DEBT

SA needs to dig itself out of the chasm of debt

Middle class still living beyond its means

LONI PRINSLOO

MR X was awarded 12 loans from one bank over a nine-month period — without being able to cover the payments for the first loan he took out.

Debtsafe MD Hein du Plessis says this is one of the many case files that the debt counselling firm worked on, as South African consumers continue to live beyond their means four years after the National Credit Act came into effect to curb this kind of abuse.

The act was passed in 2007 to protect consumers from becoming over indebted, but on average, South Africans still spend more than 75% of their disposable income on covering credit charges. Compare this to Europe, where consumers spend only 14.5% of their disposable income to pay creditors, and one begins to realise how serious the debt problem really is.

More than 200 000 indebted SA consumers are registered for debt counselling, which was introduced through the act as a statutory measure to assist South Africans with debt problems.

Minister of Planning Trevor Manuel warned last month that a rising number of consumers would be "pushed over the brink" by debt charges, even with interest rates and debt service costs at historic lows in South Africa.

There are 18.8 million credit-active South Africans, of whom 8.7 million are finding themselves in payment arrears for more than three months.

"We are a nation of highly indebted families," Manuel told the National Consumer Forum in Midrand, noting that the bulk of troubled consumers were middle-class income earners.

"A large number of these people are now in debt counselling, and it appears that most of the people who find themselves in counselling are there as a consequence of consumption [and not investment] spending," he added.

Du Plessis confirms the minister's statement that South Africa's middle-class earners are highly indebted, saying that the consumers knocking on the doors of debt counsellors earn an average salary of at least R15 000, with about 89% of their disposable income committed to paying off debts.

South Africans spend money they have not yet earned on goods they do not need

Manuel said that it was a cultural problem, with South Africans wanting things they cannot afford and spending money they have not yet earned on goods they did not need.

Du Plessis says the South African culture of overspending is often further exacerbated by irresponsible lending by banks and other financial institutions. He refers to a case in the Eastern Cape where one of South Africa's leading banks granted a pensioner a bond of R350 000 with a monthly installment of R4 200 — when the man and his wife had a monthly income of only R3 700 and household expenditure of R2 500.

Through the use of the National Credit Act, that loan was scrapped in the courts because of the bank's reckless lending.

Du Plessis says while the case served as a warning to banks on irresponsible lending — particularly that relating to mortgages — a new trend in irresponsible lending relating to consumer credit has been on the rise.

"In the past four years we have seen a considerable reduction in the amount of mortgage loans granted to consumers, falling from about R55-billion a quarter to R18-billion currently, which is also why the property market is in such a state at the moment.

"However, the growth in consumer credit has almost made up for this drop in mortgage credit as banks and financial institutions trend towards granting smaller, less risky, loans.

"In terms of debt, this is actually a very unhealthy trend in the country."

Du Plessis emphasises that consumers should stop borrowing to get themselves out of financial difficulties and become proactive in dealing with debt.

"The first step to get oneself out of trouble is to stop borrowing.

"As debt counsellors, we are able to assist indebted consumers through restructuring their debt to assist them in meeting monthly payments."

He says Debtsafe is able to reduce monthly repayments for clients by an average of 54% through different vehicles, including the extension of payment periods.

The National Credit Regulator has determined a standard and limited fee for all debt counsellors in the country, which is calculated into customers' restructured monthly installments to assure that abuse of cash-strapped consumers is avoided.

Through the debt-counselling process, says Du Plessis, Mr X will be able to pay his creditors and become a fully functional consumer again, while being protected against legal action and retaining his assets.

YOU DO THE MATHS: When expenditure exceeds income the result, as Charles Dickens wrote more than a century ago, is misery Picture: GALLO IMAGES

A guide to lead you to security

MAMELLO MASOTE

WHILE South Africa has a growing black middle class, a large proportion of the population is financially illiterate.

Many people need a helping hand when navigating the huge variety of investment and savings products and seductive credit offers.

Solly Keetse, chairman-elect of the Financial Planning Institute (FPI), said this is why financial planning is more important than ever. And the high debt levels underline the need for more financial education.

"Financial planning is about helping consumers achieve their life goals — this could be buying a home, buying a car, or planning for retirement," said Keetse.

He said one has to differentiate between financial advice, such as brokers and agents, and financial planning.

"The remuneration of people we would traditionally call brokers and agents is regulated by the Long Term Insurance Act and that remuneration is in the form of a commission. Financial planning is different — because with a financial planner, you draft a plan that suits you," he said.

"The FPI does not prescribe to its members whether to charge a fee or commission, but globally the trend is that financial advice would be linked to a product — whereas when somebody drafts a financial plan for you, they don't necessarily promote any product

"The cost of financial planning is not regulated. The FPI advocates a fee-based model of charging because this is an open, free market: a consumer can negotiate with a financial planner. It depends on how complicated the financial plan is."

Keetse said countries such as the UK and Australia are moving towards banning commissions on investment products from 2012, and South Africa could follow suit.

"Commission is paid by product providers such as Old Mutual, Momentum, Liberty, etc. Commission should be negotiated separately from the advice that is given by a financial adviser," said Keetse.

The recently released report on savings and investment by Old Mutual showed that people may prefer to take an informal approach to their finances. The index showed that 88% of respondents were feeling the pinch of the recession — up from 82% six months ago. About 75% of respondents now save money before they buy, rather than buying on credit.

The index also showed an 8% decrease in credit card ownership and that 36% of the black respondents belonged to a stokvel.

While the number of stokvels has declined since July 2011, the index showed that stokvels, excluding burial societies and grocery schemes, are now worth R38.6-billion a year.

"People are making a plan and being more careful, more pragmatic and less 'spooked' about their finances," said Old Mutual chief researcher Lynette Nicholson. "Cutting expenses and getting rid of short-term debt take priority ahead of saving."

The index also found that South Africans were prone to save for short-term commitments, such as their children's education, rather than retirement-funding needs.

Keetse said this is where financial planning can help fill the gap. "When you approach a financial planner, you have to do holistic financial planning. Financial planning has six disciplines: retirement planning, investment planning, risk planning, health planning, tax planning and estate planning. You look at your financial goals pre-retirement and post-retirement," he said.

He underlined that financial planning is needed by everyone, regardless of their salary level.