans	52
Formal secured long term loans	**745**
Instalment or lease agreements	376
Property mortgage loans	369

5. Results and Findings

Respondents were required to indicate which credit products they used to fulfil certain types of needs. Table 6 indicates the needs satisfied by each of the credit products used by respondents. The needs for which each product is used are provided according to Alderfer's ERG theory.

Table 6. Needs satisfied per credit product group

Credit product group and type	Existence needs	Related-ness needs	Growth needs	Total
Informal unsecured short term loans	**70%**	**15%**	**15%**	**100%**
Friends, family and colleagues	69%	15%	16%	100%
Loans from spaza shops	78%	11%	10%	100%
Informal secured long term loans	**65%**	**14%**	**21%**	**100%**
Payday loans	64%	14%	22%	100%
Loans from pawnbrokers	70%	15%	15%	100%
Informal unsecured long or short term loans	**59%**	**19%**	**22%**	**100%**
Loans from mashonisa	64%	17%	19%	100%
Loans from societies	53%	21%	26%	100%
Formal unsecured short term loans	**67%**	**17%**	**16%**	**100%**
Credit cards	60%	21%	19%	100%
Garage cards	83%	9%	8%	100%
Formal unsecured long term loans	**49%**	**21%**	**30%**	**100%**
Store loans	60%	21%	19%	100%
Personal loans	48%	21%	31%	100%
Formal secured long term loans	**88%**	**6%**	**6%**	**100%**
Instalment or lease agreements	90%	5%	5%	100%
Property mortgage loans	86%	7%	7%	100%

As can be seen in table 6 credit products are used to satisfy the three levels of needs in Alderfer's ERG theory. The analysis reveals that credit products are mostly used to fulfil existence needs confirming other research indicating that individuals do not possess enough cash resources to fulfil their basic needs (South African Reserve Bank, 2013). To get an understanding of whether individuals are using the credit products to satisfy the needs they were developed for, the needs satisfied by each product group were analysed based on the framework of financial needs (table 3).

- ***Informal unsecured short term loans***

In line with the expectation, informal unsecured short term loans are mainly used to fulfil existence needs. Although both credit products in the group have similar characteristics and are mainly used to satisfy existence needs, some credit usage differences exist. For example, loans from spaza shops are used to fulfil more existence needs and less growth needs when compared to loans from friends, family and colleagues. When analysing the difference in credit usage between the credit products in the group it is clear that the majority of credit of loans from spaza shops is used to satisfy food and grocery needs whilst loans from family, friends and colleagues is used to satisfy more types of needs. Other differences between the two credit products include a lower credit usage to pay for existing debt and a higher credit usage to satisfy personal and transport needs when using loans from friends, family and colleagues compared to loans from spaza shops.

- ***Informal secured long term loans***

Consistent with the expectation, informal secured long term loans are mainly used for the fulfilment of existence needs. However, the types of credit usage among the products in the group differ from each other in that the credit usage to fulfil existence needs is higher when using loans from pawnbrokers and lower when satisfying growth needs compared to payday loans. One of the reasons for the difference in credit usage is that payday loans are used to fulfil more types of needs across Alderfer's three levels of needs. Loans from pawnbrokers are mainly used to satisfy personal and food and grocery needs. Although these needs are also fulfilled when using payday loans, a smaller portion of credit is used as more credit is used to pay for existing debt and educational needs when compared to loans from pawnbrokers.

- ***Informal unsecured long or short term loans***

The credit usage spread of informal unsecured long or short term loans differs from most other credit product groups. The expectation exists that this credit product group is used to fulfil all three levels of needs in Alderfer's ERG theory. Although products in this group are mainly used to fulfil existence needs, the credit usage to fulfil the other levels of needs seems higher than the credit usage in most other credit product groups.

When analysing credit usage among the products within the group, less credit from loans from societies is used to fulfil existence needs with a slightly higher credit usage when satisfying relatedness and growth needs. Although credit used from loans from mashonisas and societies fulfil needs similarly, respondents use loans from mashonisas to satisfy more food and grocery and electricity needs which explains the higher credit usage for gratification of existence needs. A higher percentage of personal needs is fulfilled by loans from societies with some differences in gratification of business expense needs, educational needs and family and friends needs, therefore explaining the higher credit usage when fulfilling needs in the relatedness and growth needs levels.

- ***Formal unsecured short term loans***

Consistent with expectations, formal unsecured short term loans are mostly used to fulfil existence needs with a smaller percentage used to satisfy the other levels of needs. When analysing the credit usage of the products in this group it is clear that a different credit usage pattern exists between the products. Credit from garage cards is mainly used to fulfil existence needs while credit usage from credit cards is used to fulfil all three levels of needs. In line with the product's intended use, garage cards are mainly used to satisfy transport needs thereby explaining the higher gratification of existence needs. Credit usage from credit cards is more widely spread to satisfy different types of needs, especially personal needs, to buy goods and to pay for existing debt. Interestingly, less than a tenth of credit is used to fulfil food and grocery needs when using credit cards, explaining the lower gratification of existence needs.

- ***Formal unsecured long term loans***

The expectation exists that formal unsecured long term loans should be used to fulfil all three levels of needs in Alderfer's ERG theory. When compared to other credit product groups, formal unsecured long term loans have a very different credit usage allocation. Even though most credit is used to satisfy existence needs, a higher percentage of credit is used to satisfy the other two need levels. This is in line with the expectation that credit in this credit product group should be spread across all three levels. Notable credit usage differences exist when comparing the two credit products in the group. Store loans have a much higher credit usage when fulfilling existence needs with a lower gratification of growth needs compared to personal loans. Personal loans have a bigger credit usage spread across the different levels which is consistent with the expectation that loans in this group should be used to fulfil all the need levels. When analysing the needs satisfied by each credit product, it is clear that products are used to satisfy needs differently. Store loans are mainly used to satisfy personal and clothing needs, to pay for existing debt and to purchase goods. Personal loans are mainly used to satisfy personal needs while a small percentage of credit is also used to satisfy housing needs, to pay for existing debt and to satisfy educational and transport needs.

- ***Formal secured long term loans***

The credit usage pattern of formal unsecured long term loans differs extensively when compared to other credit product groups. This credit product group consists of instalment or lease agreements and property mortgage loans and therefore it is expected that loans in this credit product group should be used to satisfy existence needs, especially housing and transport needs. Consistent with the expectation, respondents indicated that they mainly use this credit product group to fulfil existence needs. This group also has the highest credit usage to satisfy existence needs compared to the other credit product groups. Credit products in this group satisfy Alderfer's levels of needs very similarly. In line with each product's intended use, the majority of credit from instalment or lease agreements is used to fulfil transport needs while the majority of credit from property mortgage loans is used to fulfil housing needs. The needs satisfied by each product are long term needs and therefore it is expected that long term credit products should be used to satisfy these types of needs.

Concluding Remarks

In this study the human needs that are satisfied through the use of different credit product groups have been investigated. Although most credit products are developed to address specific financial needs of customers, the findings indicate that some products are used for their intended purposes but several individuals also use them for other purposes. The reasons for using products for needs other than those for which they are intended can be due to other factors. For example, long term loans generally have a lower interest rate than short term loans, resulting in individuals being able to borrow more with the same repayment. The effect of change in legislation due to the introduction of the National Credit Act, resulted in some individuals finding it more difficult to obtain access to certain credit products which results in products which they could get access to being used to satisfy needs. Respondents indicated that most credit products were used to fulfil existence needs. This confirms that South Africans struggle to satisfy their basic needs, possibly due to the high poverty and unemployment levels. This finding confirms previous research that found that South African households were experiencing financial strain resulting in them using whatever credit they could get access to, in order to satisfy the financial needs they had.

To obtain a further understanding of credit product usage, research should be done to indicate which credit product groups are mainly used when satisfying a certain type of need.

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