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THE EFFECT OF THE NATIONAL CREDIT ACT ON A MICRO-LENDING
FINANCIAL INSTITUTION

by

N. DILOTSOTLHE

A dissertation submitted in fulfilment for the Degree

of

Magister Commercii

in

Business Management

Faculty of Management

UNIVERSITY OF JOHANNESBURG

Supervisor: Prof E Swanepoel

2013
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Lastly, my gratitude also goes out to the CEO of Old Mutual Finance, his senior management team and Old Mutual Finance customers for participating in the study.
Abstract

The aim of this research study is to investigate the effect of the National Credit Act on a micro-lending financial institution, namely Old Mutual Finance. The objective of the study is to gain insight from Old Mutual management staff on how their sales and operations have been affected since the inception of the Act and to reflect on their experiences and perception regarding the Act. The study also assesses Old Mutual Finance customers' level of awareness and perceptions regarding the Act.

The purpose of the National Credit Act is to promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers.

A mixed model research was used where both qualitative and quantitative data collection techniques and analysis procedures were used and combined. For qualitative data collection, five senior management staff of Old Mutual Finance were interviewed. This entailed face-to-face interviews which were semi-structured, their responses were manually written and also digitally recorded. The quantitative method involved the use of a survey of two hundred and thirty two of their customers from four different Old Mutual Finance branches located in Johannesburg.

The results of the study indicate that the National Credit Act is considered to be appropriate legislation with good intentions. However, some aspects of the legislation need to be addressed to ensure that credit providers are able to smoothly implement its rules and regulations in the lending market. Concerns pertaining to the lack of consumer knowledge or low financial literacy were also raised.

Using the promax rotation and eigenvalues exceeding one, three factors namely, Knowledge of the Act, Attitudes towards the Act and Perception towards credit in general were identified which together explained the 47% of the variance for the entire set of variables. These three factors corresponded to the themes of the customer questionnaire.
Declaration of Original Work

I certify that the minor dissertation/dissertation/thesis submitted by me for the degree Master’s of Commerce (Business Management) at the University of Johannesburg is my independent work and has not been submitted by me for a degree at another university.

Nombulelo Dilotsotlhe
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CHAPTER 1 Introduction to the Research Problem

1.1 Introduction

The National Credit Regulator (NCR) (NCR, 2012) reported an increase in unsecured micro lending. These attracted attention from the media and numerous reports (Financial Mail, May 2012; Reuters, April 2012; Mail & Guardian, March 2012) covering the unsecured credit growth have been published. The South African Reserve Bank (SARB) (SARB, June 2012) and government officials (Mittner, 2012) have raised concerns relating to increases in relatively expensive credit that may result in unsustainable credit growth. There are two overriding considerations from a financial sustainability perspective in this regard: firstly, considerations relating to the financial stability of the financial system, and secondly, considerations that fall within the consumer protection objectives that have been established in South Africa (SARB, June 2012).

This NCR report (NCR, August, 2012) further stated that, an average of 6 500 consumers apply for debt counselling on a monthly basis, totalling more than 360 000 consumers since the inception of debt counselling in June 2007. The debt situation that South African consumers currently find themselves in is further indicated by statistics presented in the Credit Bureau Monitor released in December 2012 for the third quarter of the year (Credit Bureau Monitor, 2012). Their figures reveal that of all the credit-active consumers totalling 19.69 million, 19.7% were three or more months in arrears, 12.9% had adverse listings, and 14.3% had judgements or administrative orders.

The South African Reserve Bank (SARB, June 2012) has published the following perspectives that relate to financial stability:

“One way of defining financial stability is in terms of the requirements to achieve it. It requires a robust financial system, which may be defined as a system having the ability to prevent, predict and withstand shocks under all types of domestic and international market conditions. Financial stability can further be described as the absence of macroeconomic costs of disturbances in the system of financial exchange between households, businesses and financial-service firms. Another definition used by some commentators is that financial stability is a sustained condition of stability in the financial system that ensures the efficient functioning of institutions and markets and low volatility in prices, interest rates and exchange rates. When the whole or an important part of the financial sector is at risk, the situation can be described as financially unstable.” (SARB, June 2012: 5).
The product growth in unsecured lending to individuals is primarily in the personal loans segment, which has grown at an average rate of 25% from R34 billion as at December 2005 to R126 billion as at December 2011 (South African Reserve Bank, 2012) as depicted in Figure 1.1. In spite of the promulgation of the National Credit Act in 2006, personal loans have continued to increase at an accelerating rate (Figure 1.1) from about R40 million in 2006 to R145 million in 2012 (NCR, 2012).

**Figure 1.1: Product growth in unsecured credit – individual/ household sector**

Source: NCR report (August, 2012)

The National Credit Act is aimed at achieving a number of objectives, one of which is combating over-indebtedness and reckless credit granting (National Credit Act 34 of 2005). The act contains lengthy, detailed, far-reaching and very important provisions in this regard. Thus, the implementation of the act may have serious consequences for financial services institutions.

The purpose of this research study is to:

1) Assess the effect of the National Credit Act on a Financial Services Institution in terms of sales and operations, in particular Old Mutual Finance (OMF);
2) Determine OMF management’s overall perceptions regarding the Act; and
3) Measure the awareness levels and perceptions of OMF’s customers regarding the Act.

In the next section the National Credit Act (NCA), the purpose of the Act and the role of the National Credit Regulator will be discussed.
1.2 Overview of the National Credit Act

The National Credit Act 34 of 2005 (NCA) came into effect on 1 June 2007. The idea behind the NCA was to implement rules through which to better govern the credit industry, to ensure that all credit consumers are dealt with in an even-handed manner, and to protect credit consumers from becoming over-indebted. The NCA repealed some of the older laws, such as the Usury Act 73 of 1968 and the Credit Agreements Act 75 of 1980, and made it a legal requirement for credit providers, debt councillors and credit bureau to register with the National Credit Regulator (NCR). The NCA (2005) has identified several role players that fall within the ambit of the Act, namely, the National Credit Regulator, established as regulator under the Act, and the National Consumer Tribunal, Credit Providers, Consumers, Credit Bureau and Debt Counsellors. As depicted in Figure 1.2, the NCA outlines the primary functions of the National Credit Regulator, established as regulator under the Act, and the National Consumer Tribunal.

Figure 1.2 National Credit Act: Role players

Source: National Credit Act (2005: 3)
The NCA comprehensively regulates the whole credit industry in South Africa. The Act applies to all individual consumers, to partnerships, close corporations and companies with a turnover of less than R1 million, to trusts that have more than three trustees, and to credit providers who have a credit book of R500,000 or more and who have entered into 100 or more credit agreements (Kelly-Louw, 2007:148). In general, it covers all transactions related to credit. From a consumer perspective, three essential stipulations are: credit agreements, credit records and the Act’s governing structures.

The policies of the National Credit Act are in place to ensure that the consumers are protected against over-indebtedness. The banks are now forced to do a check on applicants’ credit and debt repayment habits each and every time there is an application for a credit facility. The inception of the NCA has led to consumers having improved rights that are enforceable by the National Credit Regulator, access to formal channels for disputed credit agreements, and debt counselling.

The overall objective of the National Credit Act is to protect the consumer against reckless and irresponsible lending and to ensure that the granting of credit is carefully considered by the credit provider to guarantee that the consumer does not end up being over-indebted. The credit provider is mandated under this act to have a proper collection process in place to recover defaulted loans without penalising the clients (National Credit Act 34, 2005).

1.3 Purpose of the Act
The purposes of this Act are to promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers, by (NCA, 2005):

- Promoting the development of a credit market that is accessible to all South Africans and in particular to those who have historically been unable to access credit under sustainable market conditions;
- Ensuring consistent treatment of different credit products and different credit providers;
- Promoting responsibility in the credit market by encouraging responsible borrowing, avoidance of over-indebtedness and fulfilment of financial obligations by consumers, and discouraging reckless credit granting by credit providers and contractual default by consumers;
- Promoting equity in the credit market by balancing the respective rights and responsibilities of credit providers and consumers;
Addressing and correcting imbalances in negotiating power between consumers and credit providers by providing consumers with education about credit and consumer rights.

1.4 The National Credit Regulator

On 1 June 2006, as part of the National Credit Act, a National Credit Regulator (NCR) which is responsible for the regulation of the South African credit industry was established. The National Credit Regulator is tasked with facilitating education, creating awareness of the consumer protection that the National Credit Act offers, research, policy development, registration of industry participants, investigation of complaints, and ensuring the enforcement of the Act. It is required to promote and support the development of a fair, transparent, competitive, sustainable and accessible credit market, and must particularly address the needs of historically disadvantaged persons, low-income persons, and remote, isolated or low-density communities. It must also monitor the availability of credit, pricing and market conditions, trends in access to credit and indebtedness, market conduct and competition (National Credit Regulations, 2006).

The National Credit Regulator is accountable to the Minister of Trade and Industry (as illustrated in Figure 1.2) and to Parliament for the manner in which it carries out its mandate. Furthermore, the Regulator is tasked with the registration of credit providers, credit bureau and debt counsellors, the cancellation or suspension of the registration of credit providers, credit bureau and debt counsellors, dealing with complaints, promoting alternative dispute resolution, and enforcement of compliance with the Act. As most types of credit providers (such as, financial institutions, micro lenders, and retailers) have to register with the National Credit Regulator, a failure to register as a credit provider may lead to the credit agreements of the particular credit provider being regarded as null and void.

The National Credit Act provides for the establishment of a National Consumer Tribunal. The Tribunal is an independent body, separate from the National Credit Regulator, with members appointed by the President. It adjudicates in a wide variety of applications and will be responsible for hearing cases against credit providers who have contravened the National Credit Act. The Tribunal is empowered to issue fines where deemed necessary. In addition to its powers to adjudicate disputes directly, the Tribunal has the authority to make a consent order reflecting any resolution arrived at through an alternative forum or to issue a compliance notice. Credit providers and consumers may appeal to the Tribunal against decisions of the National Credit Regulator. All credit bureau and debt counsellors are obliged to register with the National Credit Regulator. While the Act contains debt collection
provisions, debt collectors are regulated in terms of the Debt Collectors Act 114 of 1998. At the inauguration of the National Credit Regulator on 30 August 2006, the Minister of Trade and Industry, Mr Mandisi Mpahlwa, said (NCR, 2006):

“The National Credit Act regulatory framework is designed to unlock the economic potential of all South African consumers by increasing access to credit, while recognising the dangers associated with over-indebtedness and the injudicious use of credit. The new framework therefore aims to support the development of a consumer credit market that would be of benefit to all consumers, whilst simultaneously providing protection against over-indebtedness and assisting consumers who overextend themselves.”

1.5 Research Problem
A ‘problem definition’ or research problem is defined as the critical first stage in the research process, as it determines what problem the research will try to solve (Zikmund, 2003:94).

The research problem relates to the fact that since the inception of the National Credit Act, the levels of indebtedness have continued to increase year on year (Kelly-Louw, 2007:2). The NCA’s purpose was to accrue benefits to the stakeholders within the economy, with minimal costs incurred to/by these stakeholders. With the focus on section 129 of the NCA of 2005, there is a possibility that costs could be incurred by the credit provider owing to the extension in repayment of the loan to ensure that any default amount is recovered without repossession of assets.

1.6 Research Questions
To investigate the research problem, answers to the following research questions should be sought:

- To what extent does the National Credit Act have an effect on the sales and operations of Old Mutual Finance?
- How do stakeholder experiences and perceptions contribute to the current year on year increased indebtedness?
- What are the awareness levels, perceptions and experiences of the National Credit Act amongst the customers of Old Mutual Finance?
1.7 Research Objectives

In order to address the above-mentioned research questions, the following four objectives were identified:

- To determine the effect that the National Credit Act application had on the microloans sales and operations of Old Mutual Finance.
- To determine the overall perceptions and experiences of Old Mutual Finance Management regarding the application of the Act.
- To determine the levels of awareness that the customers of Old Mutual Finance have of the National Credit Act.
- To determine the perceptions that the customer of Old Mutual Finance have regarding the benefits of the National Credit Act.

1.8 Research Scope

The scope of this research study will be limited to investigating the effect of the National Credit Act on one financial institution, namely Old Mutual Finance. Unlike conventional banks that offer a wide range of credit, Old Mutual Finance’s business offering is purely based on micro (short-term) lending.

1.9 Structure of the Report

Chapter 1 – Introduction: This section outlines the research problem, the research questions and the research objectives, the theoretical aspects of the National Credit Act and the role of the National Credit Regulator.

Chapter 2 – Literature Review: This chapter will outline the micro-lending industry and how financial management and personal management play a central role in this industry, this chapter will also discuss other topics such as the credit market, consumer indebtedness, financial literacy, risk management and cost of credit as they all have an influence on the success and sustainability of the industry. The measures set out by the Act to ensure transparency in contract agreements and debt relief for customers will also be discussed.

Chapter 3 – Research Design and Methods: This chapter will outline the use of mixed methods in a case study together with the sample selection methods, sample size and respondents’ profile, and conclude by discussing the study limitations and research ethics.

Chapter 4 – Data Description and Analysis: This chapter will focus on the analysis and interpretation of the data.
Chapter 5 - Conclusion and Recommendations - A summary of the research process and findings will be provided, followed by shortcomings, recommendations and conclusion.
CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

A literature review describes the findings of previous research and how it can help one by looking at what others have done in areas that are the same, but not necessarily identical to the topic that one intends researching (Leedy & Ormrod, 2005:64). A researcher has to know the literature about the topic to help him/her focus on the research problem.

Mouton (2001:87) shares the view of Leedy and Ormrod, by stating that the aim of the literature review is to discover what has been done in the field of the study. He says that in conducting a study, one should start with a review of the available body of knowledge to see how other researchers have investigated the research problem being explored. The reason for conducting a literature review according, to Mouton, is thus to learn from other researchers.

Davies (2007:38) regards a literature review as “exploring the literature”. He voices the opinion that a literature review entails reading what other researchers have had to say about the topic under investigation, and particularly tracking down and reading as many research reports as one can find on the topic. Struwig and Stead (2001:38) state that: “A study of the literature involves tracing, identifying and analysing documents containing information relating to the research problem”.

As per Figure 2.1, this chapter will first introduce the concept of Financial Management and Personal Financial Management as both these concepts play a central role in the micro-lending environment. This will be followed by an explanation of the micro-lending business since it is at the core of the research study. This will be followed by a discussion on South Africa’s credit market as credit plays a major role in our economy and in society in general. This huge demand of credit has also led to some consumers becoming over-indebted, which has become a big problem in our society. The levels of indebtedness will also be investigated in detail, followed by a discussion on financial literacy as some researchers have indicated that there is a strong correlation between low financial literacy and over-indebtedness. This chapter will also discuss the importance of risk management in relation to micro lending, as it is an inherent element and integral part of ensuring that the company succeeds and continues to be profitable. This will be followed by a discussion on the different cost structures that have been set by the National Credit Regulator in ensuring that the borrowers are protected from the previously exorbitant costs that were left uncapped prior to the inception of the National Credit Act. The last sections of this chapter (i.e. credit
bureau, disclosure policies and debt counselling), will be looking at measures that have been put in place by the NCA in assisting the credit lenders and borrowers in preventing reckless credit granting and over-indebtedness.

**Figure 2.1: Framework for Chapter 2**

Source: Researcher’s own construct
2.2 Financial Management

The definition of financial management is based on mobilising and using sources of funds (McMahon, Holmes, Hutchinson & Forsalth, 1993:3):

Financial management is concerned with raising the funds needed to finance the enterprise’s assets and activities, the allocation of these scarce funds between competing uses, and with ensuring that the funds are used effectively and efficiently in achieving the enterprise’s goal.

However, according to Meredith (1986), financial management is concerned with all areas of management which involve finance, not only the sources and uses of finance in the enterprises, but also the financial implications of investment, production, marketing or personnel decisions and the total performance of the enterprise. English (1990) argues that financial management is concerned with what is going to happen in the future. Its purpose is to look for ways to maximise the effectiveness of financial resources.

Definitions as mentioned only emphasise areas or scopes of financial management with which financial management is concerned, but does not emphasise the objectives of financial management. English (1990) indicated that financial management consists of working simultaneously towards three objectives: liquidity, profitability and growth.

Like many other management sciences, financial management, firstly, establishes its goal and objectives. Objectives of financial management are foundations or bases for comparing and evaluating the efficiency and effectiveness of financial management. The final goal of financial management is to maximise the financial wealth of the business owner (McMahon et al., 1993). For the purpose of this study, financial management is critical to the ultimate success of the credit lender, as the general goal for any business can be viewed in terms of two specific objectives: profitability and liquidity, with the ultimate success being sustained growth of the business.

2.3 Personal Financial Management

Personal financial management forms part of financial management but as the name implies, it refers to the process of applying sound financial principles in making decisions in one’s personal life (Timmons & Spinelli, 2007:388). In other words, it refers to what one does with one’s money on a personal level. It involves many processes such as budgeting, financial planning, estate planning, investing, money management, insurance, record keeping, retirement planning, savings and tax planning (Anthes, 2004:49).
Terms such as credit cards, debt, financial goals, investment portfolio, insurance, interest rate and loans are usually associated with personal finance (Anthes, 2004:49). For the purpose of this study, personal financial management can be a critical tool for credit borrowers as they have to constantly monitor and re-adjust their financial goals and plan to ensure that their personal assets are protected and thus prevent over spending and being over-indebted.

2.4 Micro-lending

Micro-lending is a financial term adopted by the micro-finance industry which refers to the practice of borrowing finance or a micro-loan from a micro-financier or a micro-lender (Shreiner, 2002:591).

It is referred to as "the provision of short-term loans of small amounts of cash to low to middle income earners that will be repaid over an agreed period of time" (Van Heerden, 2008:17). A micro-lender is therefore a credit grantor that provides micro-finance credit known as micro-loans.

Micro-lending is a combination of the terms micro and lend, each meaning the following:

- Micro – extremely small in scale or capability
- Lend – to give temporarily or allow having for a limited time (Van Heerden, 2008:17).

This subsequently means disbursing relatively small loans and other financial products that will be repaid over an agreed period of time (Van Heerden, 2008:17).

The micro-finance industry is not a new phenomenon. Even before the advent of money, people borrowed, lent and saved within their own communities using their own systems and methods without external interference, assistance or resources. The micro-lending industry is seen as a positive expansion of the financial system as it reaches out into less-serviced segments (poor people) of the economy (Van Zyl, Botha & Skerritt, 2006:116).

Accessing micro-loans and other credit is sometimes necessary to alleviate the temporary financial challenges the consumer may face (Wright & Haynes, 2005:94). This is particularly the case in instances where the loan is used to attend to an emergency and is paid back within a short period of time. However, in instances where a micro-loan(s) is taken out to supplement a person’s salary, especially if taken out with various micro-lenders, borrowers struggle to service the debt and eventually fall behind in making payments. Such a situation leads into a negative debt spiral (Government Gazette, 2006).
2.5 The South African credit market

Unsecured lending has a role to play in South Africa as it offers mutual benefits to both the lender and borrower. While it presents revenue streams for lenders, it is attractive to borrowers in the sense that it enables many consumers to improve their circumstances and experience better lives if obtained for responsible causes (World Economic Forum, 2013).

2.5.1 Unsecured credit transactions

Unsecured credit transactions include all transactions in respect of which the lender does not have any security (other than credit facilities or short-term credit). The rand value of unsecured credit granted increased to R29.07 billion (11.94%) for the quarter ended December 2012 as indicated in Table 2.1. On a year-on-year basis, the rand value of unsecured credit agreements increased by R2.62 billion (9.91%).

Table 2.1: Rand value of unsecured credit granted – term of agreement

<table>
<thead>
<tr>
<th>Agreements</th>
<th>2011-Q4 R000</th>
<th>2012-Q1 R000</th>
<th>2012-Q2 R000</th>
<th>2012-Q3 R000</th>
<th>2012-Q4 R000</th>
<th>% Distribution</th>
<th>% Change (Q4/Q3)</th>
<th>% Change (Y/Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤6 Months</td>
<td>417,655</td>
<td>325,009</td>
<td>366,947</td>
<td>417,670</td>
<td>618,652</td>
<td>2.13%</td>
<td>48.12%</td>
<td>48.13%</td>
</tr>
<tr>
<td>7-12 Months</td>
<td>1,067,179</td>
<td>952,553</td>
<td>909,754</td>
<td>800,716</td>
<td>1,105,747</td>
<td>3.80%</td>
<td>38.09%</td>
<td>3.61%</td>
</tr>
<tr>
<td>13-18 Months</td>
<td>1,287,722</td>
<td>1,048,721</td>
<td>962,050</td>
<td>819,344</td>
<td>1,027,898</td>
<td>3.54%</td>
<td>25.45%</td>
<td>-20.18%</td>
</tr>
<tr>
<td>19-24 Months</td>
<td>2,569,021</td>
<td>1,975,167</td>
<td>2,279,061</td>
<td>1,771,699</td>
<td>2,847,420</td>
<td>9.79%</td>
<td>60.72%</td>
<td>10.84%</td>
</tr>
<tr>
<td>25-36 Months</td>
<td>5,355,282</td>
<td>4,244,814</td>
<td>4,741,801</td>
<td>4,838,417</td>
<td>5,416,480</td>
<td>18.63%</td>
<td>11.95%</td>
<td>1.14%</td>
</tr>
<tr>
<td>3.1-5 Years</td>
<td>14,790,429</td>
<td>12,454,287</td>
<td>13,408,245</td>
<td>13,235,317</td>
<td>13,945,054</td>
<td>47.97%</td>
<td>5.36%</td>
<td>-5.88%</td>
</tr>
<tr>
<td>5.1-10 +Years</td>
<td>964,643</td>
<td>949,052</td>
<td>3,133,174</td>
<td>4,089,491</td>
<td>4,111,402</td>
<td>14.14%</td>
<td>0.54%</td>
<td>337.97%</td>
</tr>
<tr>
<td>Total</td>
<td>26,451,931</td>
<td>21,949,604</td>
<td>25,801,033</td>
<td>25,972,654</td>
<td>29,072,652</td>
<td>100.00%</td>
<td>11.94%</td>
<td>9.91%</td>
</tr>
</tbody>
</table>

Source: NCR, (December 2012)

The number of accounts for unsecured credit increased by 20.84% for the quarter ended December 2012 as indicated in Table 2.2. On a year-on-year basis the number of accounts for unsecured credit increased by 2.83% (NCR, December 2012:6). The largest portion of unsecured credit agreements was granted with a repayment period of 3.1 to 5 years for both the rand value and number of accounts.
Table 2.2: Number of unsecured credit agreements granted – term of agreement

<table>
<thead>
<tr>
<th>Agreements</th>
<th>2011-Q4</th>
<th>2012-Q1</th>
<th>2012-Q2</th>
<th>2012-Q3</th>
<th>2012-Q4</th>
<th>% Change (Q4/Q3)</th>
<th>% Change (Y/Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤6 Months</td>
<td>140,370</td>
<td>136,612</td>
<td>143,941</td>
<td>169,291</td>
<td>218,524</td>
<td>13.73%</td>
<td>29.08%</td>
</tr>
<tr>
<td>7-12 Months</td>
<td>219,720</td>
<td>190,390</td>
<td>177,530</td>
<td>156,103</td>
<td>169,968</td>
<td>10.68%</td>
<td>8.88%</td>
</tr>
<tr>
<td>13-18 Months</td>
<td>169,132</td>
<td>125,164</td>
<td>129,199</td>
<td>120,483</td>
<td>154,542</td>
<td>9.71%</td>
<td>28.29%</td>
</tr>
<tr>
<td>19-24 Months</td>
<td>252,488</td>
<td>178,493</td>
<td>199,006</td>
<td>151,629</td>
<td>261,074</td>
<td>16.40%</td>
<td>72.19%</td>
</tr>
<tr>
<td>25-36 Months</td>
<td>353,146</td>
<td>266,958</td>
<td>291,179</td>
<td>289,770</td>
<td>336,241</td>
<td>21.12%</td>
<td>16.04%</td>
</tr>
<tr>
<td>3.1-5 Years</td>
<td>401,578</td>
<td>321,048</td>
<td>355,711</td>
<td>356,529</td>
<td>379,312</td>
<td>23.83%</td>
<td>6.39%</td>
</tr>
<tr>
<td>5.1-10+ Years</td>
<td>11,559</td>
<td>10,581</td>
<td>53,004</td>
<td>73,463</td>
<td>72,109</td>
<td>4.53%</td>
<td>-1.84%</td>
</tr>
<tr>
<td>Total</td>
<td>1,547,993</td>
<td>1,229,249</td>
<td>1,349,570</td>
<td>1,317,268</td>
<td>1,591,770</td>
<td>100.00%</td>
<td>20.84%</td>
</tr>
</tbody>
</table>

Source: NCR, (December 2012)

2.5.2 Unsecured personal loans book

Statistical information that has been received by the NCR (statistical returns from credit providers) (NCR, December 2012) indicates that credit granted in respect of unsecured personal loans has grown strongly over the last two years. Table 2.3 depicts the quarterly growth in the total gross debtor's book (NCR, December 2012).

Table 2.3: Growth in unsecured personal loans gross debtors’ book

<table>
<thead>
<tr>
<th>Agreements</th>
<th>2011-Q4</th>
<th>2012-Q1</th>
<th>2012-Q2</th>
<th>2012-Q3</th>
<th>2012-Q4</th>
<th>% Change (Q4/Q3)</th>
<th>% Change (Y/Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross debtors book (R000)</td>
<td>112,988,681</td>
<td>120,811,141</td>
<td>131,309,923</td>
<td>139,973,673</td>
<td>159,254,492</td>
<td>13.77%</td>
<td>40.95%</td>
</tr>
<tr>
<td>Number of accounts</td>
<td>7,506,030</td>
<td>7,443,628</td>
<td>7,549,183</td>
<td>7,430,216</td>
<td>8,544,646</td>
<td>15.90%</td>
<td>13.84%</td>
</tr>
</tbody>
</table>

Source: NCR, (December 2012)

In relation to the above information, the research study will seek to uncover whether the sales of short-term loans at OMF have been positively or negatively impacted by the NCA.

2.6 Levels of over-indebtedness in South Africa

According to the report by FinMark Trust (2009), over-indebtedness results from reckless lending and borrowing, low levels of awareness, and a lack of enforcement. Over-indebtedness occurs when a borrower can no longer service all of his/her debts or where the level of debt servicing is depleting the household income and consumption (Goodwin-Groen, 2006).
Over-indebtedness amongst South African consumers remains a very acute problem. Section 79(1) of the National Credit Act (NCA, 2005) defines over-indebtedness as follows:

A consumer is over-indebted if the preponderance of available information at the time a determination is made indicates that the particular consumer is or will be unable to satisfy in a timely manner all the obligations under all the credit agreements to which the consumer is a party, having regard to that consumer's:

(a) financial means, prospects and obligations; and
(b) probable propensity to satisfy in a timely manner all the obligations under all the credit agreements to which the consumer is a party, as indicated by the consumer's history of debt repayment.

A credit provider must not enter into a reckless credit agreement with a consumer. The NCR (section 81, 2006) states that, before entering into a credit agreement, a credit provider must first take reasonable steps to assess the consumer's general understanding of the risks and costs of the proposed credit, the consumer's debt repayment history, as well as existing financial means, prospects and obligations. The consumer must fully and truthfully provide the requested information. A credit agreement is reckless if (NCR, 2006):

- at the time it was concluded the credit provider failed to conduct the necessary assessment, irrespective of what the outcome of such assessment might have been; or
- the credit provider entered into the agreement despite the fact that information available to the credit provider showed that the consumer did not generally understand the consumer's risk, and the costs or obligations under the proposed credit agreement or the conclusion of the agreement, would cause the consumer to become over-indebted.

The research study will seek to uncover OMF management's understanding regarding the purpose of the NCA and also their perspective on how the required affordability assessment and mandatory credit checks have affected their company.

The extent of over-indebtedness amongst South African consumers is apparent from recent information/statistics released by the South African Reserve Bank (SARB, 2013).
2.6.1 Real household disposable income

The last quarter of 2012 saw growth in real household disposable income slowing down further to an annualised rate of 2.6%, compared to 4.1% and 3.5% in the first and second quarters respectively, depicted in Figure 2.2 (SARB, 2013). The downward trend in real disposable income growth occurred against the background of continued tight labour market conditions and inflationary pressures. Annualised growth in real household consumption expenditure tapered off to 2.6% in the third quarter of 2012 from 3.1% in the second quarter, and 3.7% in the first quarter. Lower income growth, rising inflation and continued low consumer confidence contributed to the slower pace of growth in real household consumption. The continued close correlation between real income and consumption growth is related to the severe lack of sufficient savings in the household sector.

Figure 2.2: Household income and consumption

![Figure 2.2: Household income and consumption](source)

According to the South African Reserve Bank, the slow pace of growth in disposable income and consumption can be attributed to the fact that, consumers have continued to use their disposable income to reduce their outstanding financial commitment, rather than saving.

2.6.2 Net household savings

The ratio of net saving to disposable income remained at a zero level in the third quarter of 2012 as depicted in Figure 2.3 (SARB, 2013). Net household saving is based on the level of gross saving, adjusted for depreciation write-offs on the value of fixed assets, such as residential buildings held by households. The ratio of gross household saving to disposable income, was stable at 1.7% in the first three quarters of 2012 (SARB, 2013). This implies that for every R100 in disposable (after-tax) income earned by households, they saved only
R1,70 on average during this period. According to the SARB (2013), year-on-year growth in outstanding household unsecured credit balances (credit card debt, overdrafts and general loans and advances) remained well above 20% in the early stages of 2013, posing a threat to the financial wellbeing of many households.

Figure 2.3: Net household saving (% of disposable income)

Source: SARB, (2013)

2.6.3 Household credit and mortgage balances

Household credit balances, which include instalment sales credit, leasing finance, mortgage advances, credit card debt, overdrafts and general loans and advances (mainly personal and micro-loans), have shown a growth of more than 10% year on year up to late 2012 (SARB, 2013), reflecting the extent of household consumption, consumers’ risk profiles, and the level of consumer confidence (fig 2.4). These factors, against the backdrop of the National Credit Act (NCA) and banks’ lending criteria, determine households’ appetite for and access to credit. The amount of outstanding unsecured credit extended to households (credit card debt, overdrafts and general loans and advances) continued to rise at a fast pace up to the end of last year, largely contributing to the double-digit growth in total household credit balances in 2012.
2.6.4 Ratio of outstanding household debt

The ratio of outstanding household debt (fig 2.5) to annual disposable income was 76% in both the second and third quarters of 2012 (SARB, 2013). This was the net result of debt as well as nominal income rising by 1.7% in the third quarter of the year from the second quarter. Based on the stable debt ratio and a lower prime interest rate in the third quarter, the cost of servicing household debt as a percentage of disposable income was lower at 6.5% compared with 6.9% in the second quarter (SARB, 2013).
It should be recognised that the recent improvement in the debt to income ratio has, however, to a large extent, been supported by the current low interest rate pattern (SARB, 2013). Consumers have benefited from relatively low interest rates, which could in future increase, thereby increasing the debt repayment commitments of consumers across a broad base (SARB, 2013).

Credit that is extended to consumers, provides an opportunity to achieve a standard of living that would not be possible in its absence, but, on the other hand, where consumers are overstretched and across a broad base are not able to meet their debt commitments for any reason, this will adversely affect their financial prospects of going forward (SARB, 2013).

2.6.5 Consumer vulnerability index
The UNISA Bureau of Market Research (BMR) (BMR, 2013) developed a consumer financial vulnerability index (CFVI), which is used as an economic indicator of consumer perception and feelings about the four broad financial categories that impact their lives, namely income, expenditure, savings and the ability to service debt. The BMR defined the three categories ranging from financially vulnerable to financially secure, as set out in Figure 2.6.
The CFVI increased marginally to 51.1 points from 50.1 points in Quarter 4 of 2012 (table 2.4). This means that consumers, on average, remained in the mildly exposed category. However, as the score is close to the point of 50, which denotes a very exposed position, it indicates that the bulk of South African consumers’ cash flow is subjected to a high risk of becoming financially very exposed.

In terms of the sub-components of the CFVI, consumers on average remained in the same categories compared to Quarter 4 of 2012 (table 2.4). With regard to savings and income, they remained very exposed, while they continued to be mildly exposed regarding their expenditure and debt servicing. However, when compared to a year ago, it is clear that consumers are finding it more difficult to manage their cash flow. In three of the four sub-components (savings, expenditure and income) their cash flow deteriorated to a worse category.

Although their debt servicing ability was in the mildly exposed category in both Quarter 1 of 2013 and Quarter 1 of 2012, it can be attributed to lower interest rates, as their debt servicing deteriorated sharply in Quarter 2 of 2012 and only recovered after interest rates were reduced in Quarter 3 of 2012.
Table 2.4: CFVI and its sub-indices over time

<table>
<thead>
<tr>
<th>Date</th>
<th>Savings</th>
<th>Expenditure</th>
<th>Debt servicing</th>
<th>Income</th>
<th>Overall CFVI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2009</td>
<td>42.6</td>
<td>44.6</td>
<td>56.3</td>
<td>43.6</td>
<td>48.4</td>
</tr>
<tr>
<td>Q3 2009</td>
<td>41.0</td>
<td>45.5</td>
<td>52.4</td>
<td>39.7</td>
<td>45.6</td>
</tr>
<tr>
<td>Q4 2009</td>
<td>46.0</td>
<td>47.4</td>
<td>54.9</td>
<td>41.9</td>
<td>48.3</td>
</tr>
<tr>
<td>Q1 2010</td>
<td>54.0</td>
<td>47.3</td>
<td>54.9</td>
<td>51.2</td>
<td>52.8</td>
</tr>
<tr>
<td>Q2 2010</td>
<td>58.1</td>
<td>45.3</td>
<td>56.6</td>
<td>53.3</td>
<td>54.6</td>
</tr>
<tr>
<td>Q3 2010</td>
<td>50.7</td>
<td>53.1</td>
<td>56.8</td>
<td>47.3</td>
<td>52.1</td>
</tr>
<tr>
<td>Q4 2010</td>
<td>49.1</td>
<td>56.2</td>
<td>64.7</td>
<td>53.8</td>
<td>57.7</td>
</tr>
<tr>
<td>Q1 2011</td>
<td>52.2</td>
<td>50.6</td>
<td>56.3</td>
<td>58.4</td>
<td>56.1</td>
</tr>
<tr>
<td>Q2 2011</td>
<td>46.7</td>
<td>54.2</td>
<td>58.8</td>
<td>54.8</td>
<td>55.4</td>
</tr>
<tr>
<td>Q3 2011</td>
<td>47.7</td>
<td>55.6</td>
<td>61.4</td>
<td>52.4</td>
<td>55.8</td>
</tr>
<tr>
<td>Q4 2011</td>
<td>51.1</td>
<td>57.3</td>
<td>61.9</td>
<td>52.8</td>
<td>56.7</td>
</tr>
<tr>
<td><strong>Q1 2012</strong></td>
<td><strong>58.8</strong></td>
<td><strong>60.1</strong></td>
<td><strong>56.6</strong></td>
<td><strong>57.6</strong></td>
<td><strong>58.9</strong></td>
</tr>
<tr>
<td>Q2 2012</td>
<td>47.5</td>
<td>53.8</td>
<td>47.8</td>
<td>44.8</td>
<td>48.6</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>42.1</td>
<td>54.4</td>
<td>48.1</td>
<td>46.8</td>
<td>47.9</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>48.7</td>
<td>52.3</td>
<td>52.2</td>
<td>47.2</td>
<td>50.1</td>
</tr>
<tr>
<td><strong>Q1 2013</strong></td>
<td><strong>49.6</strong></td>
<td><strong>51.0</strong></td>
<td><strong>54.0</strong></td>
<td><strong>49.6</strong></td>
<td><strong>51.1</strong></td>
</tr>
</tbody>
</table>

Source: CFVI (2013:4)

The following section will discuss financial literacy as it gives customers the knowledge they need to function in today’s financial arena. According to the research report by the Council for Economic Education (2011), financial knowledge can develop confidence in customers to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial wellbeing.

2.7 Financial literacy

A recent report by the National Credit Regulator (August, 2012) suggests that consumers are not adequately protected or educated regarding unsecured lending products. It is recognised that South Africa has moderate to low levels of financial literacy (Financial Services Board, 2011). In fact, according to a Deloitte and Touche report (2012:7), South Africa was ranked lower than other BRICS nations (i.e. Brazil, Russia, India, China and South Africa) in financial literacy.
The Financial Services Board’s report (2011) defined financial literacy as the ability of individuals to make appropriate decisions in managing their personal finances. The importance of financial literacy cannot be underestimated, as it is central to how individuals and communities create and preserve their wealth. This recognition has given impetus to a variety of financial education programmes. In the Financial Services Board’s report (2011) it is indicated that a lack of financial literacy can result in poor financial choices that can be harmful to individuals and communities. The report further points to a link between poverty, low literacy and low financial literacy. This report also cites FinMark Trust (2009) as suggesting that financial literacy encompasses three phases:

- Economic literacy: a general knowledge about the functioning of economies;
- Consumer literacy: an understanding of the rights and responsibilities of economic players, coupled with the skill to compare prices and quality when making purchasing decisions; and
- Financial literacy: the ability to understand financial terms and concepts and the ability to translate such knowledge into behaviour.

Programmes addressing these three aspects benefit both the consumer and the institutions aiming to sell products or services to these consumers, as they improve the overall functioning of markets. The Jumpstart Coalition for Personal Financial Literacy (Jumpstart Coalition, 2012) argued that their surveys which were conducted in the United States of America have indicated that the average high school graduate lacks basic skills in management of personal financial affairs (Jumpstart Coalition, 2012) to such an extent, that many are unable to balance a chequebook. Subsequently, many young people perform dismally in the management of their first consumer credit affairs, and subject themselves to bad financial management habits and deal with their lives by trial and error. From research conducted in Australia, Griffiths (2007) found that lack of financial literacy and/or distorted information has largely disadvantaged consumers. Many consumers were found to lack the required skills to comprehend, negotiate and manage contracts. However, she argued that even when banks agree with regulators to engage in consumer education, in the final analysis, they state that they are not in the business of education, but to facilitate the flow of capital between economic agents having excess funds and those in need of financing.

There is a general concern that consumers lack the working knowledge of financial concepts, and thus lack the know-how to make decisions so as to benefit their economic wellbeing (Streeter, 2003). This deficiency in understanding financial matters is likely to lead to an inability to save for long-term goals, such as home purchases, financing higher
education or retirement planning (Braunstein & Welch, 2002). Informed consumers help to create more competitive and efficient markets, since knowledgeable consumers are able to demand products that meet their short-term and long-term goals (Braunstein & Welch, 2002). Providers respond by competing and creating products to meet such demands. A number of financial literacy programmes address savings, credit and similar topics, while others are tailored for specific segments, such as youth, military personnel or homeowners (Kotze & Smit, 2008).

The increased interest in financial education has been a result of increasing complexity in financial instruments and products, as well as the added burden on individuals of striving towards financial security (Hilgreth, Hogarth & Beverley, 2003). Well-informed and financially educated consumers can make better decisions for themselves and their families (Hilgreth et al., 2003). Such consumers provide the essential checks and balances, thus eliminating scrupulous sellers from the marketplace. The field of financial education is based on the premise that more information and knowledge will lead to changes in financial management practices. Hilgreth et al. (2003) acknowledged that evidence to this end is not conclusive, and would require further examination in the field of behavioural economics, which blends psychological and economic insights into household financial management. This field of study taps into the role played by psychological characteristics (such as procrastination, regret, risk aversion, peer pressure, altruism and compulsiveness) in household economic decisions (Hilgreth et al., 2003). Such study would further give light to what may look like inconsistent or irrational behaviours, like holding money in a savings account, earning 3% interest, while carrying a debit balance in a credit card, costing the same consumer 20% interest. The National Credit Act (2005) makes provision for debt counselling for those who are over-indebted and need debt rehabilitation. Goodwin-Groen (2006) argued that the Act should rather focus on preventing over-indebtedness through financial education, as opposed to debt rehabilitation. She points out that debt administrators tend to hold debtors to ransom to the extent that these debtors never escape their financial problems.

The research study will seek to uncover whether the customers of OMF are aware of the National Credit Act, how credit works, and their rights and responsibilities when entering into a contract with a micro-lender. The study will also seek to understand what role OMF plays in educating their customers about their rights and obligations when contracting with the company.
The following section will discuss business and consumer risks as microfinance institutions consciously take risks as they perform their role of financial intermediation in the economy. Managing these risks is essential for their survival and sustainability.

2.8 Business and consumer credit risks

Risk relates to the probability that a problem will occur or that there is uncertainty on objectives (Shimpi, 2002). A problem refers to a different outcome in relation to the desired outcome. There is a direct correlation between uncertainty and the level of risk (Cendrowski & Mair, 2009:9).

Business risk is the risk that relates to the daily running of the operating activities of the company and is mainly of operational nature (Vigario, 2002:166), whereas credit risk refers to the possibility of a loss occurring due to the failure to meet contractual debt obligations (De Andrade & Thomas, 2007:1577). Credit risk increases as the level of debt finance increases.

The concept of risk has three basic elements (De Andrade & Thomas, 2007:1578):

- the perception that something could happen
- the likelihood of something happening
- the consequences if it does happen

In order to lower the risk of loans not performing, the emphasis should be on quality loans (Dixon, Ritchie & Siwale, 2006:416). The quality of a loan is determined by the correctness of the credit decision when the loan is granted. Adverse selection arises when lenders cannot distinguish between safe and risky borrowers (Ojah & Mokoaleli-Mokoteli, 2010:4). Adverse selection as a component of information asymmetry is a problem of hidden information where the borrower has more information about the state of his/her affairs than the lender. Therefore, from the credit providers’ point, it is of utmost importance to obtain as much accurate information regarding the borrower to assist in the credit decision.

Consumer credit risk or retail credit risk is the risk of loss due to a customer's non repayment or default on a consumer credit product, such as an unsecured loan (McNab & Wynn, 2004). Further to the aforementioned, most companies involved in lending to consumers have departments to manage and monitor the measurement, predictions and control of losses due to this non repayment or default. As stated by McNab and Wynn (2004), any company providing an unsecured loan will have to focus on its organisational functions to support the
recovery from a default consumer. Active accounts follow a life or credit cycle pattern. The activities start with the application submitted by the customer and end when the account is closed for whatever reason (McNab & Wynn, 2004). All the functions depicted in Figure 2.7 are directly involved with the customers and accounts through the credit cycle.

**Figure 2.7: A Typical Credit Life Cycle**

The responsibilities of various functions performed through the credit life cycle are explained below.

- Marketing is responsible for the business development.
- Operational Application Processing is responsible for the efficient and responsible administration of the customer applications for credit.
- Credit Decision is responsible to make the decision to continue with the application after all the necessary checks have been done and relevant answers have been derived from the scorecard system.
- Operational Accounting Management is actively involved with the customers’ account from start to end.
- Credit Collections is responsible for rehabilitating delinquent customers into the normal credit cycle.
- Credit Recoveries manages the accounts not considered to be “customers” any more.
Risk Management also has an influence across this credit cycle responsible for optimising credit losses against business development.

McNab and Wynn (2004) concluded that all decisions made throughout the credit cycle have bad-debt implications and therefore it is necessary to understand the role of risk management.

Risk Management is responsible for the following (McNab & Wynn, 2004):

- Agreement with marketing regarding prospect identifications, eligibility and pre-approval selections.
- Determining risk parameters for product and pricing.
- Creation of and auditing credit / risk strategies and policies for new application underwriting, fraud avoidance and/or defaults.
- Developing risk-based collections and recovering strategies to support the whole company.

Consumer credit risk, as mentioned by McNab and Wynn (2004), is the risk of loss due to a customer's non repayment or default on a consumer credit product.

Credit risk management, is an essential tool for credit scoring. It is seen as a statistically-derived decision-making tool which includes a scorecard and a set of associated statistics (McNab & Wynn, 2004).

McNab and Wynn (2004:12-13) explained and illustrated a typical scorecard as the following:

“The scorecard sets the questions, called characteristics, with a set of answers, called attributes. Each attribute has a different score value.”

Table 2:5 depicts a typical example of a credit scorecard that is used by a micro lender. The characteristics “telephone number given” has four attributes, namely: none, work, home and both. For any given customer, the attributes scores are summed to give a total score that is interpreted using the scorecard statistics. For an application risk scorecard these scores indicate to the decision maker the likely risk of non-payment in the future. Scorecards can only be used to predict a measure of behaviour, at the point of the application. This is therefore seen as one-dimensional based on the information known at that specific point in time when the customer starts with the application process.
Table 2.5: A typical example of a credit scorecard

<table>
<thead>
<tr>
<th>Accommodation type</th>
<th>Home owner</th>
<th>With parents</th>
<th>Tenant</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>50</td>
<td>38</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Time with bank</td>
<td>&lt;1 year 20</td>
<td>1-3 years 28</td>
<td>4-9 years 35</td>
<td>10+ years 48</td>
</tr>
<tr>
<td>Phone number given</td>
<td>None 18</td>
<td>Work 28</td>
<td>Home 32</td>
<td>Both 35</td>
</tr>
<tr>
<td>Years at current address</td>
<td>&lt;3 years 25</td>
<td>4-8 years 30</td>
<td>9-14 years 32</td>
<td>15+ years 35</td>
</tr>
<tr>
<td>Worst status of other accounts</td>
<td>All good 40</td>
<td>Arrears 1-2 15</td>
<td>Arrears 3+ -10</td>
<td>Write-off -30</td>
</tr>
<tr>
<td>No of payment defaults found at Credit bureau</td>
<td>None 30</td>
<td>1 -50</td>
<td>2+ -100</td>
<td></td>
</tr>
</tbody>
</table>


In relation to credit risk, the research study will seek to understand whether OMF’s bad debts have increased or decreased since the inception of the Act and what in their opinion has led to the change thereof.

The following section deals with the fees that credit providers are allowed to charge credit borrowers when they enter into credit agreements with them as per the guidelines set out by the NCA (2005). It covers the topics such as interest rate, initiation fees, service fees, credit insurance and other costs.

2.9 Cost of Credit

Prior to the NCA, credit grantors could charge any interest rate on certain categories of loans (NCR, August 2012). It was not uncommon for the cost of credit on micro loans to be as high as 120%! All interest rates and fees are now regulated by the NCA, and a cap has been placed on what the credit grantor may charge in relation to interest rates and contract fees (Goodwin-Groen, 2006). The National Credit Act (section 101, 2005) defines interest as the amount that a credit provider charges a consumer on the outstanding balance of a credit agreement. This amount is calculated by the credit provider using a percentage, which is called the interest rate. This interest rate must be reflected on the credit agreement that the consumer signs at the time of entering into a credit agreement. The National Credit Act regulates interest rates and other related fees by specifying maximum interest rates that credit providers may charge consumers for various credit agreements.
Apart from the interest, the credit provider can charge an initiation fee and a service fee, as well as credit insurance:

- **Initiation Fee**
The initiation fee is a fee that a credit provider charges a consumer for entering into a credit agreement with that provider. The consumer is only liable to pay this fee if he/she enters into the agreement. The credit provider must give the consumer the option of paying this fee separately upfront and in doing so, no interest may be charged on the fee. The Act also regulates initiation fees by specifying the maximum initiation fee that consumers may be charged. An initiation fee may never exceed 15% of the loan amount that a consumer has applied for.

- **Service Fee**
A service fee is a fee that a credit provider charges a consumer for servicing a credit agreement between them. The fee is for administering or maintaining the credit agreement. The credit provider can charge this fee on a monthly or annual basis. It can also be charged per transaction. The Act regulates service fees in a number of ways including specifying the maximum fees that credit providers are allowed to charge, and how frequently the fees can be recovered. The current maximum service fee that a credit provider can charge a consumer is R50-00 a month. If the consumer pays an annual service fee, the maximum that the consumer can be charged is R600-00 per year. If the credit agreement is settled sooner than originally agreed by the consumer and within the year to which the annual service fee relates, the credit provider must refund the unused portion of the service fee to the consumer.

- **Credit Insurance**
The Act also regulates credit insurance. This is insurance which can be required by a credit provider when a consumer takes up a specific product such as a home loan or credit card. The insurance would then cover the debt due to the credit provider in certain cases, such as the death of the consumer. The Act stipulates that the insurance cover taken by the consumer may not exceed the outstanding obligation to the credit provider and the cover must reduce as the outstanding balance due to the credit provider reduces. The Act provides that the consumer may not be forced to take the insurance offered by the credit provider and can in fact select to replace the insurance offered by the credit provider with a policy of the consumer’s choice. When the consumer chooses to use his / her own insurance, the credit provider can request that the premiums are to be paid by the credit provider to the insurance company and that the consumer is billed monthly (National Credit Act, section 101, 2005).
Other costs provided for by the National Credit Act

The Act, in addition to the other charges discussed in this chapter, also allows credit providers to charge consumers the following:

- Default administration charges. This is a charge that a credit provider may charge a consumer who is in arrears with repayments on his/her credit agreement. These charges relate to costs that the credit provider has incurred in attempting to advise the consumer that he/she is in arrears with his/her account. These costs are limited to a letter sent by the credit provider to the consumer, informing him/her that he/she is in default in terms of the agreement. These default administration charges do not include any telephone calls made to the consumer. The Act specifies that a credit provider may not charge a consumer more than the cost actually incurred by the credit provider. The Act specifies that the charge for the letter must be equal to the tariff allowed by the court, plus the actual costs incurred for sending the registered letter (National Credit Act, section 101, 2005).

- Collection costs. Collection costs are costs that the credit provider incurs when attempting to collect an outstanding, overdue debt from the consumer. The Act specifies that a credit provider is not allowed to charge a consumer collection costs, which are more than the court tariff allows (National Credit Act, section 101, 2005).

Gross revenue per revenue category for credit providers is illustrated in Figure 2.8, showing the percentage of revenue streams from unsecured personal loans. Interest rate (68%) represents the largest source of revenue for credit providers as they price the risk in respect of loans that are advanced to consumers. For instance, higher risk customers would be charged higher interest rates and lower risk customers would be charged lower interest rates (NCR, August 2012). The credit life revenue represents the credit providers’ share of premiums that are payable by consumers. The 11.2% credit life component of total revenue would be larger if the full cost to the consumer were included, that is the 11.2% for the credit life would be linked to the total debt (loan amount), the higher the loan amount will result in a higher fee being charged (NCR, August 2012).
Regarding the cost of credit, the research study will seek to understand from a customer’s perspective whether they indeed see these costs as being regulated by the NCA in order to ensure that they are not overcharged by the credit providers.

The following section will discuss the functions of the credit bureau as they play a critical role in assisting credit providers with credit granting decisions and also keeping customers up-to-date with their credit records.

2.10 Credit Bureau

The Act provides for the registration of a credit bureau. A credit bureau is defined as a library of credit information which provides a centralised database of consumer credit behaviour (National Credit Regulator, June 2012). It is vital as it determines who is allowed to access credit and at what price, depending on whether the information is positive or negative. The Credit bureau keeps records of how well people manage their credit commitments. While credit grantors may use other tools to determine whether to extend credit, like the credit lender’s credit granting policy, the role of a negative credit record in that decision, cannot be downplayed.

The Act puts forward certain requirements with regard to competence, qualification and knowledge on credit bureau and their employees, to enable them to operate efficiently and effectively. The Act further prohibits the registration of a credit bureau if such a bureau has a controlling interest in the business of a credit provider, a debt collecting agency, or a
business engaged in disqualified business prescribed in terms of the Act. A credit bureau holds vital consumer credit information. Section 70 of the Act notes that this information includes:

- A person’s credit history, application for credit, payment patterns, defaults and judgements,
- A consumer's financial history and status which include past and current income, assets and debts,
- A person's education, employment, career, professional or business history,
- A person's identity, marital status, past and current addresses and other contact details.

The Act seeks to clamp down on reckless lending by credit grantors. To this end, a credit bureau should provide quality and up-to-date consumer credit records, including information on loans that the consumer has applied for (Credit Bureau, 2007). In the absence of a credit bureau that collate and disseminate this shared information, credit providers are unable to make informed, accurate and responsible lending decisions.

Mohan and Sahu (2005) argued that an information bureau should seek to analyse data on actual and potential clients, with the goal of understanding the clients' capacities and performance potentials, so as to develop credit-scoring models. Some of the benefits that are likely to flow from these information bureaux include, sharing of best practices among members, generation of early warning signals, credit scoring in the absence of collateral, thus enabling expedient decision-making, and product development based on the understanding of customer needs and aspirations. Correct and updated credit information is vital to consumers as it allows them to obtain competitive finance in seconds (Experian Credit Bureau Helps Consumers Monitor Their Credit Information, 2010). Section 70 of The National Credit Act allows for every consumer to get a free comprehensive credit report per year.

The majority of consumers do not even know that this information is available, or even worse, how to access their credit information. To this end, Experian has devised a Siyazwana initiative, which, for a minimal monthly fee, will notify consumers of any changes in their credit records. While the group advocates that good credit is the consumer’s asset, it is questionable as to how many consumers are aware of such a facility, or can afford it (Experian Credit Bureau Helps Consumers Monitor Their Credit Information, 2010).
According to the NCR August report (2012), the level of credit bureau enquiries has significantly increased over the last year. This, according to the report, has been driven by a number of factors. Examples here include credit provider enquiries in respect of consumer credit applications, credit provider enquiries relating to marketing or research purposes or consumer enquires in respect of their own credit status as one usually finds out about the negative record, when credit has been declined.

TransUnion South Africa (2013) recently stated that there has been a decrease in the Consumer Credit Index (CCI) from 43.8 in quarter 1 of 2013 to 43.6 in quarter 2 of 2013, as depicted in Figure 2.9. The index is a measure of consumer credit health where 50.0 is the break-even level between improvement and deterioration. Consumer credit health has now been deteriorating for four straight quarters (quarter 3 and 4 of 2012 and quarter 1 and 2 of 2013). The TransUnion CCI is said to be approaching levels last seen in 2007/2008 when consumer credit health deteriorated markedly due to consumer over-indebtedness and emerging global financial crises. The risk of harmful bad credit cycles has risen materially in recent quarters (TransUnion South Africa, 2013).

Figure 2.9: TransUnion South Africa, Consumer Credit Index

Source: TransUnion (May 2013)

A credit bureau is critical in assessing consumers’ levels of indebtedness as it gives a clearer picture of consumers’ debt burden and their repayment history, than what the consumers would prefer to disclose. However, there have been cases of mistaken identity
and wrongful credit information. The Act gives consumers the right to access and challenge credit records and information. The Experian's Siyazwana initiative to alert consumers of changes to their credit record should thus be applauded, but it needs to be supplemented by ways of making such facility easily accessible and affordable to more consumers (NCR, August 2012).

In terms of the Act, the credit bureau is prohibited from reporting information that is being challenged, until such dispute has been resolved. Also, if a consumer is referred to debt counselling for debt review and restructuring, and satisfies all the obligations of the credit agreement, such consumer can apply for a clearance certificate, which must be filed with the credit bureau. Upon receipt of the clearance certificate and a copy of a court order rescinding any judgement, the credit bureau must then expunge all records relating to that judgement. In terms of the Act, failure to do so constitutes an offence.

The research study will seek to uncover whether the customers are aware of their rights to access and challenge the information held by credit bureau and whether they are aware of the free credit report that they can get on a yearly basis.

The following section will discuss disclosure policies which are aimed at ensuring that the customers are sufficiently informed before entering into a credit agreement with the credit provider.

2.11 Disclosure Policies

Before the inception of the NCA, consumers did not generally receive a copy of their credit agreement beforehand, and contracts were often rather lengthy, leaving consumers with no time to read through them before signing the contracts. The language used in contracts was also often too difficult for ordinary consumers to understand, even if they did read it. Therefore, consumers only realised the full impact of the credit agreement when they received their first account. They also often felt cheated as it was not disclosed to them when they signed their credit agreements whether the interest was charged on a monthly or an annual basis (Kelly-Louw, 2007:213).

The National Credit Act deals with the issues relating specifically to a credit agreement, such as the disclosure that is required before an agreement may be concluded, the form or format in which such an agreement must be cast, and the cancellation, rescission and alteration of the agreement. It also specifically states that credit agreements must be in simple and understandable language (Section 64 of NCA, 2005), and it is endeavoured that this will
assist consumers in understanding their credit agreements better. Consumers also have the right to receive any document and information in one of the country's eleven official languages (Section 63 of NCA, 2005).

In terms of the National Credit Act (2005), a credit provider must supply a consumer with a pre-agreement disclosure statement that includes the main features of the proposed agreement and a cost quotation of the credit. This statement is binding on the credit provider for five days after the presentation of the quotation. Where the agreement is a small credit agreement, the credit provider must give the consumer a pre-agreement statement and a quotation in the prescribed form. Where the agreement is a large or intermediate agreement, the credit provider must give the consumer a pre-agreement statement in the format of the proposed agreement or in another form, addressing the matters prescribed by the Act, and a quotation in the prescribed form, setting out the total cost of the credit, that is, the principal debt, interest rate and other credit costs. A document that records a small credit agreement must contain all the information as reflected in the prescribed form set out in the regulations.

The credit provider must also deliver to the consumer, without charge, a copy of a document that records the credit agreement. It must be transmitted to the consumer in a paper form (hard copy), or in a printable electronic format. Credit providers must also now make full disclosures of all the costs of the credit (Section 63 of NCA, 2005).

The research study will seek to uncover whether the customers of OMF are aware of their rights to be given a written documents relating to their credit transactions and whether they find the language used in credit agreements simple to understand.

The following section will discuss the debt relief measures that have been put in place by the NCA, which are aimed at assisting customers in dealing with problems of over-indebtedness.

2.12 Debt Counselling
The NCA (section 46, 2005) provides indebted consumers with an alternative to a sequestration order. It provides for debt re-organisation (debt restructuring) and debt counselling in cases of over-indebtedness and for the registration of debt counsellors with the National Credit Regulator. Provision is made for a consumer to apply directly to a debt counsellor for a review of his or her debt or to a court, so that it can refer the matter to a debt counsellor. The debt counsellor plays an important role during the debt review process. In particular, his/her function is to assist the over-indebted consumer with the process of debt
review. The debt counsellor must evaluate the consumer’s over-indebtedness and can thus either be appointed by over-indebted consumers or by courts. The debt counsellor must then determine whether or not any credit agreement concluded by the consumer is reckless and must thereafter make the appropriate recommendation. The National Credit Act makes provision for a counsellor to collect money on behalf of the consumer and to then pay it over to the consumer’s creditors.

The research study will seek to understand customer’s perceptions and attitudes towards debt counsellors and debt re-organisation.

2.13 Conclusion
The literature points to the fact that access to credit, pricing levels and credit risks are inextricably linked. The review positioned previous reports from different sources, such as reports by the UNISA Bureau of Market Research, the South African Reserve Bank and the research report done by the National Credit Regulator. It also gives a perspective and informed views on the state of the micro-lending industry in South Africa.

The National Credit Act allows South African consumers more accessible credit, more affordable rates in some cases, and the protection against irregular lending practices. The credit providers are also given specific guidelines in ensuring that they do not end up with increased bad debts in their books. Despite the improved lending environment, South African consumers are unable to improve their credit standing as more and more active customers are becoming financially vulnerable.

The information gathered indicates that there might be an increased risk for the credit lender as some of these customers may not be able to meet their credit installment obligations, this will therefore put more pressure in employing additional staff in their collections department with the aim of recovering the debts owed by customers. Another risk is that some customers may not be able to get credit loans in future due to bad credit records, and this will result in overall loss of business for the credit provider.
CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction
This chapter deals with the research philosophy, the research design and the research method used. It will provide an explanation on how the sample was selected, the method used in data collection, and the research ethics.

3.2 Research Philosophy
Saunders, Lewis and Thornhill (2009:110) identified four types of research philosophies, namely positivism, realism, interpretivism and pragmatism.

“Positivism relates to the philosophical stance of a natural scientist. This entails working with an observable social reality and the end of product can be law-like generalisations similar to those in the physical and nature science” (Saunders et al., 2009:114). By adopting this philosophy, the researcher is expected to be independent of the data and to maintain an objective stance.

The second type is realism. It is based on the belief that a reality exists that is independent of human thought and belief or knowledge of their existence, but is interpreted through social conditioning (Saunders et al., 2009:116). When adopting this philosophy, the research is influenced by the researcher’s personal values, such as world views, cultural experiences, education and upbringing. This philosophy is often used in studying human subjects as it shows understanding of people’s perception of socially constructed interpretation and meaning (Saunders et al., 2009:116).

Interpretivism is defined as “an epistemology, which advocates that it is necessary for the research to understand the difference between the human mind and reality (Saunders et al., 2009:118). This approach is appropriate for research in business and management fields such as organisational behaviour, marketing and human resource management.

The last one of the four research types is pragmatism, which according to Saunders et al., (2009:112) “holds the idea that the most important determinant of the epistemology, ontology and axiology adopted is the research question”. It focuses on practical applied research, integrating different perspectives to help interpret the data.

After considering all types of research philosophy, a conclusion was made that this research study will be conducted using the interpretivist approach, as it will seek to understand the
customers’ perceptions and awareness regarding the Act, and also the expectations and experiences of Old Mutual Finance staff in relation to the application of the National Credit Act.

The goal for using the interpretivism approach will be to develop an understanding of the perceptions and experiences of study participants, and thus to see things through their eyes. As stated by Rogers (1990:494), “the best vantage point for understanding behaviour is from the internal frame of reference of the individual himself”.

3.3 Research Approach
There are two general ways of approaching a research problem, namely the deductive and inductive approach (Saunders et al., 2009). The deductive approach is based on the logical way of thinking and the conclusion drawn from the theory. Thus, the deductive approach means that the research starts from already existing theories and model(s), from which propositions are developed and subsequently tested through empirical studies. The inductive approach means the research starts from empirical studies and these studies are subsequently related to existing theories.

In this study, a deductive approach was used, since the investigation was based on seeking to understand the expectations, experiences and perceptions of management staff and clients of Old Mutual Finance.

3.4 Research Design
A research design is the basic plan for research. It shows how the research questions will be connected to the data, and what tools and procedures will be used in answering them (Punch, 2005:52).

The design of the research is the complete strategy of addressing the central problem. Leedy and Ormrod (2005:198) defined the method of research as the framework to extract meaning from the data.

A research design is also defined by Zikmund (2003:65) as a master plan specifying the methods and procedures for collecting and analysing the needed information.

3.4.1 Case Study
A case study is one of several ways of conducting research whether it is social science related, or even socially related because its aim is to understand human beings in a social
context by interpreting their actions as a single group, community or a single event: a case. Gillham (2000:1) defined a case study as an investigation to answer specific research questions which seek a range of different evidences from the case settings. Yin (2009:1) defined a case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly defined. The case study approach is especially useful in situations where contextual conditions of the event being studied are critical and where the researcher has no control over the events as they unfold.

Ritchie and Lewis (2003) identified the primary defining features of a case study as being “multiplicity of perspectives which are rooted in a specific context”. The case may also be a programme, an event, or an activity bound in time and place. According to McMillan and Schumacher (2001), a case study examines a bounded system or a case over time in detail, employing multiple sources of data found in the setting. All the collected evidences are collated to arrive at the best possible responses to the research question(s). As a result the researcher may gain a sharpened understanding of why the instance happened as it did, and what might become important to look at more extensively in future research. Mertens (1998:145) emphasised the single case study's appeal in the fields of education and psychology, especially its effectiveness when used to test a “specific instructional strategy”. Given the interpretive position adopted in this research and the nature of the research question, the case study methodology was considered the most appropriate approach to employ because it provides a systematic way to collect data, analyse information, and report the results, thus understanding a particular problem or situation in great depth. More specifically, it:

- provides a variety of participant perspectives, and
- uses multiple data collection techniques.

Case studies do not claim to be representative, but the emphasis is on what can be learned from a single case (Tellis, 1997). Case studies have value in advancing fundamental knowledge in the relevant knowledge domains. The underlying philosophy of a single case study is “not to prove, but to improve” (Stufflebeam, Madaus & Kellaghan, 2000:283).

Given the interpretive stance adopted in this research and the nature of the research question, the case study approach was the most appropriate research strategy for this study because of its advantages in revealing in detail the unique perceptions and concerns of
individual participants in a real-world situation which would have been lost if only quantitative strategies had been used.

The aim of the research study was to assess the effect of the National Credit Act on a micro-lending financial institution in South Africa. In pursuit of this, three companies operating within the micro-lending industry including Old Mutual Finance, were approached with the request of using them and their customers as part of the research study. Old Mutual Finance was the only company that agreed to the request. A confidentiality letter signed with OMF is available in Appendix A.

Even though case study research was traditionally seen as a qualitative approach only (Cresswell, 2009:12; Dul & Hak, 2008:4; Mouton, 2001:143). Eisenhardt (1989:533-538) and Yin (2009:19) both promote the use of mixed methods in case study research. This means that a richer data analysis and better framework for theory building can be established. This study used the case study as the strategy of inquiry. Data collection and data analysis were done using both qualitative and quantitative approaches, meaning that the research can be classified under a mixed method approach.

In depth semi-structured interviews and survey questionnaires were used to collect data. According to Leedy and Ormrod (2005:149), an interview involves verbal communication between the researcher and the respondent during which information is provided to the researcher. The semi-structured interview encourages participants to converse freely about the research question(s).

A survey is defined by Watkins (2010:67) as the collection of a large quantity of evidence, usually numeric, or evidence that will be converted to numbers, normally by means of a questionnaire. A questionnaire is a list of carefully structured questions, chosen after considerable testing, with a view to elicit reliable responses from a chosen sample. The aim is to establish what a selected group of participants do, think or feel.

3.4.2 Research Methods

In order to obtain a better understanding of the research problem, a mixed method was used as a strategy for this study. A mixed method design includes ‘the incorporation of various quantitative or qualitative strategies within a single project. The imported strategies are supplemental to the major or core method and serve to enlighten or provide clues that are followed up within the core method’ (Morse, cited in Tashakkori & Teddlie, 2009:190). The mixed method design therefore involves the collection, analysis and integration of
quantitative and qualitative data in a single or multiphase study. This type of design reflects a pragmatic epistemology (Guba & Lincoln, 1994). Although certain methodologies tend to be associated with a given research tradition, Dzurec and Abraham (1993:75) suggested that ‘the objectives, scope, and nature of inquiry are consistent across methods and across paradigms’. A mixed methods study involves similar steps to those in traditional research methods. These include formulating a research problem and research objective, developing a research purpose, research questions(s), and hypotheses, selecting a research design or method, collecting data, analysing data, interpreting/validating data, and communicating findings (Onwuegbuzie & Leech, 2005:276). Designing a mixed methods study, however, also involves at least four additional steps. These include decisions about, firstly, the potential use of an explicit theoretical lens; secondly, the implementation sequence of the quantitative and qualitative data collection; thirdly, the priority that will be given to quantitative and qualitative data collection and analysis; and, fourthly, at what stage in the research project the quantitative and qualitative data and findings can be integrated (Creswell, 2003:211; Hanson, Creswell, Plano Clark, Petska & Creswell, 2005:226). The strengths and weaknesses of mixed method research design, as reported in Johnson and Onwuegbuzie (2004), are offered in Table 3.1. A comparison of the strengths and weaknesses related to the mixed method research approach and the numerous researchers who opt for this approach has motivated the utilisation of the mixed method approach for the current study owing to the practical application, feasibility and scientific acceptability of this approach.

Table 3.1: Strengths and weaknesses of mixed research

<table>
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<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tr>
<td>- Words, pictures, and narrative can be used to add meaning to numbers.</td>
<td>- Can be difficult for a single researcher to carry out both qualitative and quantitative research, especially if two or more approaches are expected to be used concurrently; it may require a research team.</td>
</tr>
<tr>
<td>- Numbers can be used to add precision to words, pictures, and narrative.</td>
<td>- The researcher has to learn about multiple methods and approaches and understand how to mix them appropriately.</td>
</tr>
<tr>
<td>- It can provide quantitative and qualitative research strengths.</td>
<td>- Methodological purists contend that one should always work within either a qualitative or a quantitative paradigm.</td>
</tr>
<tr>
<td>- The researcher can generate and test a grounded theory.</td>
<td>- More expensive.</td>
</tr>
<tr>
<td>- Can answer a broader and more complete range of research questions because the researcher is not confined to a single method or approach.</td>
<td>- More time consuming.</td>
</tr>
<tr>
<td>- The specific mixed research designs discussed in this study have specific strengths and weaknesses that should be considered.</td>
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A researcher can use the strengths of an additional method to overcome the weaknesses in another method by using both in a research study.

- Can provide stronger evidence for a conclusion through convergence and corroboration of findings.
- Can add insights and understanding that might be missed when only a single method is used.
- Can be used to increase the generalisability of the results.
- Qualitative and quantitative research used together produce more complete knowledge necessary to inform theory and practice.

Some of the details of mixed research remain to be worked out fully by research methodologists (e.g., problems of paradigm mixing, how to qualitatively analyse quantitative data, how to interpret conflicting results).

Source: Johnson and Onwuegbuzie (2004:21)

A two-stage sequential design was adopted. In Stage 1 qualitative research in the form of semi-structured interviews was conducted collecting data from the management of OMF as this method involves an interpretive, naturalistic approach to its subject matter. Qualitative research attempts to make sense of, or to interpret phenomena in terms of the meaning people bring to them (Leedy & Ormrod, 2010:140). The use of semi-structured interviews allowed the researcher flexibility to steer the interviewee to answer certain previously identified issues within a topic predetermined by the researcher.

In Stage 2 quantitative research in the form of surveys was conducted to collect data from the customers of OMF as it provided an opportunity of gathering data from a larger number of people. According to Bowling (2002:195-196) surveys are quantitative research tools used during the process of data collection from a sample of the population of interest commonly through face-to-face interviews; however data can also be sort through postal and other self-completion questionnaires. The emphasis in surveys is on the individual who acts as the unit of analysis. Surveys help to establish the level of a given characteristic of the phenomenon of interest in a given population. Daniel (2005:1) defines surveys as tools used in the collection of data on topics of interest from a population through asking individual questions to generate information from that group or groups. Such information can also be expressed statistically. Neuman (2000:43) describes surveys as a process where data is collected using written questionnaires or interviews from a large number of respondents. The responses are recorded as given by the participants and there is no manipulation of situations in order to influence responses.
3.4.3 Unit of analysis and study population

According to Cooper and Schindler (2001:163), the unit of analysis by definition is the members or elements of the population of relevance. Brynard and Hanekom (2005:43) explained that in research methodology, ‘population’ does not refer to the population of a country, but rather to the objects, subjects, phenomena, cases, events or activities specified for the purpose of sampling. In this research study, the population consisted of senior managers of Old Mutual Finance and their customers.

3.4.4 Sampling

Sampling is the process of choosing members of a population to be included in a sample. A sample is a subset of a population and the sample theory is the study of relationships between a population and samples drawn from it (Collis & Hussey, 2003:353).

Zikmund (2003:71) identified two basic sampling techniques, namely, probability and non-probability sampling. A probability sample is defined as a sample in which every member of the population has a known, and non-zero probability of selection. Zikmund (2003:71) stated that if sample units are selected on the basis of personal judgement, the sample method is a non-probability sample.

The sampling strategy that was used was that of non-probability sampling. In this research study two groups were targeted (namely management of OMF and customers of OMF). This sampling strategy was justified in that the research undertaken was small in scale and in this instance, case study based. In this research, there was no intention to generalise findings beyond the case study in question.

Purposive sampling was used for the selection of both groups of subjects. This method is characterised by the use of judgement and a deliberate effort of obtaining representative samples by including typical areas or groups in the sample (Cohen, Manion & Morrison, 2002:103). Limitations of such sampling is that it does not represent the wider population and is deliberately selective (Cohen et al., 2002:104)

**Sampling for Stage 1: Qualitative research**

The primary tool used to select the respondents from OMF was expertise relating to their day-to-day involvement in sales and operations of micro-lending within OMF. The OMF CEO and his senior managers from the sales, collections, legal, compliance and risk divisions were selected to be part of the sample. From these managers it was possible to obtain a better understanding of the effect of the NCA on OMF's sales and operations.
Sampling for Stage 2: Quantitative research
Structured questionnaires were administered to the customers at four Old Mutual Finance branches located in Johannesburg. The branches visited were in Randburg, Braamfontein, Ghandi Square and Harrison Street (CBD). These branches were chosen on the basis of location and their customer base to ensure that the right sample was selected. The branches were located at the busiest streets of Johannesburg and their customer base consisted of different races that varied in age, education and income.

3.5 Data Collection Method
Collis and Hussey (2003:150) listed various ways to collect data for research. They postulated that interviews comprise one of the effective and powerful ways of accessing people’s perceptions, meanings, definitions of situation and construction of reality. Interviews can be classified into three types, namely structured, semi-structured (focused) and unstructured (Punch, 2005:169).

3.5.1 Research instruments
Research instrument used in Stage 1: Qualitative research
A discussion guide consisting of ten semi-structured questions was developed and used to obtain data from the credit provider’s management staff. The interviews took place at their place of work. This method was used as it allows some level of flexibility in steering the interviewee to answer certain previously identified issues. It also allowed the interviewer to choose the order of the questions, depending on the progress of the research that appears promising from the point of view of providing rich data and additional insights (Lancaster, 2005:134).

Hoepfl (1997:52) added that in semi-structured interviews, the interviewer is free to probe and explore within these predetermined inquiry areas. Interview guides ensure good use of limited interview time, they make interviewing multiple subjects more systematic and comprehensive, and they help to keep interactions focused.

A copy of the discussion guide (Appendix C) was forwarded to the interviewee at least three days before the scheduled interview. The intention was to allow the individual to give each issue some thought.
Research instrument used in Stage 2: Quantitative research

The interviews with the managers were conducted first, and relevant information was fed into the structuring of the questionnaire for the OMF customers. A structured questionnaire with closed-ended questions was used in the study (see Appendix D). A structured questionnaire provides alternative responses to each question, and the respondent simply needs to select and mark the applicable answer. In this study, a Likert-type scale with various items or statements was used, and the respondents had to indicate on a five-point scale if they agree or disagree with a statement. Survey questionnaires are normally used to obtain the following types of information from respondents: demographic details (gender, age, ethnicity and so on), perceptions, opinions, beliefs, stereotypes, attitudes and values. For this study, a questionnaire was developed for collecting information on OMF customers demographic details, awareness of the NCA, their perception towards credit and their knowledge and attitudes regarding the National Credit Act. The questionnaires were drawn up in English. The layout of the questionnaire is provided in table 3.2

Table 3.2: Layout of the customer questionnaire

<table>
<thead>
<tr>
<th>Section</th>
<th>Topic of section</th>
<th>Questions</th>
</tr>
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<tbody>
<tr>
<td>A</td>
<td>Background and awareness</td>
<td>1 - 7</td>
</tr>
<tr>
<td>B</td>
<td>Perception towards credit in general</td>
<td>8 – 11</td>
</tr>
<tr>
<td>B</td>
<td>How well they know the National Credit Act</td>
<td>12 – 15</td>
</tr>
<tr>
<td>B</td>
<td>Attitude towards the National Credit Act</td>
<td>16 – 23</td>
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Section A consisted of seven questions related to the respondents’ personal information and required the respondents to choose the options that apply to them. These questions referred amongst other things to respondents’ gender, age, ethnicity, income, level of education and awareness of NCA.

Section B of the questionnaire consisted of 16 statements related to perceptions towards credit in general, how well they know the National Credit Act and their attitudes towards the National Credit Act. The statements were formatted according to a Likert-type scale, with anchors ranging from 1 = strongly disagree to 5 = strongly agree. This section concluded with a general question that asked the customers if they have ever obtained a loan or purchased on credit.

3.5.2 Pilot Testing

A pilot study or pilot test is a small-scale study undertaken to explore areas that need more development and refinement. A pilot study is conducted prior to embarking on the full-scale
research investigation (Kumar, 2005:10). Litwin (1995:60) indicated that pilot testing also predicts difficulties that may arise during subsequent data collection, which might otherwise have gone unnoticed. According to Welman, Kruger and Mitchell (2005:148), the pilot study essentially administers the questionnaire instrument to a limited number of subjects from the same population as that for which the eventual project is intended.

The purpose of a pilot study is summarised by Welman et al. (2005:148) as:

- to detect possible flaws or errors in the measurement procedures, and
- to identify unclear or ambiguously formulated items.

Litwin (1995:60) and Anderson (2004:218) concurred that authors are so closely involved and absorbed with the project that they may overlook even the most obvious errors. Pilot testing allows a researcher the chance to correct errors and to redesign problematic parts before the survey is mass produced and used.

Pilot testing is strongly advised by Anderson (2004:218) as a survey which if inappropriately designed, is likely to generate data that will be of little value. Saunders, Lewis and Thornhill (2009:308-309) proposed that a pilot run be done on a minimum number of 10 persons, who are of similar ability and background to the survey target population. This is done to obtain an assessment of the validity of the questions, as well as the likely reliability of the data that will be collected.

Pilot study for Stage 1: qualitative research
In preparation for the in-depth qualitative interviews for this study, the following was undertaken:

- Semi-structured interviews were conducted with three colleagues at Nedbank who are at branch management level and involved in all forms of lending governed by the Act.

Pilot study for Stage 2: quantitative research
In preparation for the survey for this study, the following was undertaken:

- For quantitative survey, 10 interviews were conducted with consumers at an OMF branch as part of the pilot test.
3.5.3 Data collection
The research consisted of the following steps in the data collection phase:

Data collection in Stage 1: Qualitative research
- The semi-structured interviews were conducted with the OMF management who were directly involved in micro-lending and sales and operations. All the managers were invited to participate in the research study. A copy of this invitation is attached as Appendix B.
- The responses from the interviews were manually handwritten by the researcher and were also captured using a digital recorder. The discussions were qualitatively analysed to identify the critical issues relating to overall experiences and perceptions regarding the implementation of the Act in OMF. A summary of the discussions will be discussed in the next chapter.

Data collection in Stage 2: Quantitative research
- Questionnaires were completed by the researcher on behalf of the interviewees.
- The questionnaire was administered to 232 respondents who were either existing customers of OMF or coming to open new accounts with OMF. This provided quantitative data which when analysed statistically, allowed the comparison between key variables, determination of correlations, and other relevant factors.

3.6 Data analysis
Data analysis is “the process of bringing order, structure and meaning to the mass of collected data” (De Vos, 2002:339). The aim of data analysis is to understand the various constitutive elements of the data, through evaluating the relationships between concepts and identifying any patterns or trends, or to identify themes in the data (Mouton, 2001:108). Interpreting means comparing the results and findings to existing theoretical frameworks and showing whether these frameworks are supported or falsified by the new meanings (Mouton, 2001:109). Another purpose of data analysis is to identify the similarities and differences in the data (Holloway, 2005:154).

The analysis and interpretation of data was carried out in two stages.

Data analysis in Stage 1: Qualitative research
Stage 1, which is based on the results of the semi-structured interviews, deals with the qualitative analysis. Data analysis began with repeated listening to the participants' verbal
descriptions on the tape recorder. According to Holloway and Wheeler (2002:236), the fullest and richest data is gained from transcribing all interviews verbatim. The researcher then read and reread the verbatim transcriptions (Holloway, 2005:154) and listened to the digital recordings until the researcher became immersed in the data (Burns & Grove, 2003:378). The researcher then identified and extracted meaningful statements which are discussed in the next chapter.

Data analysis in Stage 2: Quantitative research survey

Data processing commenced with the editing and coding of the survey data obtained from the customer questionnaire. Editing involved checking the data collection forms for omissions, legibility and consistency in classification (Zikmund, 2003:72). The quantitative data analysis was conducted by the Statistical Consultation Services (STATKON) at the University of Johannesburg using SPSS 20.

Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques in order to answer research questions. Scale responses to questionnaires often require the analyst to derive various functions, as well as to explore relationships among variables (Cooper & Schindler, 2001:82).

Descriptive statistics

Descriptive statistics are the techniques and methods used to describe or summarise the characteristics of a population or a sample (Zikmund, 2003:736). The aim of descriptive statistics is to investigate the distribution of scores for each variable and to determine whether the scores on different variables are related to each other (Terre Blanche & Durrheim, 2002:105).

Normality of distribution

The Shapiro Wilk W test was used to test for the normality of the questionnaire data.

Factor analysis

Factor analysis was done to test reliability and validity of the measurement instrument. A factor analysis, according to Cooper and Schindler (2001:591) is a general term for several specific computational techniques that have the objective to reduce to a manageable number many variables that belong together and have overlapping measurement characteristics. The purpose of factor analysis is to examine the correlations among a number of variables and identify clusters of highly interrelated variables that reflect
underlying themes, or factors, within the data (Leedy & Ormrod, 2005:274). Factor analysis brings about a matrix of inter-correlations among severable variables, none of which is viewed as being dependent on each other. The correlations matrix provides the relationships on which a new set of variables is constructed. Variables are transformed through principle component analysis into a new set of composite variables, called factors, which are not correlated with each other. These factors account for the variance in the data as a whole (Cooper & Schindler, 2001:591).

The Cronbach's Alpha coefficients produced as a result of the factor analysis can be viewed as a way to measure reliability. It can estimate the proportion of true score variance that is captured by the items by comparing the sum of the item variances with the variance of the sum scale. If there is no true score but only error in the items (which is esoteric and unique and therefore uncorrelated across subjects), then the variance of the sum will be the same as the sum of variances of the individual items. Therefore, coefficient alpha will be equal to zero. If all items are perfectly reliable and measure the same thing (true score) the coefficient alpha is equal to 1 (Cooper & Schindler, 2001:591).

The key descriptive results obtained from a factor analysis are the eigenvalues and the above-mentioned factor loadings or Cronbach's Alpha coefficients. Eigenvalues, which equals the sum of the squared loadings for the variables on that factor, provide a measure of the percentage of variance in contributing variables that is explained by the factor (Cooper & Schindler, 2001:591). The importance of the component or factor is measured by the size of the eigenvalue in relation to the total variance available for distribution. The next step is to find the factor independent of the first factor that will exact most of the remaining available variance.

3.7 Quality and rigour

3.7.1 Quality and rigour in qualitative research

In qualitative research, trustworthiness has become an important concept because it allows researchers to describe the virtues of qualitative terms outside of the parameters that are typically applied in quantitative research. Trustworthiness is the term used in qualitative research as a measure of the quality of research. It is the extent to which the data and data analysis are believable and trustworthy. Guba and Lincoln (1994) and Creswell (2003) suggest that “the trustworthiness of qualitative research can be established by using four methods of rigour namely, credibility, transferability, dependability and confirmability.
**Credibility:** This includes activities that increase the probability that credible findings will be produced. These authors suggest that credibility will be established through prolonged engagement with the subject matter or allowing participants to validate that the reported findings represent their experiences.

**Dependability:** Once credibility has been determined, the question may be asked: How dependable are these results?

**Confirmability:** By leaving an audit trail, the researcher illustrates as clearly as possible the evidence and thought processes that have led to the conclusions.

**Transferability:** Also labelled ‘fittingness’. This refers to the probability that the findings will have meaning to others in similar situations. The researcher has to provide the information that potential appliers need to make a decision on transferability (Streubert & Carpenter 1999:28).

Specific strategies can be used throughout the research process to increase the worth of qualitative projects. Some strategies need to be addressed in the study design stage, while others are applied during data collection and after data are interpreted. Merriam (1998:205) provides the following seven strategies to enhance internal validity in qualitative research:

- Triangulation – using multiple sources of data or techniques to confirm emerging findings;
- Member checks – taking data and tentative interpretations back to the people from whom they were derived and asking them if the results are plausible;
- Long-term observation;
- Peer examination;
- Participatory or collaborative modes of research;
- Clarifying the researcher’s biases, assumptions, worldview and theoretical orientation at the outset of the study.
- Reflexive journals, memos, field notes

**Triangulation**

According to De Vos, Strydom, Fouche and Delport (2002:365), the concept of triangulation is sometimes used to designate a conscious combination of qualitative and quantitative
methodology. However, they cite Mouton and Marais (1990), who argue that the term triangulation refers mainly to the use of multiple methods of data collection with a view to increasing the reliability of observation, and not specifically to the combination of quantitative and qualitative approaches. In their discussion on triangulation Babbie and Mouton (2002:275) cite Denzin (1989), who explains the advantage of triangulation as follows: “By combining methods and investigators in the same study, observers can partially overcome the deficiencies that flow from one investigator or method”. Another advantage of designing multi-method research lies in the potential for enhancement of the validity of the study findings. According to Polit and Hungler (1999:259), a researcher can be much more confident about the validity of the findings when they are supported by multiple and complementary types of data.

Triangulation of method referring both to mixing qualitative and quantitative approaches of research and data triangulation, and to the use of multiple data sources in a study, was the major strategy used in this case study, other methods used were: participant observation (with field notes) and clarification of biases. A qualitative approach was used in Phase 1 of the study and a quantitative approach was used in Phase 2 of the study. Multiple sources of data were thus used in this case study. In Phase 1 data were obtained through semi-structured interviews with OMF management, while in Phase 2 data were collected from OMF customers by means of face-to-face survey questionnaires. It is believed that the use of triangulation of both method and data gave a more comprehensive picture on the effect that the NCA has had on Old Mutual Finance. According to Polit and Hungler (1999:429), the purpose of triangulation is to provide a basis for convergence on the truth. They state that “by using multiple methods and perspectives, researchers strive to sort out ‘true’ information from ‘error’ information”.

3.7.2 Quality and rigour in quantitative research: Validity and reliability

In order to ensure that the results obtained from a research study are of a high quality, there are some aspects of the data collecting instrument and the data that need to be assessed; namely validity and reliability.

Validity

Data and data collection instruments are valid if they measure and represent what they are meant to measure. Validity is thus a prerequisite if inferences are to be drawn from data (Sim & Wright 2002:123). According to Kumar (2005:153) validity is about the accuracy of the data collecting instrument and the results of the study. It is the ability of a data collection instrument to measure what it was formulated to measure. Bernard (2002:50-53) defines
validity as being about how accurate the tools used to collect data are and how trustworthy
the findings are. To get valid data, there is need to have a proper collection tool. Validity has
two aspects to it, namely; internal and external.

Internal Validity
According to Bowling (2002:150) internal validity refers to aspects relating to the testing of
the data collection instrument in the population. Internal validity is described to have been
achieved when the results obtained from a research or study are a true reflection of the
characteristic being measured; and have not been influenced by interfering factors (Bowling
2002:151). Gordis (2000:120) defines internal validity as a situation where a study or
research will have been conducted without major drawbacks as to affect the main outcome.
There are four aspects to internal validity as outlined below. The application of these aspects
during the current research is stated after the discussion of the theory.

Face validity
Face validity means that there is a logical association between the questions in the
measuring instrument and the objectives of the study (Kumar 2005:153). According to
Bernard (2002:50) face validity depends on a researcher's opinion that the instrument is
measuring what it set out to measure. In face validity the investigator has to make a
"subjective" evaluation of how the questions have been presented in the measuring
instrument and how relevant and reasonable they are to the objectives (Bowling 2002:150).
Sim and Wright (2002:72) define face validity as how well the tool will measure the concepts
or variables of interest in a given research or study. The research questionnaire was
informed by the literature reviewed as part of this study to ensure that it correctly measures
the concepts.

Content validity
With content validity, all the issues and aspects of the characteristic being measured are
fully covered and balanced with adequate questions to cover them. However this can only
be judged by other experts and or researchers (Kumar 2005:153-155). Content validity has
to do with the content in the questionnaire that has been developed for measuring an aspect
or characteristic (Bernard 2002: 50-53). In this type of validity judgements are made by
experts about the extent, scope and logic of the characteristic that the instrument sets out to
measure (Bowling 2002:151). The questionnaire was approved by the supervisor and by the
statistician prior to conducting the survey.
Criterion validity
In undertaking criterion validity, comparisons of the data collection instrument are made with a standard and approved tool where one is available (Bernard 2002: 50-53). According to Bowling (2002:151) in criterion validity one is correlating what an instrument measures with another measure which has been accepted as being valid. Criterion validity considers whether scores in a measuring instrument are in agreement with a defined “gold” standard instrument that covers the same theme. Criterion validity is applied during the development of a new measuring instrument. (McDowell 2006:31). A standard and approved tool was not available as previous research on the National Credit Act had not been conducted.

Construct validity
In construct validity, proof has to be made that the instrument measures the concepts it set out to measure (Bowling 2002:151). In construct validity there has to be a measure of an assumed relationship between two constructs (theories) and this relationship also has to be exhibited when data has been analysed. (Sim & Wright 2002:129-130).

How internal validity was secured in the current research
Two aspects of internal validity were assessed and achieved in this study and these are face and content validity. Face validity was achieved by proper development, review and perfection of the questionnaire based on the literature review and objectives of the study. Content validity was achieved with guidance of the research study supervisor and STATKON staff. The content in the questionnaire was judged and perfected with the guidance of supervisor’s expertise in the research area that the researcher was studying. Criterion and construct aspects of internal validity were not assessed however; as there was no standard questionnaire to compare it to in the case of criterion validity.

External validity
According to Altermatt (2009:1) external validity refers to how confident the researcher is in generalizing results or findings across people, situations, and times which were originally not part of the study. With external validity one is concerned with how the results of the research will be generalised to the population of interest. This can be achieved in a number of ways like a proper sample selection, ensuring a high response rate to the questionnaires, adopting a good research design (Bowling 2002: 182). Gordis (2000:120) refers to external validity as how the findings of a given study will be extrapolated to the wider general population. The findings of this study is only relevant to the customers of OMF and cannot be generalised to all customers of micro-lending companies.
Reliability

As far as reliability is concerned, Zikmund (2003:300) stated that reliability refers to the degree to which measures are free from error and therefore yield consistent results. Reliability is defined by Kumar (2005:156-159) in relation to the measuring instrument as the degree to which the results it produced are stable or consistent. The more stable an instrument is, the more predictable and accurate the results produced; and so the instrument becomes a reliable data collection tool. Reliability is affected by wording of the questions and mood of respondents at the time of data collection. According to Bernard (2002:50-53) one talks of reliability if a researcher gets the same answers when he or she undertakes different measurements at different times and different samples with the same instrument. Bowling (2002:147) defines reliability as the “reproducibility and consistency of the instrument”.

The following errors (Saunders et al., 2009:101) that pose a threat to reliability of interview data were avoided as best as possible:

- Minimising subject error: This could occur if subjects for investigation are not representative of the population under study. The OMF managers are involved with micro-lending and they all had prime roles to play in micro-lending sales and operation decisions and as such, fully adhered to the sample requirements. For the quantitative survey, the respondents were all OMF consumers.

- Minimising subject or participant bias: There was likelihood that subjects could perceive the topic as confidential or private and as such could be careful to avoid certain misinterpretations. The researcher committed to not publishing or recording any organisation specific responses and only recorded responses in general.

- Minimising observer (interviewer) error: This could happen when more than one person conducts the interviews. In such instances there is potential for different approaches to elicit responses. In this study only one researcher conducted the interviews throughout. Furthermore, the interview results as interpreted by the researcher were captured and questionnaires completed for each respondent. A high degree of structure was introduced to the interview schedule to lessen this threat to reliability.

- Minimising observer bias: This could happen where replies are interpreted differently. The semi-structure of the interview as well as the one researcher conducting and
interpreting the interviews mitigated this error from occurring. The results of the interviews were also captured on questionnaires.

3.8 Study Limitations
The following potential study limitations have been identified:

- Only staff members at management level from Old Mutual Finance were interviewed and the study findings will therefore not necessarily be representative of the Financial Services industry as a whole;

- Most of the interviews were done within Old Mutual Finance, as this research study was case specific to Old Mutual Finance as their product offering is based mainly on micro-lending.

- The quantitative survey was conducted at four OMF branches only.

3.9 Ethics
Research ethics comprises being responsible about how we do research, and always taking a moral ground (Saunders et al., 2009:183). It is about ensuring that answers are not sought at all costs, by respecting the rights of those who are included in the study.

Ethics in a research study addresses whether a particular action is right or wrong, good or bad, and forms an integrated part of any research study (Malhotra, 2003:823). It is possible that there will be some resistance from respondents (consumers) to divulge their personal financial information. Therefore, appropriate steps were taken to adhere to strict ethical guidelines in order to uphold participants’ privacy, confidentiality, dignity, rights and anonymity.

To identify ethical dilemmas, attention focused on the following:

- Informed consent: The consumer questionnaire included an introductory paragraph which outlined the clear purpose of the research study, the researcher’s background, the benefits of conducting such a study, and what would be required of the participant. A similar letter of consent was given to the managers interviewed.
- Privacy and anonymity: Participants’ names were not used.
- Voluntary participation: It was made clear to the participants that the study was only for academic purposes and that their participation in it, was absolutely voluntary.
• The research questions were framed objectively within the theoretical framework in order to ensure confidence in the research process.
• The researcher was sensitive to cultural and social differences of the research subjects.
• The researcher’s objectivity, integrity and honesty were of importance throughout all the phases of the research study. The aspects of integrity and honesty were even more important for the case study research strategy, since in this type of study the researcher is directly involved in interviews as well as collecting secondary data.
• All research findings were reported objectively with full disclosure of the research methodology and the limitations of the research process (Neuman, 2000: 90).

3.10 Conclusion
The purpose of this chapter was to explain the research methodology and data collection process followed in the present research study. The chapter clarified the use of the case study method as a data collection technique and also explained the application of this technique in the present research. The mixed methods approach was important in the context of the case study strategy of inquiry, since it provided a more comprehensive analysis of the case.

The analyses of the data that was collected by means of semi-structured interviews and surveys are provided in the next chapter.
CHAPTER 4 DATA PRESENTATION AND ANALYSIS

4.1 Introduction
In this chapter the findings of the data collected in the study are presented and discussed. A mixed method research design was used to generate both quantitative and qualitative data. In phase 1, qualitative data was generated by using semi-structured interviews with five senior managers, including the CEO of OMF. In phase 2, the customer survey done at the branches of OMF yielded quantitative data needed for the study. The results are presented in the following section.

4.2 Effect of the NCA on OMF
From the emersion in the qualitative data obtained from the OMF managers regarding the effect of the NCA, the researcher identified and extracted meaningful statements which are grouped under the ten questions included in the discussion guide.

Question 1: What, in your opinion, is the purpose of the Act?
This question explores Old Mutual Finance management’s own understanding of the purpose of the National Credit Act.

Responses from Management
The respondents gave quite similar responses to this question, which included statements such as, the Act’s purpose is:

- To protect the consumers from potentially unfair lending practices
- To address the lack of consumer rights when dealing with credit providers
- To overcome the abuse of customers in the marketplace and protect the customers to a large extent
- To afford consumers access to reasonably priced credit
- To increase access to credit – with the initial removal of small judgements from credit bureau customer profile, it gave certain consumers another ‘bite at the cherry’ from where they had the chance to prove that they could be responsible borrowers
- To regulate the industry that had a lot of loopholes and ensure that there is clarity regarding the rules and regulations that apply to both the credit provider and credit receiver
• To level the playing fields as different rules applied to different credit providers
• To address and improve consumer over-indebtedness, through debt restructuring and provide mechanisms for fair dispute resolution
• To ensure that the customers are treated fairly.

Two themes emerged. Seven of the nine responses related to purpose of the Act to consumer benefits while two of the responses focused on industry regulation.

**Question 2:** In your opinion, what is the consumer’s level of understanding re: NCA? What role do you play in educating the consumer about his/her rights and obligations?

The purpose of this question was to obtain views from OMF management on consumers’ level of understanding regarding the NCA and also understand what, if any, is their company’s contribution towards consumer education.

**Responses from Management**

Four respondents stated that, from the reports being received from different stakeholders of the National Credit Act, it would seem that there is a certain market segment that is not adequately informed about their rights and responsibilities or what would be sound financial principles. However, they argued that some borrowers are desperate to secure a loan and hence ignore sound financial advice. All the respondents indicated that, when it comes to their own customers, the basic level of understanding of NCA would be fairly high as the customers are advised about the contents of the NCA every time they come into contact with their sales consultants. All the documentation that is given to clients has a disclosure clause regarding the Act and provides all the useful contact numbers to use should the clients need further information regarding the loan contract they have entered into or should they experience difficulties in meeting their financial obligations. According to the managers, the OMF consultants often take proactive steps in contacting clients to ensure that their clients are still able to meet their financial obligations. The managers stated that unlike some of their competitors who have said that granting a loan is like selling their customers ‘bread’ – quick and easy - OMF as a micro-lender had taken a decision some time ago to slow the sales process and ensure that the consultants spend at least forty-five minutes going through the processes and thus ensuring that their customers are fully aware of the contract contents, their rights and responsibilities.
One respondent raised a concern that a lot of benefits of consumer education are often nullified as the consumers are consistently bombarded by television advertisements showing what consumers should have or are missing out on. He mentioned an advertisement by one of their competitors where they advertise a loan that one can take to go on holiday. He stated that these kind of advertisements are counter-productive as they nullify the positive messages aimed at savings and curbing over-indebtedness. Another respondent mentioned that what they have seen over years is that a lot of consumers are aware of the Act, but they still do not understand the actual total cost of credit – the consumers are often concerned about: “Can I afford it? What is the instalment? I'll take the loan”. This is done without paying any attention to all the fees included as part of the full instalment.

**Question 3:** How can the Act lead to consumer behavioural changes in dealing with credit?

The purpose of this question was to obtain the views of OMF management on their impression regarding the application of the NCA and on how this could change the behaviours of consumers when dealing with credit.

**Responses from management**

The respondents stated that it all starts with ensuring that the affordability assessments for the customers are done correctly, as this will alleviate a situation where clients get given a loan that they could not afford, resulting in reckless lending. By doing the proper assessments, it allows their consultants to advise their clients on how to handle their finances and financial obligations going forward. All the respondents expressed concerns that the affordability is not clearly defined in the Act, as a result various financial institutions apply different rules. As a consequence of that, some clients who should not be given a loan end up getting one and this does not contribute to the behavioural change in the way customers view credit. Another concern raised by all the respondents was that the act should be prescriptive regarding the responsibilities of the borrower so that they can be held accountable. Ultimately, the consumer accepts and uses the funds. Certain borrowers often play the system in an attempt to get the most cash available with a view of avoiding their responsibilities by changing bank accounts or returning debit orders with seeming impunity. One respondent expressed a concern that some applicants can be so desperate to get a loan that they end up lying about their income, expenses and even falsifying documents so that they can get an approval for a loan. According to all respondents, the customers seem to be more interested in the final amount to be paid on a monthly basis,
instead of taking into account the period of the contract and the interest rate being charged on the contract. This results in their sometimes paying three times more than the original loan.

For the Act to result in consumer credit behaviour changes, all respondents were in agreement that more financial education is needed, not just financial education from the lenders, but there should be more visibility and education coming from the NCR. They suggested that financial planning should be part of the school curriculum to ensure that the financial literacy in the communities is increased so that people can make informed choices.

**Question 4:**  *Has the implementation of NCA had a positive or a negative effect on OMF micro-lending sales?*

The purpose of this question was to obtain views from OMF management on the effect the NCA has had on the OMF lending market.

**Responses from Management**

The majority of respondents indicated that the implementation of the NCA has not had a negative effect. Their sales have continued to increase year on year. The introduction of the ‘money saver’ product has contributed to their success as it allows clients to consolidate all their debt into one account, that is instead of paying six different accounts with different duration and interest rates, customers can take out one loan from OMF, settle all the six accounts, and only have one loan — which is in most cases cheaper to maintain. A lot of their clients start on this product and when they have finished paying, they then apply for other kinds of loans offered by the company. One respondent also stated that OMF is well known for having a longer sales process compared to their competitors, reasons being, they always make sure that everything has been explained to the client and they find that most clients appreciate this effort. That is why they get a lot of referrals and their customers keep on coming back to them because of the trust that they have in OMF.

**Question 5:**  *With the tighter lending requirements regulating the micro-lending industry, what percentage of consumers have you had to turn down?*

The purpose of this question was to obtain views from OMF management on the effect the National Credit Act has had on their growth (increase in customer base).
Response from Management

The respondents were in agreement that their company had taken a different view compared to their competitors in the way they grant loans to customers. They apply a very stringent affordability assessment and as a result of this, they turn away approximately 65% to 75% of customers per month. The recent high profile investigations of some lenders by the NCR has made them even more vigilant in ensuring that they only grant loans to customers who meet their stringent requirements. This approach has not reduced the number of potential customers daily visiting their branches to apply for loans. One of the respondents also stated that it can never make any business sense for their company to pride themselves in having grown their customer base, but still sitting with unmanageable bad debt as that will be risky for the sustainability of their business. Instead, they pride themselves in having written quality business.

Question 6: Has the implementation of the NCA impacted on your staff cost base?
If yes, how?

The purpose of this question (and questions 7 and 8) was to obtain views regarding the effect that the NCA has had on their operational costs.

Response from Management

Two respondents indicated that they had to increase the number of compliance managers who visit OMF branches to audit the business concluded by their sales consultants to ensure that the business approved is in line with the rules and regulations provided by the Act. Inside their branches, they now have a debt adviser who offers their clients debt counselling and also advice on how to improve their financial situations. These services form part of the requirements as set out by the NCA. Other respondents indicated that the increase in staff costs in some of their divisions were as a result of their company growing and not necessarily because of the Act requirements.

Question 7: How have the required affordability assessment and mandatory credit bureau checks affected OMF?

This question was aimed at understanding the effects of the NCA on OMF's operational costs.
Response from Management

Respondents felt that the required affordability assessments have affected OMF in a positive way as these assessments ensure that customers are protected against reckless lending and they also benefit the company as well by ensuring that the business that is written is of quality. As one respondent said, “the assessments do not guarantee that the loan will be paid in full but nevertheless compels the lender to check the background of the applicant thoroughly before giving the approval. Should the scorecard come out with a high score, the probability is also high that the customer will be able to repay the loan in full”.

Regarding the mandatory credit bureau checks, the respondents stated that their costs have slightly increased as they used to be contracted with one of the three credit bureau companies, but that has since changed. The Act requires the lender to do a full credit check before any loan can be granted, and that has resulted in OMF having to register with all of the three credit bureau companies. Having all the credit information at their disposal has allowed the company to compare the information provided in application forms with the information provided by credit bureaux and in some instances, they have been able to catch clients who do not fully disclose their financial situations. This customer credit profile also allows OMF consultants to give proper advice regarding debt consolidation issues, and ensures that they enter into credit arrangements that better suit their customers as they are able to assess whether or not the customer is in a position to pay the agreed credit instalment.

Question 8: Did your company incur any other additional compliance costs due to NCA?

The respondents were in agreement with the fact that their compliance costs have increased. Their sales division uses more paper now than before as they have to print a copy of the whole contract which can amount to approximately thirty pages per client, as it is now mandatory for clients to get a copy of every contract signed. The storage costs of contracts and general business paper work has increased over the years owing to the increased space now needed for safe keeping this paperwork, and also the extended number of years the credit provider is required to keep the original contract entered into with the client. In their collections division, their systems had to be upgraded in keeping up with the day-to-day requirements as set out by the Act that is recording of conversations, tracing of people who have changed their bank accounts, and who are no longer fulfilling their contractual obligations amongst other things.
Question 9: In your opinion, has OMF levels of bad debts increased or decreased? What has led to that increase or decrease?

The purpose of this question was twofold. Firstly, it was to assess OMF management’s views on what has led to the change in their bad debts. Secondly, to assess whether their responses are in agreement with the literature as discussed in Chapter 2.

Response from Management

The respondents indicated that their levels of bad debts are on the increase which is partly due to the increasing size of their client base and they also added that their ratio of bad debt relative to turnover (sales) is manageable and also within the industry norms. All the respondents gave an indication that the increase in bad debts is due to the economy that is struggling, people are unable to meet their daily financial demands with their current income. They end up borrowing from different lenders which worsens their financial situation at the end as they struggle to meet the financial obligations.

Question 10: What about the NCA should be changed?

Most of the respondents have indicated that the Act has good intentions but lacks clarity on a number of issues. They felt that the Act was badly drafted by a Canadian who knew very little about South African laws, using a very different style of writing which at times can be very ambiguous. Some of the issues raised were as follows:

- There should be an amendment to the NCA to enhance the powers of the Regulator, specifically pertaining to strengthening enforcement and implementation of the provisions of the NCA.
- The NCR needs to tighten up enforcement in respect of affordability assessments. The NCA allows credit providers to develop their own assessment mechanisms and models which are supposed to result in a fair and objective assessment. Some credit providers are only too happy to grant credit and charge a fortune in interest, because they know they can collect (the money), thanks to robust collection mechanisms in South Africa. They have little incentive to do an accurate affordability assessment. This results in increased numbers of consumers having impaired records as they struggle to repay the loan(s).
- The Act should provide clear guidelines on reckless lending. Currently, there are no guidelines as to what constitutes reckless lending, as there is no guidance from the
Regulator. The reliance on debt counsellors to identify reckless lending is unrealistic. Debt counsellors are unlikely to succeed in getting a reckless lender out of the system when there is no incentive to do so.

- The process to resolve legal disputes should be expedited. Under the current dispensation only a magistrate court can declare an agreement reckless – this process takes a very long time whilst the lender is not getting any instalment from the credit receiver. These cases should be handled by the National Credit Tribunal as they also have the right expertise in dealing with such matters. This change can also give consumers a far more expeditious and cost effective channel to challenge agreements they believe to be reckless.

- The debt counsellors’ remuneration should not be paid on an upfront basis as it is done currently. It has been observed that some debt counsellors tend to neglect customers and do not ensure that they adhere to the agreed new payment plans and results in new arrangements with a credit provider not being fulfilled.

- The NCR should take an active role in consumer education. Currently, the NCR relies heavily on credit lenders to fulfil this role not bearing in mind that the credit lender is not an educator. They will only cover the basics of the NCA, but the rest of the information needs to be re-enforced by the NCR as some customers do not thoroughly read through their contracts.

- Lastly, there should be a review on the payday loans which are currently very popular and are offered by some of OMF’s competitors. These loans are usually taken by customers who want to supplement their monthly income. According to the respondents, the payday loans are taken by consumers on a monthly basis at 5% interest (60% per year), this excludes the other fees such as initiation and service fees that are charged over and above the normal interest and which are added on the final instalment. This product is said to be self-destructive as it gives consumers an impression that they can afford things that they actually cannot afford.

4.3 OMF consumers’ demographics
In Phase two a total of 232 respondents participated in the survey, all customers of Old Mutual Finance.

The first part of the questionnaire included questions pertaining to the demographics of the respondents and their awareness of the National Credit Act. The responses to these questions were analysed using descriptive statistics.
Descriptive statistics summarise aspects of values making up the variable (Eiselen, Uys & Potgieter, 2005:50). Calculating averages, frequency distributions and percentage distributions are the most common ways of summarising data, according to Zikmund (2003:473). The descriptive statistics will be presented in frequency tables.

Descriptive statistics will be provided for the gender of respondents, age, ethnicity, income (per month), highest education qualification, awareness of the NCA, how they became aware of the NCA and whether they have obtained a loan or purchase on credit.

4.3.1 Gender distribution

Of the 232 participants, 55.6% were male (n=129) and 44.4% were female (n=103). The distribution of respondents in terms of gender is illustrated in Table 4.1.

Table 4.1: Gender of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Male</td>
<td>129</td>
<td>55.6</td>
<td>55.6</td>
<td>55.6</td>
</tr>
<tr>
<td>2 Female</td>
<td>103</td>
<td>44.4</td>
<td>44.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>100.0</td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.2 Age distribution

The results showed that respondents mean age was 37.09 years with a standard deviation of 9.473. The youngest credit receiver was 20 years old, whilst the oldest credit receiver was 59 years old. Owing to the wide distribution of age groups, the total sample was divided into three main age groups, namely, younger than 35 years, 36-49 years and 50 years and older (table 4.2).

Table 4.2: Average age of respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Younger than 35 years</td>
<td>114</td>
<td>49.1</td>
</tr>
<tr>
<td>36 – 49 years</td>
<td>86</td>
<td>37.1</td>
</tr>
<tr>
<td>50 years and older</td>
<td>31</td>
<td>13.4</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>99.6</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>.4</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.3.3 Distribution by race
The majority of the respondents were blacks (78.9%), followed by the coloureds (13.8%), Indians or Asian (3.9%) and lastly the white respondents (3.4%). This representation is in line with the population distribution in South Africa (table 4.3).

Table 4.3: Ethnic groups of respondents

<table>
<thead>
<tr>
<th>Ethnic group</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Black</td>
<td>183</td>
<td>78.9</td>
<td>78.9</td>
<td>78.9</td>
</tr>
<tr>
<td>2 White</td>
<td>8</td>
<td>3.4</td>
<td>3.4</td>
<td>82.3</td>
</tr>
<tr>
<td>3 Coloured</td>
<td>32</td>
<td>13.8</td>
<td>13.8</td>
<td>96.1</td>
</tr>
<tr>
<td>4 Indian or Asian</td>
<td>9</td>
<td>3.9</td>
<td>3.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.3.4 Income distribution
The majority of customers (40.9%) were in the middle income bracket of R8 000 – R14 999 per month, followed by the high income bracket of R15 000 or more per month at 32.8%, and lastly the low income bracket of less than R7 999 at 26.3%, as depicted in Table 4.4.

Table 4.4: Income (per month) of respondents

<table>
<thead>
<tr>
<th>Income level</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Less than R7 999</td>
<td>61</td>
<td>26.3</td>
<td>26.3</td>
<td>26.3</td>
</tr>
<tr>
<td>2 R8 000 – R14 999</td>
<td>95</td>
<td>40.9</td>
<td>40.9</td>
<td>67.2</td>
</tr>
<tr>
<td>3 R15 000 or more</td>
<td>76</td>
<td>32.8</td>
<td>32.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.3.5 Distribution by level of education
The largest group in the sample (52.2%) holds a post-matric diploma or certificate, followed by a group that has completed Grade 12 (30.2%), while 13.8% of respondents has a degree qualification (table 4.5). Only 1.3% did not even have a matric. Thus, 98.3% of the respondents had at least a matric qualification.
Table 4.5: Level of education

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Grade 11 or lower</td>
<td>3</td>
<td>1,3</td>
<td>1,3</td>
<td>1,3</td>
</tr>
<tr>
<td>2 Grade 12 (Matric)</td>
<td>70</td>
<td>30,2</td>
<td>30,3</td>
<td>31,6</td>
</tr>
<tr>
<td>3 Post-matric Diploma/Certificate</td>
<td>121</td>
<td>52,2</td>
<td>52,4</td>
<td>84,0</td>
</tr>
<tr>
<td>4 Baccalaureate Degree(s)</td>
<td>32</td>
<td>13,8</td>
<td>13,9</td>
<td>97,8</td>
</tr>
<tr>
<td>5 Post-graduate Degree(s)</td>
<td>5</td>
<td>2,2</td>
<td>2,2</td>
<td>100,0</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>99,6</td>
<td>100,0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>0,4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>100,0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3.6 Awareness of the National Credit Act
Most of the respondents (99.1%) were aware of the National Credit Act (table 4.6). Even those who did not recognise the name itself, had some basic understanding of what the National Credit Act is all about.

Table 4.6: Awareness of the National Credit Act

<table>
<thead>
<tr>
<th>Awareness of NCA</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>1 Yes</td>
<td>230</td>
<td>99,1</td>
<td>100,0</td>
</tr>
<tr>
<td>Missing System</td>
<td></td>
<td>2</td>
<td>0,9</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>100,0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3.7 How they became aware of the National Credit Act
This question was not mutually exclusive, the respondents were allowed to give multiple responses. From the results in Table 4.7, most of the customers (98%) became aware of the National Credit Act through their own institutions. The second biggest source was the newspaper (32%), followed by the Internet (27%) and lastly, the television (20%). The category for “other” was further divided into four main sources namely, Financial Adviser (n=41), Employer (n=23), Family (n=6) and lastly Banks (n=5).
Table 4.7: How they became aware of the National Credit Act

<table>
<thead>
<tr>
<th>Method</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Institution</td>
<td>228</td>
</tr>
<tr>
<td>Radio</td>
<td>1</td>
</tr>
<tr>
<td>TV</td>
<td>46</td>
</tr>
<tr>
<td>Newspaper</td>
<td>75</td>
</tr>
<tr>
<td>Billboards</td>
<td>1</td>
</tr>
<tr>
<td>Internet</td>
<td>62</td>
</tr>
<tr>
<td>Other</td>
<td>75</td>
</tr>
</tbody>
</table>

4.3.8 Have you ever obtained a loan or purchased on credit (bought on account, bond on a house)?

Of the 231 participants, 89.2% (n=206) indicated that they had obtained a loan or purchased on credit. Only 10.8% (n=25) gave a negative response to this question, as illustrated in Table 4.8.

Table 4.8: Have you ever obtained a loan or purchased on credit?

<table>
<thead>
<tr>
<th>Obtained loan or bought on credit</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>1 Yes</td>
<td>206</td>
<td>88.8</td>
<td>89.2</td>
</tr>
<tr>
<td></td>
<td>2 No</td>
<td>25</td>
<td>10.8</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>231</td>
<td>99.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>1</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>232</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

In the following section, the analysis of the items in Section B of the customer questionnaire are reported. This analysis is necessary to determine if the questionnaire empirically measured what it was designed to measure.
4.4. Perceptions of OMF consumers pertaining to the National Credit Act

In the second part of the questionnaire, 16 questions focused on three themes as depicted in table 4.9:

- Respondents perceptions towards credit in general (4 questions)
- How well they know the National Credit Act (4 questions)
- Attitude towards the National Credit Act (8 questions)

Table 4.9 Questions to determine perceptions and knowledge pertaining to the credit and the National Credit act

<table>
<thead>
<tr>
<th>Perception towards credit in general</th>
<th>8. I understand how credit works</th>
<th>9. I understand my rights as a consumer</th>
<th>10. I understand my responsibilities as a consumer</th>
<th>11. I know where to go when in trouble with debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>How well they know the National Credit Act</td>
<td>12. Being aware of the Act has allowed me to better manage my finances</td>
<td>13. I have a right to be given written documentation relating to my credit transaction</td>
<td>14. As a customer, I am entitled to one free credit report from credit bureaux per year</td>
<td>15. I have the right to access and challenge information held by a credit bureaux</td>
</tr>
<tr>
<td>Attitude towards the National Credit Act</td>
<td>16. The Act promotes a fair and non-discriminatory marketplace for accessing credit</td>
<td>17. The Act limits my chances of accessing credit</td>
<td>18. The Act protects me from unfair credit and credit marketing practices</td>
<td>19. The Act promotes responsible credit granting and use and for that purpose prohibits reckless lending</td>
</tr>
<tr>
<td></td>
<td>20. The Act regulates interest rates and fees to ensure that customers are not overcharged by credit providers</td>
<td>21. The Act ensures that consumers are provided with reasons should a credit application be declined</td>
<td>22. The Act provides debt re-organisation, to enable restructuring of debts for over-indebted consumers</td>
<td>23. The Act ensures credit providers use simple language in credit agreements that the consumer can understand</td>
</tr>
</tbody>
</table>

The analysis will be reported as follows:

- Normality of data for Section B of the customer questionnaire
- Exploratory factor analysis
- Reliability of sub-scale, and
- Findings on Likert scaling data
4.4.1 Normality of Data

"Normality is critical in many statistical methods as violation results in interpretation and inference not being reliable or valid" (Park, 2008:2). Basic knowledge of the underlying distribution of a variable, allows the researcher to make predictions about how, in repeated samples of equal size, this particular statistic will "behave," that is, how it is distributed (StatSoft, Inc., 2011). The Shapiro-Wilk W test is the preferred test of normality because of its good power properties as compared to a wide range of alternative tests (Shapiro, Wilk & Chen, 1968 in StatSoft, Inc., 2011). The Shapiro Wilk W test was used to test for the normality of questionnaire data and the results are presented in Table 4.10.

Table 4.10: Shapiro-Wilk W Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>W Statistic</th>
<th>df</th>
<th>p =</th>
</tr>
</thead>
<tbody>
<tr>
<td>B8</td>
<td>0.803</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B9</td>
<td>0.864</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B10</td>
<td>0.755</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B11</td>
<td>0.815</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B12</td>
<td>0.847</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B13</td>
<td>0.639</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B14</td>
<td>0.663</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B15</td>
<td>0.805</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B16</td>
<td>0.718</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B17</td>
<td>0.712</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B18</td>
<td>0.777</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B19</td>
<td>0.799</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B20</td>
<td>0.800</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B21</td>
<td>0.783</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B22</td>
<td>0.691</td>
<td>227</td>
<td>0.000</td>
</tr>
<tr>
<td>B23</td>
<td>0.838</td>
<td>227</td>
<td>0.000</td>
</tr>
</tbody>
</table>

According to the test, the variables that were measured in the questionnaire were not normally distributed as the 'p' value was less than 0.005 in all cases.

However, when the sample data per variable is fairly large, moderate deviations from normality are neutralised because of the central limit theorem. According to the central limit theorem, the sampling distribution of the mean approximates the normal distribution regardless of the distribution of the variable in the population. In such cases violations of the normality assumptions are usually not ‘fatal’, meaning that the resultant significance tests are still valid (Bush, Hair & Ortinaun, 2000:334).
4.4.2 Factor Analysis

Eiselen, et al. (2005:104) state that the factor analysis analyses the correlations between pairs of variables and identifies groups of variables in such a way that variables in the same group are highly correlated with one another but essentially uncorrelated with the variable in another group. This technique yields a loading matrix indicating the loading of each variable on each factor. A large loading (positive or negative) implies that the variable contributes a great deal to the factor. The closer the loading is to 0, the less the variable contributes to the factor. In other words by looking at the loading matrix, for each variable, the factor to which it contributes most can be determined. This enables the formation of groups of variables. Once it is established which questions form a group or contribute most to a factor, by considering the wording of the individual questions in that factor, a name is given to that underlying dimension. Eiselen, et al. (2005:105) state that factor analysis helps the researcher to reduce the number of questions to a few interpretable factors or dimensions and enables the researcher to describe the results of a survey in a concise manner by concentrating on the factors rather than the individual questions.

Factor analysis takes a large set of variables and identifies ways that the data may be reduced or summarised using smaller set of factors or components. This is done by searching for certain values within the inter-correlation table of a set of variables (Pallant, 2005). Factor analysis also assist a researcher to group different test questions that appear to be measuring a similar underlying construct. The three main steps in conducting factor analysis will now be discussed.

Step 1: Assessment of the suitability of the data for factor analysis

In order to assess whether the data set is suitable for factor analysis, two issues need to be addressed, namely sample size and the strength of the relationship among the variables (or items). Generally, the larger the sample size, the better. However, ten cases for each item to be factor analysed is recommended by Nunnally (1978 in SPSS 20). This research study complies with this minimum ruling as 16 items are being factor analysed, requiring a minimum of 160 cases, while 227 cases are available for analysis.

The Kaiser-Meyer-Olkin measure and the Bartlett test of sphericity (table 4.11) were used to determine sampling adequacy (Kim & Mueller, 1978).
Table 4.11: KMO and Bartlett’s test

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</th>
<th>.910</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartlett’s Test of Sphericity</td>
<td></td>
</tr>
<tr>
<td>Approx. Chi-Square</td>
<td>1484.169</td>
</tr>
<tr>
<td>df</td>
<td>120</td>
</tr>
<tr>
<td>Significance</td>
<td>.000</td>
</tr>
</tbody>
</table>

The Kaiser-Meyer-Olkin value was 0.910 exceeding the recommended value of 0.6 (Kaiser, 1970, 1974). It can therefore be concluded that factor analysis can be used on the sample. To confirm this, it is advised to consider an additional measure that also looks at the appropriateness of using factor analysis, namely Bartlett’s test of sphericity (Bartlett, 1954), which is statistically significant at the 5% level of significance (p < 0.05) and therefore supported the factorability of the correlation matrix.

**Step 2: Factor extraction**

Factor extraction includes identifying the least number of factors that can be used to best characterise the interrelations among the set of variables. There are a lot of approaches available that can be used to recognise or remove the number of underlying factors of dimensions (Pallant, 2005). Some of the techniques that can be used to assist in the decision concerning the number of factors to retain are Kaiser’s criterion, the scree test and parallel analysis. Several variables should load on each factor before one can actually trust the factor to be meaningful (Garson, 2008; Habing, 2003; Pallant, 2005). By making use of Kaiser’s criterion, components with eigenvalues of 1 or more should be considered for extraction. To determine how many components meet this criterion, it is necessary to peruse the total variance-explained table. Principal components analysis exposed the presence of three components with eigenvalues exceeding 1, which explains 39.7 per cent, 10.2 per cent and 7.0 per cent of the variance, respectively.
Table 4.12: Total variance explained

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
<td>Cumulative %</td>
</tr>
<tr>
<td>1</td>
<td>6,354</td>
<td>39,714</td>
<td>39,714</td>
</tr>
<tr>
<td>2</td>
<td>1,643</td>
<td>10,269</td>
<td>49,983</td>
</tr>
<tr>
<td>3</td>
<td>1,124</td>
<td>7,023</td>
<td>57,005</td>
</tr>
<tr>
<td>4</td>
<td>.881</td>
<td>5,505</td>
<td>62,510</td>
</tr>
<tr>
<td>5</td>
<td>.831</td>
<td>5,196</td>
<td>67,707</td>
</tr>
<tr>
<td>6</td>
<td>.719</td>
<td>4,495</td>
<td>72,202</td>
</tr>
<tr>
<td>7</td>
<td>.649</td>
<td>4,055</td>
<td>76,257</td>
</tr>
<tr>
<td>8</td>
<td>.600</td>
<td>3,752</td>
<td>80,010</td>
</tr>
<tr>
<td>9</td>
<td>.525</td>
<td>3,279</td>
<td>83,288</td>
</tr>
<tr>
<td>10</td>
<td>.520</td>
<td>3,250</td>
<td>86,539</td>
</tr>
<tr>
<td>11</td>
<td>.479</td>
<td>2,991</td>
<td>89,530</td>
</tr>
<tr>
<td>12</td>
<td>.411</td>
<td>2,569</td>
<td>92,099</td>
</tr>
<tr>
<td>13</td>
<td>.372</td>
<td>2,327</td>
<td>94,427</td>
</tr>
<tr>
<td>14</td>
<td>.363</td>
<td>2,267</td>
<td>96,694</td>
</tr>
<tr>
<td>15</td>
<td>.319</td>
<td>1,993</td>
<td>98,687</td>
</tr>
<tr>
<td>16</td>
<td>.210</td>
<td>1,313</td>
<td>100,000</td>
</tr>
</tbody>
</table>

**Step 3: Factor rotation and interpretation**

After the number of factors to extract has been determined, the following step is to interpret the values. This is done to support the process where the factors are rotated. It will not change the underlying solution. It represents the pattern of loadings in a way that makes it more convenient to interpret (Pallant, 2005).

There are two general types of rotation, and they have differing implications for the potential associations among factors. The first general type of rotation is an orthogonal rotation, and it generates factors that are uncorrelated or “orthogonal” to each other. A procedure called “varimax” is the standard orthogonal rotation. The second general type of rotation is an oblique rotation, which generates factors that can be either correlated or uncorrelated with each other. There are many subtypes of oblique rotations, including “promax” and “direct oblimin.” A full discussion of the differences among these subtypes is beyond the scope of this research study, the important point is that all the oblique rotations allow factors to be correlated or uncorrelated with each other.

In Table 4.13, a Pattern Matrix was used where all three main factors were identified. All values lower than .25 were suppressed.
Table 4.13: Pattern Matrix – Customer perceptions of credit and NCA

<table>
<thead>
<tr>
<th>Pattern Matrixa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>B8</td>
</tr>
<tr>
<td>B9</td>
</tr>
<tr>
<td>B10</td>
</tr>
<tr>
<td>B11</td>
</tr>
<tr>
<td>B12</td>
</tr>
<tr>
<td>B13</td>
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<tr>
<td>B14</td>
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<tr>
<td>B15</td>
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<tr>
<td>B16</td>
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<tr>
<td>B17</td>
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<td>B18</td>
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<td>B19</td>
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<td>B20</td>
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<tr>
<td>B21</td>
</tr>
<tr>
<td>B22</td>
</tr>
<tr>
<td>B23</td>
</tr>
</tbody>
</table>

Extraction Method: Maximum Likelihood.
Rotation Method: Promax with Kaiser Normalization.

The pattern matrix corresponds to the theoretical categorisation of items. Although there are some cross loadings, in general the pattern matrix reflects that these three sub-themes do emerge from the questionnaire, which means that the questionnaire is valid.

The component correlation matrix shows the strength of the relationship between the three factors. In this case the values are relatively high 0.724, 0.624 and 0.466, respectively. The component correlation matrix provides information with regards to the strength of the relationship between the three factors. All three factors were found to be strongly correlated (table 4.14).

Table 4.14: Component correlation matrix

<table>
<thead>
<tr>
<th>Factor</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.000</td>
<td>.624</td>
<td>.724</td>
</tr>
<tr>
<td>2</td>
<td>.624</td>
<td>1.000</td>
<td>.466</td>
</tr>
<tr>
<td>3</td>
<td>.724</td>
<td>.466</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Extraction Method: Maximum Likelihood.
Rotation Method: Promax with Kaiser Normalization.
Reliability Analysis

Cronbach's alpha is defined as a measure of reliability that ranges from 0 to 1, with values of 0.60 to 0.70 regarded as the lower limit of acceptability (Hair, Black, Babin & Anderson 2010:92). Hair et al. (2010:125) stated that in exploratory research, values of 0.60 are acceptable. The reliability of all three factors emerged as statistically sound with specific results as follows:

(i) Factor 1 – Knowledge of the Act

Factor 1 is named Knowledge of the Act it includes variables such as,

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>B11</td>
<td>I know where to go when in trouble with debt</td>
</tr>
<tr>
<td>B12</td>
<td>Being aware of the Act has allowed me to better manage my finances</td>
</tr>
<tr>
<td>B13</td>
<td>I have a right to be given a written documentation relating to my credit transaction</td>
</tr>
<tr>
<td>B14</td>
<td>As a customer, I am entitled to one free credit report from credit beaux per year</td>
</tr>
<tr>
<td>B15</td>
<td>I have the right to access and challenge information held by a credit bureaux</td>
</tr>
</tbody>
</table>

This factor emerged as being reliable in that the Cronbach Alpha value of 0.693 is approximating the value of 0.7, which is accepted as the norm for reliability testing.

(ii) Factor 2 – Attitudes towards the Act

Factor 2 is referred to as Attitudes towards the Act as includes variables such as,

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>B16</td>
<td>The Act promotes a fair and non-discriminatory market place for accessing credit</td>
</tr>
<tr>
<td>B18</td>
<td>The Act protects me from unfair credit and credit market practices</td>
</tr>
<tr>
<td>B19</td>
<td>The Act promotes responsible credit granting and use and for that purpose prohibits reckless lending</td>
</tr>
<tr>
<td>B20</td>
<td>The Act regulates interest rates and fees to ensure that customers are not overcharged by credit providers</td>
</tr>
<tr>
<td>B21</td>
<td>The Act ensures that consumers are provided with reasons should a credit application be declined</td>
</tr>
<tr>
<td>B22</td>
<td>The Act provides debt re-organisation, to enable restructuring of debts for overindebted consumers</td>
</tr>
<tr>
<td>B23</td>
<td>The Act ensures credit providers use simple language in credit agreements that the consumer can understand</td>
</tr>
</tbody>
</table>

This factor emerged as being fairly reliable in that the Cronbach Alpha value of 0.680 is very close to being 0.7.

(iii) Factor 3 – Perception towards credit in general

Factor 3 is named Perception towards credit in general as includes variables such as,
This factor emerged as being very reliable in that the Cronbach Alpha value of 0.857 is larger than 0.7.

Having established the structural validity and reliability of the questionnaire, it was possible to then proceed with an analysis of the data obtained from the questionnaire using a detailed summary of Likert scaling.

### 4.5 Findings on Likert scaling data

All the items were measured on a 5-point Likert-type scale with 1 indicating “strongly disagree” and 5 indicating “strongly agree”. Therefore, the higher the average score, the higher the general agreement in the group on the specific questions.

#### Table 4.15: Summary of data from Likert scaling scores

<table>
<thead>
<tr>
<th>Perception towards credit in general</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. I understand how credit works</td>
<td>0%</td>
<td>9%</td>
<td>13%</td>
<td>57%</td>
<td>21%</td>
</tr>
<tr>
<td>9. I understand my rights as a consumer</td>
<td>0%</td>
<td>11%</td>
<td>26%</td>
<td>47%</td>
<td>16%</td>
</tr>
<tr>
<td>10. I understand my responsibilities as a consumer</td>
<td>0%</td>
<td>0%</td>
<td>11%</td>
<td>65%</td>
<td>24%</td>
</tr>
<tr>
<td>11. I know where to go when in trouble with debt</td>
<td>0%</td>
<td>43%</td>
<td>11%</td>
<td>37%</td>
<td>9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How well they know the National Credit Act</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>12. Being aware of the Act has allowed me to better manage my finances</td>
<td>5%</td>
<td>50%</td>
<td>20%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>13. I have a right to be given written documentation relating to my credit transaction</td>
<td>0%</td>
<td>0%</td>
<td>8%</td>
<td>77%</td>
<td>15%</td>
</tr>
<tr>
<td>14. As a customer, I am entitled to one free credit report from credit bureaux per year</td>
<td>1%</td>
<td>65%</td>
<td>4%</td>
<td>29%</td>
<td>1%</td>
</tr>
<tr>
<td>15. I have the right to access and challenge information held by a credit bureau</td>
<td>0%</td>
<td>26%</td>
<td>5%</td>
<td>57%</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attitude towards the National Credit Act</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>16. The Act promotes a fair and non-discriminatory marketplace for accessing credit</td>
<td>0%</td>
<td>7%</td>
<td>5%</td>
<td>62%</td>
<td>26%</td>
</tr>
<tr>
<td>17. The Act limits my chances of accessing credit</td>
<td>0%</td>
<td>19%</td>
<td>13%</td>
<td>65%</td>
<td>3%</td>
</tr>
<tr>
<td>18. The Act protects me from unfair credit and</td>
<td>2%</td>
<td>63%</td>
<td>0%</td>
<td>31%</td>
<td>4%</td>
</tr>
</tbody>
</table>
credit marketing practices

<p>| | | | | |</p>
<table>
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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>19. The Act promotes responsible credit granting and use and for that purpose prohibits reckless lending</td>
<td>1%</td>
<td>13%</td>
<td>3%</td>
<td>57%</td>
</tr>
<tr>
<td>20. The Act regulates interest rates and fees to ensure that customers are not overcharged by credit providers</td>
<td>19%</td>
<td>62%</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>21. The Act ensures that consumers are provided with reasons should a credit application be declined</td>
<td>2%</td>
<td>37%</td>
<td>4%</td>
<td>47%</td>
</tr>
<tr>
<td>22. The Act provides debt re-organisation, to enable restructuring of debts for over-indebted consumers</td>
<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>65%</td>
</tr>
<tr>
<td>23. The Act ensures credit providers use simple language in credit agreements that the consumer can understand</td>
<td>18%</td>
<td>9%</td>
<td>4%</td>
<td>55%</td>
</tr>
</tbody>
</table>

It should however be noted that the average is only a general indication of the agreement score. Several conclusions can be made based on these results namely:

**I understand how credit works:** The results reflect that 78% of the respondents either agreeing or strongly agreeing with this statement. Only 9% of the respondents disagreed with this statement and 13% were neutral to the statement.

**I understand my rights as a consumer:** The results indicate that 63% of the respondents either agreed or strongly agreed with this statement, while 11% of the respondents disagreed with this statement and 26% of the respondents were neutral to the statement.

**I understand my responsibilities as a consumer:** The results show a total of 89% of the respondents either agreed or strongly agreed with this statement while 11% of the respondents were neutral to the statement.

**I know where to go when in trouble with debt:** The results indicate that 46% of the respondents either agreed or strongly agreed with this statement while 43% of the respondents disagreed with this statement and 11% of the respondents were neutral to the statement.

**Being aware of the act has allowed me to better manage my finances:** The results show a total of 53% of the respondents either disagreed or strongly disagreed with this statement. This represents a disagreed response of 55%. Only 25% of the respondents were in agreement with the statement and 20% of the respondents were neutral to this statement.
I have a right to be given written documentation relating to my credit transaction: The results show that 92% of the respondents either agreed or strongly agreed with this statement while 8% of the respondents were in disagreement with this statement.

As a customer, I am entitled to one free credit report from credit bureau per year: The results indicate that 66% of the respondents either disagreed or strongly disagreed with this statement while 30% of the respondents were in agreement with this statement and 4% of the respondents were neutral to this statement.

I have the right to access and challenge information held by a credit bureau: The results reflect that 69% of the respondents either agreed or strongly agreed with this statement while 26% of the respondents were in disagreement with the statement and 5% of the respondents were neutral to this statement.

The Act promotes a fair and non-discriminatory marketplace for accessing credit: The results indicate that 88% of the respondents either agreed or strongly agreed with this statement while 7% of the respondents were in disagreement with this statement and 5% of the respondents were neutral to the statement.

The Act limits my chances of accessing credit: The results reflect that 68% of the respondents either agreed or strongly agreed with this statement. Only 19% of the respondents were in disagreement with this statement and 13% of the respondents were neutral to the statement.

The Act protects me from unfair credit and credit marketing practices: The results indicate that 65% of the respondents either disagreed or strongly disagreed with this statement while 35% of the respondents were in agreement with this statement.

The Act promotes responsible credit granting and use and for that purpose prohibits reckless lending: The results show that 83% of the respondents either agreed or strongly agreed with this statement while 14% of the respondents were in disagreement with this statement and 3% of the respondents were neutral to the statement.

The Act promotes and regulates interest rates and fees to ensure that customers are not overcharged by credit providers: The results show that 81% of the respondents either disagreed or strongly disagreed with this statement. Only 15% of the respondents
either strongly agreed or strongly agreed with this statement and 4% of the respondents were neutral to the statement.

The Act ensures that consumers are provided with reasons should a credit application be declined: The results show that 57% of the respondents either agreed or strongly agreed with this statement while 39% of the respondents were in disagreement with the statement and 4% of the respondents were neutral to the statement.

The Act provides debt re-organisation, to enable restructuring of debts for over-indebted consumers: The results indicate that 97% of the respondents either agreed or strongly agreed with this statement while only 3% of the respondents were in disagreement with the statement.

The Act ensures that credit providers use simple language in credit agreements that the consumer can understand: The results show that 69% of the respondents either agreed or strongly agreed with this statement while 27% of the respondent were in disagreement with this statement and 4% of the respondents were neutral to the statement.

4.6 Conclusion
Through the process of analysis, the extensive amount of data that was obtained through implementation of both data-gathering instruments (semi-structured interviews and survey questionnaire), has been ordered and summarised in an attempt at providing relevant answers to the research question. For De Vos (2002: 223), the purpose of this process is “to reduce data to an intelligible and interpretable form so that the relations of research problems can be studied, tested and conclusions drawn”.

The result of the analysis process will subsequently be transformed into appropriate conclusions and recommendations and will represent an all-encompassing result of the study in its totality. These will be presented in the final chapter of this study.
CHAPTER 5 CONCLUSION

5.1 Introduction
In Chapter 4, the results of the interviews with OMF management and the OMF customer survey were reported and analysed. This chapter will deal with the conclusions following those findings. Based on the conclusions certain recommendations will be made.

The research problem as discussed in Chapter 1, relates to the fact that since the inception of the National Credit Act, the levels of indebtedness have continued to increase year on year (Kelly-Louw, 2007:2). The NCA’s purpose was to accrue benefits to the stakeholders within the economy, with minimal costs incurred to/by these stakeholders.

In addressing the research problem discussed in Chapter 1, answers to the following research questions were sought:

- What has the effect of the National Credit Act been on the sales and operations of the micro lender, namely Old Mutual Finance (OMF)?
- What are the perceptions and overall experiences of OMF management regarding the application of the Act?
- What are the awareness levels and perceptions of OMF customers regarding the Act?

The objective of this research study was to conduct an investigation into the effect of the National Credit Act on a micro-lending financial institution, namely Old Mutual Finance, this investigation was conducted using semi-structured interviews with OMF management staff and a survey involving 232 of OMF customers. Through the information received from interviews and surveys, these objectives have been realised.

The purpose of the final chapter is to link the summary of the findings to the research objectives and to the literature and to offer recommendations that can be put into practice.

This discussion will follow the format of the objectives of the study as identified in Chapter 1, namely:

- To determine the effect that the National Credit Act application had on the microloans sales and operations of Old Mutual Finance.
- To determine the overall perceptions and experiences of Old Mutual Finance Management regarding the application of the Act.
• To determine the levels of awareness that the customers of Old Mutual Finance have of the National Credit Act.
• To determine the perceptions that the customer of Old Mutual Finance have regarding the benefits of the National Credit Act

5.2 Summary of Findings

5.2.1 Findings on the effect the Act has had on OMF sales and operations

• From the information gained through the interviews with OMF management, it follows that the sales of OMF have not been negatively affected by the NCA. The company seems to be meeting and exceeding their sales and slowly growing their market share in the micro-lending market. The company has attributed this growth to spending more time than usual with their customers when explaining the sales process while ensuring quality customers and avoiding bad debts. This has led to customers becoming loyal and the company getting more business through referrals or word-of-mouth.

• In terms of operational cost, the implementation of the NCA has led to an increase in costs such as staff and compliance. OMF has had to employ an additional number of compliance managers to perform audits in branches, and to create new roles for debt advisers in order to be compliant with the requirements of the Act. Their administrative costs on items such as stationery and data storage have increased owing to the increase in contract paperwork and the requirement to store it for an extended number of years. Their computer systems have had to be upgraded in order to perform certain business requirements as set out by the Act.

• The management of OMF felt that although the affordability assessment and mandatory credit checks have led to increase in their operational costs, their company has benefited in getting quality sales. Having a customer’s full credit profile at their disposal has allowed them to enter into contracts that suit the customer, with an added benefit of providing the customer with sound advice on debt consolidation.

5.2.2 Findings on perceptions and experiences of OMF management regarding the application of the Act

• The OMF management’s understanding of the purpose of the Act is in line with the official definition and purpose of the NCA.
Customer education: The management were confident that all their customers are exposed to basic customer education each time they come into contact with their financial consultants. The management has also ensured that the consultants are given enough time to go through the proper sales process with the clients so that everything relating to the contract can be explained to the client. There were concerns from management regarding low financial literacy as customers were mostly interested in knowing the monthly instalment rather than the interest, other fees added onto the contract, and the duration of the contract. The issue of unfavourable market practices when it comes to advertisement of loans was also raised by management. They opined that more needs to be done by the NCR in ensuring that the right message is sent to the customers regarding savings and over-indebtedness.

Loss of business: The management expressed that through their stringent assessment, they have intentionally had to turn down potential customers of approximately 70% per month as they are interested in growing their business through quality sales. According to management, this will in future ensure that their business is sustainable and less exposed to financial risks.

Bad debts: The management is of the view that OMF has good affordability assessment tools to assess business risks and that they ensure that the business written by their branches is of quality but over the years their bad debts have continued to increase partly because clients tend to borrow from other financial institutions and some of these institutions do not necessarily apply strict assessment policies as they do. This results in clients borrowing far more than they are able to handle resulting in financial difficulties. Another reason raised regarding bad debt was that the increase is also due to country’s struggling economy.

Changes to the NCA: There are a number of concerns regarding the Act that OMF management felt that the NCR and the Minister concerned should rectify to ensure the smooth application of the NCA. These concerns included issues relating to the amendment to the NCA in order to enhance the powers of the Regulator, specifically pertaining to strengthening enforcement and implementation of the provisions of the NCA.

The tightening up of enforcement in respect of affordability assessments by the NCR will ensure that the credit providers apply a standard formula of affordability
assessment and this will ultimately reduce the number of clients who are over-
indebted.

The process to resolving legal disputes should be expedited as under the current
dispensation only a magistrate court can declare an agreement reckless – this process
takes a very long time whilst the lender is not getting any instalment from the credit
receiver. The OMF management felt that these cases should be handled by the
National Credit Tribunal as they also have the right expertise in dealing with such
matters, this change can also give consumers a far more expeditious and cost
effective channel to challenge agreements they believe to be reckless.

The debt counsellors’ remuneration should not be paid on an upfront basis as it is
done currently. It has been observed that some debt counsellors tend to neglect
customers and do not ensure that they adhere to the agreed new payment plans and
results in new arrangements with a credit provider not being fulfilled.

The NCR should take an active role in consumer education. Currently, the NCR relies
heavily on credit lenders to fulfil this role not bearing in mind that the credit lender is
not an educator. They will only cover the basics of the NCA, but the rest of the
information needs to be re-enforced by the NCR as some customers do not thoroughly
read through their contracts.

Lastly, OMF management strongly suggested that there should be a review on the
payday loans which are currently very popular and are offered by some of OMF’s
competitors. These loans are usually taken by customers who want to supplement
their monthly income. According to the respondents, the payday loans are taken by
consumers on a monthly basis at 5% interest (60% per year), this excludes the other
fees such as initiation and service fees that are charged over and above the normal
interest and which are added on the final instalment. This product is said to be self-
destructive as it gives consumers an impression that they can afford things that they
actually cannot afford.

5.2.3 Findings on levels of consumer awareness and perceptions regarding the Act

- Customer awareness: It was found that almost all the clients who were part of the
  survey were aware of the NCA. The results from the survey indicated that 99.1% of
  the respondents were aware of the National Credit Act and 89% of respondents stated
that they became aware of the Act through their own institutions (table 4.7). These results were also in agreement with what the management of OMF expressed regarding customer education.

- Perception towards credit in general: The customer scores indicated that they were in agreement with statements relating to understanding their rights and responsibilities as consumers, and how credit works. They were although not fully in agreement with the statement regarding knowing where to go when in trouble with debt. This could well mean that the information given to consumers regarding the availability of debt counsellors is inadequate, and that could also be the reason for an increase in customers’ impaired records and a decrease in credit health as shown in figure 2.9 of literature review, as they do not know where to seek help should they face financial difficulties.

- Understanding of the NCA: The scores from the customer questionnaire indicated that customers were aware of the fact that they are entitled to getting their copies of the contract agreement and they can challenge the information held by the credit bureau. The scores also showed that customers were not fully in agreement with statements regarding their entitlement to a free credit report per year and that the NCA awareness has allowed them to better manage their finances. This could be interpreted as lack of information pertaining to the services of a credit bureau. These results are in agreement with the literature which states that an increased number of people in our country remain in the dark about their credit status until they decide to apply for credit. Regarding the awareness of the NCA contributing towards better management of their finances, the scores could mean that being aware of the NCA has made little difference in their lives as they are still struggling financially to make ends meet due to a number of reasons including the slow economic growth. These scores are further substantiated by the report on consumer vulnerability conducted by UNISA Bureau of Market Research (2013) and discussed in literature review.

- Attitude towards the NCA: The customer scores indicated that they were in agreement with most of the statements except the statements relating to the regulation of interest rates and fees and protection against unfair credit and credit market practices. This could mean that customers feel that they pay very high instalments and that the NCR is not doing enough in ensuring that they are not overcharged by credit providers. Regarding the protection against unfair credit and credit market practices, the score could be interpreted as the customers feel that they are bombarded with a lot of
enticing adverts to get loans. The scores could also be indicating that the NCR is unable to fulfil some of its mandates of protecting the consumer and regulating the interest rates and fees. The results are also in agreement with what was raised by management in Chapter 4.

Factor Analysis: Using the Promax rotation and eigenvalues exceeding one, three factors namely, Knowledge of the Act, Attitudes towards the Act and Perception towards credit in general were identified which together explained the 47% of the variance for the entire set of variables. Factor 1, 2 and 3 retained their names as they roughly correspond to the themes of the customer questionnaire.

5.3 Recommendations
In view of the research study findings, the following recommendations are made.

Over-indebtedness is currently a big issue in our country, as per the figures described in Chapter 2. A more in-depth credit risk profile needs to be identified and communicated by the NCR. This could aid in creating more detailed guidelines around affordability testing in terms of providing stricter guidelines around variable income, and how much of borrowers’ income is already committed to other loans.

In order to decrease bad debts, the lender should look at maybe developing a scorecard and making use of stress testing to ascertain if certain consumer segments will be able to afford current unsecured lending products should macro-economic conditions deteriorate. A stress test is a system that is used to test the sensitivity of individual loans and project potential future losses.

The NCR should play a larger role in ensuring that there is integrated industry level data available to the lender(s), to enable them to have a more robust assessment of the consumers’ credit situation. This includes having information of the number of loans individual customers have across industries, as well as having the exact number of impaired accounts per form of credit, rather than an overarching number across all forms of credit facilities. Once the credit providers has a comprehensive view of their customers, they will be empowered to adjust their credit extension activities to fit different customer profiles based on the ability of the customer to repay their debt over time.

Relying on the credit provider alone to improve customer education will not alleviate the problem of over-indebtedness. The NCR needs to play a more visible role in improving
financial education amongst consumers. Consumer education is critical in ensuring that financially vulnerable consumers are empowered to make financially responsible borrowing decisions and limit over-indebtedness.

Consumers should take responsibility for the amount of debt they take on. After taking into account all their current debt, they should make sure that they can really afford to take on extra debt before they go and borrow more. It is not enough to only check the final instalment when signing a contract with the lender. The interest rate, duration of the contract, and other fees should be taken into consideration as well. The introduction of financial literacy and education at high school level would greatly enhance consumers’ abilities to make more financially responsible decisions.

More effort should be put into ensuring that consumers are aware of the free credit report from the credit bureau so that they are able to check their credit report regularly. By doing that, they will be able to identify any errors and correct them.

Credit providers in collaboration with the credit bureau agencies should look at investing in a real time IT infrastructure to ensure that there is no scope for consumers to obtain multiple loans from different institutions whilst the credit bureaus await data downloads from the industry players.

The National Credit Regulator should play a role in providing base guidelines for credit providers regarding product, pricing and marketing governance to ensure heightened levels of transparency for the customers.

5.4 Recommendations for further research
The following recommendations are made with regard to future research:

- Further research studies could include a larger and broader sample that is more representative of the population, looking at the impact that the NCA has had on sales and operations of different micro-lenders.

- Comparison of data involving the income and level of education of credit receivers in order to ascertain whether borrowing is influenced by these factors.

- Understanding borrowers’ psychology: why do people become habitual borrowers?
LIST OF REFERENCES


National Credit Act. (2005). All you need to know about the National Credit Act as a consumer. Vol 1, p 3 – 70.


Appendix A – Confidentiality letter

UNDERTAKING IN RESPECT OF CONFIDENTIAL AND/OR PROPRIETARY AND/OR SENSITIVE INFORMATION (“NDA”)

I, the undersigned Nombulelo Dlotsotole, with identity number 7103070296087 (“the Researcher”):

A. Hereby confirm that:

(i) I am currently in my final year M Com studies at the University of Johannesburg, specialising in Strategy;

(ii) I wish to conduct research for my Masters degree on the effect of the National Credit Act (“NCA”) on micro lending in a financial institution in South Africa (“Research”);

(iii) I have Old Mutual Finance (Pty) Ltd. (RF) (“OMF”) be a research participant for purposes of the Research and OMF has agreed to participate, subject to the terms of this NDA;

(iv) The Research will mainly be investigating the following issues:

i. The effect on sales and operations since the inception of the NCA;

ii. Understanding OMF’s management’s overall perception on the application of the NCA;

iii. OMF consumer awareness levels regarding the NCA;

iv. Recommendations on the future application of the NCA on optimizing for OMF. This will cover customers, staff and process improvements that may yield future benefits for OMF.

B. Hereby agree to the terms and conditions set out in this NDA.

1. CONFIDENTIAL INFORMATION

1.1 The Researcher acknowledges and understands that:

1.1.1 In the course of conducting the Research, the Researcher will be provided with highly confidential and/or proprietary and/or sensitive information or documentation relating to OMF (“Confidential Information”).

Confidentiality Undertaking Research Mar2013.doc
1.1.2 OMF retains all right, title and interest in and to the Confidential Information.

1.1.3 Any Confidential Information provided to the Researcher by OMF is provided solely for the purpose of conducting the Research.

1.2 The Researcher agrees:

1.2.1 To keep the Confidential Information confidential and undertakes to take all reasonable measures to prevent unauthorised disclosure of any of the Confidential Information.

1.2.2 Not to disclose any Confidential Information imparted to her prior to and in the course of conducting the Research to third parties, without prior written approval from OMF, to be given on behalf of OMF by a duly authorised person.

1.2.3 Not to sell, assign, lease or otherwise dispose of the Confidential Information to third parties or commercially exploit the Confidential Information.

1.2.4 To secure the Confidential Information in her possession or under her control by taking appropriate, reasonable measures to prevent loss of, or damage to, or unauthorised destruction of the Confidential Information or unlawful access to or use of the Confidential Information.

2 PROTECTION OF PERSONAL INFORMATION

2.1 The Researcher acknowledges that certain of the Confidential Information provided to her in the course of conducting the Research will contain personal information relating to OMF’s staff or clients ("Personal Information").

2.2 The Researcher agrees:

2.2.1 Only to collect Personal Information which is relevant and required in relation to the Research.

2.2.2 To anonymise Research data wherever possible, so that it will no longer constitute Personal Information.

2.2.3 To use the Personal Information only in connection with and for the Research and not in ways which directly affect the relevant individuals.
2.2.4 Unless they have consented to being identified, or the information is already in the public domain, not to publish statistics and research results in a way which identifies the individual data subjects.

2.2.5 Not to keep Personal Information for longer than is necessary for the Research.

2.2.6 To meet any retention or archiving requirements imposed by OMF in relation to the Personal Information.

2.2.7 To dispose of Personal Information gathered for the Research securely when it is no longer needed.

3 GENERAL

3.1 Upon conclusion of the Research or upon request by OMF or if shared Confidential Information is no longer needed for the Research purposes, the Researcher shall immediately return any material (including copies and extracts thereof) containing, pertaining or relating to the Confidential Information disclosed to her by OMF. Alternatively, the Researcher shall, at the instance of OMF, destroy all written records and delete all electronic records which are derived from or which contain Confidential Information or return such material as specified by OMF, unless the law prohibits the Researcher from doing so. In that case, the Researcher warrants that she will guarantee the confidentiality of the Confidential Information and will not actively use the Confidential Information any further.

3.2 The Researcher acknowledges that any breach of the undertakings contained in this NDA may result in substantial damages or loss for OMF. The Researcher shall be held liable for any such loss or damage if she is the cause.

3.3 This confidentiality and protection of personal information undertaking will continue to apply without limitation in time.

SIGNED __________________________ DATE 12 October 2013

Nombulelo Dlotsatho

Confidentiality Undertaking Research Mar2013.doc
Appendix B - Invitation to Participate

Dear Participant,

My name is Nomzubele Dlotsothe. I am a registered student at the University of Johannesburg currently studying for a Master of Commerce degree in Business Management. I have completed my course work and now I am busy with the Minor Dissertation. My research is on "The effect of National Credit Act on a micro lending financial institution in South Africa".

Thank you for your willingness to participate in the questionnaires for my research report. The information gathered from this questionnaire will be used for analysis in research report dissertation and is only for the purpose of this academic exercise.

The objectives of the research are:

- To investigate the effect that the National Credit Act application has had on the micro-loans sales and operations of a financial institution, specifically Old Mutual Finance;
- To determine the overall perception and experiences of Old Mutual Finance management regarding the application of the Act;
- To assess the levels of consumer awareness and perceptions regarding the benefits of the NCA on the customers of OMF.

The interview is expected to last about 30 minutes, and will help us to understand what your views are regarding this topic.

Your participation is voluntary. All data collated will only be used for academic purposes and will be kept confidential.

If you have any concerns, please contact me or my supervisor.
Our details are provided below

Researcher name: Nombulelo Diotsothhe
Email: ndiotsothhe@iburst.co.za
Phone: 083 530 0704

Researcher Supervisor Name: Prof Elana Swanepoel
Email: swaneel@unisa.ac.za
Phone: 083 381 1360
Appendix C – Old Mutual Finance Management Questionnaire

Interview guide – OMF Management

1. What, in your opinion, is the purpose of the Act?

2. In your opinion, what is the consumer’s level of understanding re: NCA? What role do you play in educating the consumer about his/her rights and obligations?

3. How can the Act lead to consumer behavioural changes in dealing with credit?

4. Has the implementation of NCA had a positive or a negative effect on OMF micro-lending sales?

5. With the tighter lending requirements regulating the micro-lending industry, what percentage of consumers have you had to turn down?

6. Has the implementation of NCA impacted on your staff cost base? If yes, how?

7. How have the required affordability assessment and mandatory credit bureau checks affected OMF?

8. Did your company incur any other additional compliance costs due to NCA?

9. In your opinion, has OMF levels of bad debts increased or decreased? What has led to that increase or decrease?

10. What about the NCA should be changed?
Appendix D – Old Mutual Finance Customer Questionnaire

Background Information

1. Gender
   - Male
   - Female

2. Age: _________________________ (in years)

3. Ethnicity
   - Black
   - White
   - Coloured
   - Indian or Asian

4. Income (per month)
   - Less than R7 999
   - R8 000 – R14 999
   - R15 000 or more

5. Your highest educational qualification
   - Grade 11 or lower (std 9 or lower)
   - Grade 12 (Matric, std 10)
   - Post-Matric Diploma or certificate
   - Baccalaureate Degree(s)
   - Post-Graduate Degrees

Awareness and Perceptions

6. Are you aware of the National Credit Act?
   - Yes
   - No

7. If yes, how did you become aware of it? (Mark all applicable)
   - Own institution
   - Radio
   - TV
   - Newspaper
   - Billboards
   - Internet
   - Other

   If you answered other, please specify: ________________________

This section explores your attitude and perceptions regarding the National Credit Act.
To what extent do you agree with each of the following statements?

<table>
<thead>
<tr>
<th>Perception towards credit in general</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>08. I understand how credit works</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>09. I understand my rights as a consumer</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>10. I understand my responsibilities as a consumer</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>11. I know where to go when in trouble with debt</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>How well they know the National Credit Act</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Being aware of the Act has allowed me to better manage my finances</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>13. I have a right to be given written documentation relating to my credit transaction</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>14. As a customer, I am entitled to one free credit report from credit bureaux per year</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>15. I have the right to access and challenge information held by a credit bureaux</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Attitude towards the National Credit Act</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. The Act promotes a fair and non-discriminatory marketplace for accessing credit</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>17. The Act limits my chances of accessing credit</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>18. The Act protects me from unfair credit and credit marketing practices</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>19. The Act promotes responsible credit granting and use and for that purpose prohibits reckless lending</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>20. The Act regulates interest rates and fees to ensure that customers are not overcharged by credit providers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>21. The Act ensures that consumers are provided with reasons should a credit application be declined</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>22. The Act provides debt re-organisation, to enable restructuring of debts for over-indebted consumers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>23. The Act ensures credit providers use simple language in credit agreements that the consumer can understand</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

One last question –

24. Have you ever obtained a loan or purchased on credit (bought on account, bond on a house)?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>