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Paper Title: Unsecured Credit Growth, Profitability, Liquidity and Bad Debt, the case of South Africa

Author: Samantha E Gomez

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The unsecured credit market is highly profitable, due to the interest earned from this type of lending. Financial institutions who participate in this market are therefore entitled to charge higher interest rates due to the association of the higher risk involved in unsecured lending. Furthermore, over recent years it seems financial professionals are becoming increasing concerned with the effect the growth in unsecured credit will have on financial institutions in South Africa. The purpose of this study was to analyse the growth in unsecured credit in South Africa, in relation to profitability, liquidity and bad debts. This study will be limited to the six commercial banks prevalent in the unsecured credit market, namely; ABSA Bank, African Bank, Capitec, First National Bank, Nedbank and Standard Bank. A quantitative research methodology was utilised, with the use of descriptive statistics to analyse the growth in unsecured credit, profitability, liquidity and bad debts. The results of the study indicated that unsecured credit growth will have an increasing effect on bad debts, an indeterminate effect on profitability, with minimum impact on liquidity; in relation to the six commercial banks which have been analysed in this study.

Keyword: Unsecured credit, Profitability, Liquidity, Bad Debts and Financial Professionals.

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Declaration:

I declare that the paper titled Unsecured Credit Growth, Profitability, Liquidity and Bad Debt, the case of South Africa has not been published and is not, nor will be, under consideration for publication elsewhere while being reviewed for this SAAA conference.

Miss Samantha E Gomez

19 May 2013

Unsecured Credit Growth, Profitability, Liquidity and Bad Debt, the case of South Africa

Abstract

The unsecured credit market is highly profitable, due to the interest earned from this type of lending. Financial institutions who participate in this market are therefore entitled to charge higher interest rates due to the association of the higher risk involved in unsecured lending. Furthermore, over recent years it seems financial professionals are becoming increasingly concerned with the effect the growth in unsecured credit will have on financial institutions in South Africa. The purpose of this study was to analyse the growth in unsecured credit in South Africa, in relation to profitability, liquidity and bad debts. This study was limited to the six commercial banks prevalent in the unsecured credit market, namely; ABSA Bank, African Bank, Capitec, First National Bank, Nedbank and Standard Bank. A quantitative research methodology was utilised, with the use of descriptive statistics to analyse the growth in unsecured credit, profitability, liquidity and bad debts. The results of the study indicated that unsecured credit growth will have an increasing effect on bad debts, an indeterminate effect on profitability, with minimum impact on liquidity; in

relation to the six commercial banks which have been analysed in this study.

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1. INTRODUCTION

The financial crisis in the US, in 2008 is described as the “worst global crisis since the Great Depression,” Gordan and Metrick (2012, p.6). It led to the banking crisis in the US, many European countries and some countries in Asia. Some banks to name a few which experienced this crisis in a significant way includes Lehman Brothers Investment Bank and Washington Mutual. Lehman Brothers had to file for bankruptcy in 2008 due to this banking crisis. Additionally Washington Mutual, the largest savings and loan provider in the US had to be acquired by JP Morgan, due to the effects caused by the banking crisis.

The financial crisis was caused by various reasons, according to Gordan and Metrick (2012, p.3) which includes “the global imbalance in foreign trade” in many banking systems. In addition Vodova (2003, p.3), suggests the major acceleration of credit in these banking systems as a possible additional reason for the banking crisis in European countries. The US government and other European governments have therefore intervened in an attempt to stabilise their respective economies and to minimise the damaging effects on customers. According to Goddard, Molyneux & Wilson (2009, p.282) governments have done this by offering “bailouts” and nationalizing some of the largest banks in the global banking environment. Some bailouts and nationalization which took place in Europe includes the 'part-nationalization of the Dutch/Belgian banking group Fortis and a bailout of the Belgian/Luxembourg/French bank Dexia' (Goddard et al, 2009, p.281).

In the aftermath of this financial crisis, research has been done in the US and the UK on the factors which led up to the financial crisis. These factors seem to include "weaknesses in the current regime for the regulation of bank capital ratios" Goddard et al (2009, p.283). The bank ratios refer to the ratio of shareholder equity to total equity. Additionally in the time leading up to the banking crisis liquidity seems to be a contributing factor. According to Goddard et al (2009, p.283), it seems that banks were operating at a significantly low liquidity rate (ratio of liquid asset to total assets) just prior to the financial crisis. Liquidity therefore seems to be a causative indicator of the banking crisis.

In South Africa there seems to be a lot of controversy around the growth of the unsecured lending market. Major activity has been seen in the unsecured credit market as the commercial banks fight for market share in this sector (National Credit Regulator, 2012). However it is important to ascertain the effect the growth of unsecured credit has had on the commercial banks of South Africa. Financial professional like the current Minister of Finance, Pravin Gordhan has indicated that unsecured lending does not pose any immediate threat to the South African banking system because of the Basel 3: A regulatory framework for more resilient banks and banking systems (2010). This framework requires banks to hold more capital based on their lending bracket and seems to discourage unsecured lending (Debt-In, 2012). The concern seems to lie with the South African customers who have been over utilising unsecured credit to fund higher living expenses or other credit facilities (National Credit Regulator, 2012, p.21).

However, in the aftermath of the financial crisis the acceleration of debt needs to be cautiously analysed to identify early signs of a banking crisis. Therefore the growth of unsecured credit, in South Africa will be analysed, in relation to the profitability, liquidity and bad debt. Foos, Norden and Weber (2012, p.2929) have demonstrated that there is a link between loan growth, profitability and liquidity. However, this possibility is explored and examined in the case of South Africa in order to attain if there are any early signs of crisis in South African banks.

2. PURPOSE OF THE STUDY

The purpose of this report was to analyse the relationship of the growth in unsecured credit and its effect on South African commercial banks. Growth in unsecured credit was analysed in relation to profitability, liquidity and bad debts in the South African commercial banking system.

3. LITERATURE REVIEW

DeYoung and Rice's (2004) research indicates the different ways banks make their money. They suggest that business strategies differ in relation to the size of the various banks, which in turn influences the bank's profitability. In addition evidence from DeYoung and Rice (2004) has been found to support the deduction, “that banking companies without discernable competitive strategies tend to perform poorly, as do banks that employ traditional banking strategies without embracing efficient new production methods.”

In South Africa the considerable growth seen in the unsecured credit market, may influence the banking strategies of commercial banks. The reason for this change in banking strategy possibly comes from the need commercial banks have, to remain competitive and attain profits from all markets. Commercial banks in South Africa have realised profitability benefits which lie in this unsecured credit market, according to Biz Community (2012). The change in banking strategy by commercial banks to attain profits from the unsecured credit market, support the hypothesis of DeYoung and Rice (2004), which indicates banks change their strategies in order to attain monetary benefits. In light of this change in strategy there has been growth in unsecured lending in South Africa (National Credit Regulator, 2012).

Athreya (2001) studied the growth of unsecured credit in relation to welfare, bankruptcy and the risk of default. His hypothesis is that although there has been an increase in unsecured lending, this has assisted the poor household of the US in lowering their ‘liquidity constraints’. This trend is also witnessed in South Africa since the government relaxed the regulation on unsecured credit in order to increase unsecured lending in

South Africa. The government in South Africa has relaxed regulation in relation to unsecured credit in order to assist the poor households with obtaining credit, with the use of the National Credit Act (2006). Banks are therefore increasing the amount of unsecured credit to customer and making considerable profit off these customers. This is due to the fact that banks are able to charge higher than normal interest rate on unsecured lending as a result of taking on the higher risk of default. According to Athreya (2001, p.3) banks seem to be earning higher revenue because of their increase in unsecured lending.

Foos, Norden and Weber (2010) look at "whether loan growth affects the riskiness of individual banks in 16 major countries." They investigate loan growth in relation to asset risk, bank profitability and bank solvency. The result of this investigation showed that loan growth is an important factor in relation to the riskiness in the banking system. This may indicates that there is relationship between loan growth, profitability and solvency.

Goddard et al (2009) reviews the banking crisis in the UK as the result of the financial crisis in the US. They suggest the causes of the crisis, the time period surrounding the crisis and the policy lessons which can be taken from the crisis. The result suggests that low liquidity rates are a factor of the banking crisis. In addition weaknesses in banking regulation seem to also contribute to the banking crisis in the UK. Therefore the South African commercial banking system has been analysed in relation to a liquidity ratio, namely the current ratio.

Kozuka and Nottage (2009) indicate that there are various reasons for the rise of unsecured lending in Japan. These include legal theories, behavioural studies, cultural theories and political reasons. Japan is however a very different country as compared to South Africa. Commercial bank lending is a major part of the South African economy however this differs in Japan as informal lending is indicated as the major source of unsecured lending. Therefore it would appear that the growth in unsecured lending would have differing effects in different countries.

Bloomberg (2012) suggests some of the main concerns in relation to the growth in the unsecured credit market in South Africa. In addition, the monitoring of the growth in the unsecured credit market, by the National Credit Regulator (NCR) is also considered. The foremost reason for this enquiry into the escalation of unsecured credit relates to the possible impact this growth will have on the inflation and bad debt in the banks of South Africa.

He further suggests that customers seem to provide generic answers in relation to the reasons for accessing these unsecured credit facilities. South Africa's largest commercial banks however need to participate in this profitable sector. This is as a result of the high interest returns these banks obtain from the unsecured credit market (Bloomberg, 2012). The growth rate of unsecured lending in South Africa as indicated by the reviewed literatures below is worrying and forms the bases of this research.

In a study conducted by the NCR (2012) on the increase of unsecured personal loans in the South African credit market, the growth in unsecured lending was recorded in relation to ten credit providers. This study indicates the "factors which have caused the growth in personal unsecured loans and the implications on of these loans on the consumer, credit providers and credit industry" (NCR, 2012, p.10). As a component of the research unsecured lending was reviewed as a portion of various types of credit, these include mortgages, secured credit, credit facilities and short term credit. Unsecured lending in the first quarter of 2012 accounts for 9.1% of the various types of credit available in South Africa according to the NCR.

However, the cause for concern surrounding unsecured lending focuses on the year on year growth of unsecured lending is at a rate of 49.4%, which compared to the other rates of growth seems expeditious. The growth rate for the other types of credit are recorded as follows, mortgages had 3.4% growth rate, secured credit a 12.9% growth rate, credit facilities 10.8% growth rate and short term credit a 26.5% growth rate in the first quarter of 2012. The overall growth rate for all credit facilities assessed in the study indicates a 9.1% growth rate. Therefore the growth in unsecured lending appears to be an issue for concern due to appearance of higher growth rates in comparison to other forms of credit available (NCR, 2012, p.11).

Furthermore, the NCR is of the opinion that the growth in unsecured lending over last few years can be attributable in part to the strides made by Capitec and African Investment Bank into the unsecured credit market. These banks effectively grew their debtors' book by successfully targeting the middle market demand for unsecured credit (NCR, 2012, p.11).

Unsecured lending was predominantly offered by banks like African Investment Bank and Capitec. This sector was profitable due to the nature of this type of credit; however it was considered riskier for banks considering the lack of collateral. These banks would charge higher interest rates with regard to unsecured lending as a result of the increased risk of default (Debt-In, 2012). It therefore followed that the big four banks in South Africa would enter this profitable market; these include ABSA, First Rand Bank, Nedbank and Standard Bank. For example in 2012 ABSA made a purchase of Edcon's store card portfolio to the value of approximately R10 billion, this was in line with the 'bank's strategy for 2012 to increase its portion in the unsecured lending market' (Biz Community, 2012).

The literature reviewed indicates the importance of this study into the growth of the unsecured credit market. The predominant concern seems to be the effects this accelerated growth will have on the commercial banks in South Africa.

4. METHODOLOGY

This is quantitative study which reviews the growth in unsecured lending in South Africa, accessed from the NCR's website. The growth in unsecured credit will be reviewed overall on a national level due to the lack of available data on each banks unsecured credit levels. The six commercial banks included in this study include; ABSA, African Investment Bank, Capitec, First Rand, Nedbank and Standard Bank. These banks command more than eighty percent of the unsecured credit market (Money Web, 2012), therefore the national statistic may be utilised in this study as the remaining percentage is irrelevant. This allows the utilisation of the national statistic instead of individual bank data. The sample population was decided on based on the reasoning that there are only six commercial banks in the unsecured lending market. Additionally this sample was chosen for convenience, in order to suit the study conducted. The scope of the study is limited to commercial banks in South Africa as in a study conducted by Pouvella (2012) the benefits are seen from analysing a specific type of bank. Pouvella (2012) reviews the effect of asset price on credit growth in France, in relation to different types of banks. Unsecured lending is also seen in investment banks and land banks. It should be mentioned that the commercial banks selected in this study seem to control the unsecured credit market, so the national level would appear to give a reasonable indication of the commercial banks growth in unsecured credit, however this is a limitation due to the lack of available data on unsecured credit for each bank (The Wall Street Journal, 2012).

The data which has been utilised in this study was collected from various sources due to availability. The information with regard to the growth in unsecured lending was accessed from the NCR's website. The other information with regard to profitability and liquidity ratios were readily available on the BFA McGregor database and the bad debt information was collected from the annual financial reports for each of the six banks reviewed over a five year period.

The growth in unsecured lending will be reviewed for a five year period, from 2007 to 2011. The reason for the post 2006 review is as a result of the change in the National Credit Act (NCA) (2006) as the caps on the maximum unsecured lending were removed to encourage equality and a higher standard of living for individuals. Descriptive statistic tools were employed to analyse the growth rate over a five year period in relation to the effect on profitability, liquidity and bad debts.

The profitability and liquidity measures were used in this study to be analysed in relation to the growth in unsecured lending. The profitability measure which was utilised in the study is the return on assets percentage (ROA %), due to the lack of availability of the net interest margin. This is as a result of this accounting ratio being a tried and proven measure in the field of accountancy and is the most relevant ratio with regard to the banking industry. Prior research done by McGuire, Sundgren & Scheneeweis (1988) and Simpson and Kohers (2002) on financial performance in the banking industry supports the use of return on assets as a reliable accounting measure. The liquidity ratio which has been utilised is the current ratio, in a South African context. The liquidity coverage ratio was used in a study done by Goddard et al (2009) it was indicated that a low liquidity ratio was prevalent prior to the financial crisis in 2008, however the current ratio seems to be a more prevalent indicator of liquidity in South Africa. It therefore seems reasonable that this ratio would be the best ratio to utilise in this study as the effect on the growth in unsecured lending may be established in relation to liquidity.

The effect the growth in unsecured lending has on profitability, liquidity and bad debt has been investigated using descriptive statistical methods. These include reviewing the mean, mode and median of the growth rates of unsecured credit on a national level. These results have been graphically depicted and summarised. Additionally the effect the growth in unsecured lending has on profitability, liquidity and bad debts has been reviewed graphically with regard to the percentage change in growth in relation to percentage change in profitability, liquidity and bad debts, which basically indicates whether the growth in unsecured lending has had a positive, negative or fluctuating effect over the a five year period.

This descriptive analysis effectively addresses the research questions which are indicated below.

4.1. Research Questions

i. Does the growth of unsecured lending affect the profitability and liquidity of commercial banks in South Africa?

ii. Does the growth of unsecured lending affect the amount of bad debts indicated by commercial banks in South Africa?

5. RESULTS AND DISCUSSION

In an attempt to ascertain whether the growth in unsecured credit has an effect on the profitability, liquidity and bad debts, of six South African commercial banks, the national growth in unsecured lending has been reviewed on an annual basis, with the use of Figure 1.

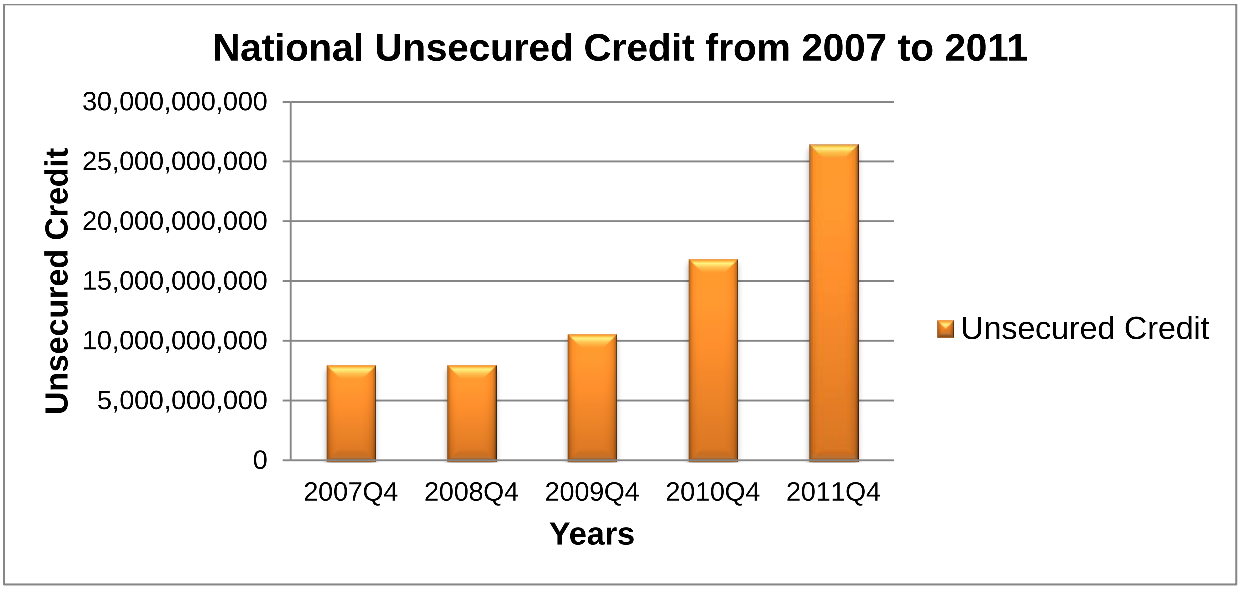

Figure 1. National unsecured credit from 2007 to 2011.

Over the five year period from 2007 to 2011 there has been a national growth in unsecured credit, although from 2007 to 2009 the growth is not as steep as from 2009 to 2011. Apart from the observation further descriptive statistics were conducted, this showed an arithmetic mean (standard average) of R13 946 488 811, a median (most middle number) of R10 536 173 216 and a mode (most frequent) was not applicable due the five differing unsecured credit figures. The minimum and maximum figures recorded for unsecured credit was R 7 938 239 346 (2007) and R26 451 931 459 (2011) respectively, this seems to support the fact that unsecured credit in South Africa has grown exponentially over the last few years.

Years		2007 - 2008	2008 - 2009	2009 - 2010	2010 - 2011
Year-On-Year % Change		0.41%	32.18%	59.78%	57.13%

Table 1. The year-on-year percentage change of national unsecured credit in South Africa.

The year on year percentage change with regard to unsecured credit, illustrated in Table 1 indicates that over the last five years there has been accelerated growth in unsecured credit. Now that the accelerated growth in unsecured lending has been established over the five year period, the effect this growth has on profitability, liquidity and bad debts is now analysed in an attempt to address the research questions indicated.

The factors which have been reviewed in relation to the six commercial banks include; profitability, liquidity and bad debts. Each factor has been reviewed annually for the five year period under consideration, to determine if a pattern could be established which could be attributable to the growth in unsecured lending over the last five years.

The first factor under consideration was profitability, the profitability ratio which has been used in this study is the return on asset % (ROA %), due to the lack of availability of the net interest margin a fellow profitability ratio. Illustrated in Figure 2 below is the profitability ratio for the six commercial banks which form the scope of this study. Over the five year period it seems profitability has decreased between 2007 and 2009 and from 2009 to 2011 there has been growth in profitability.

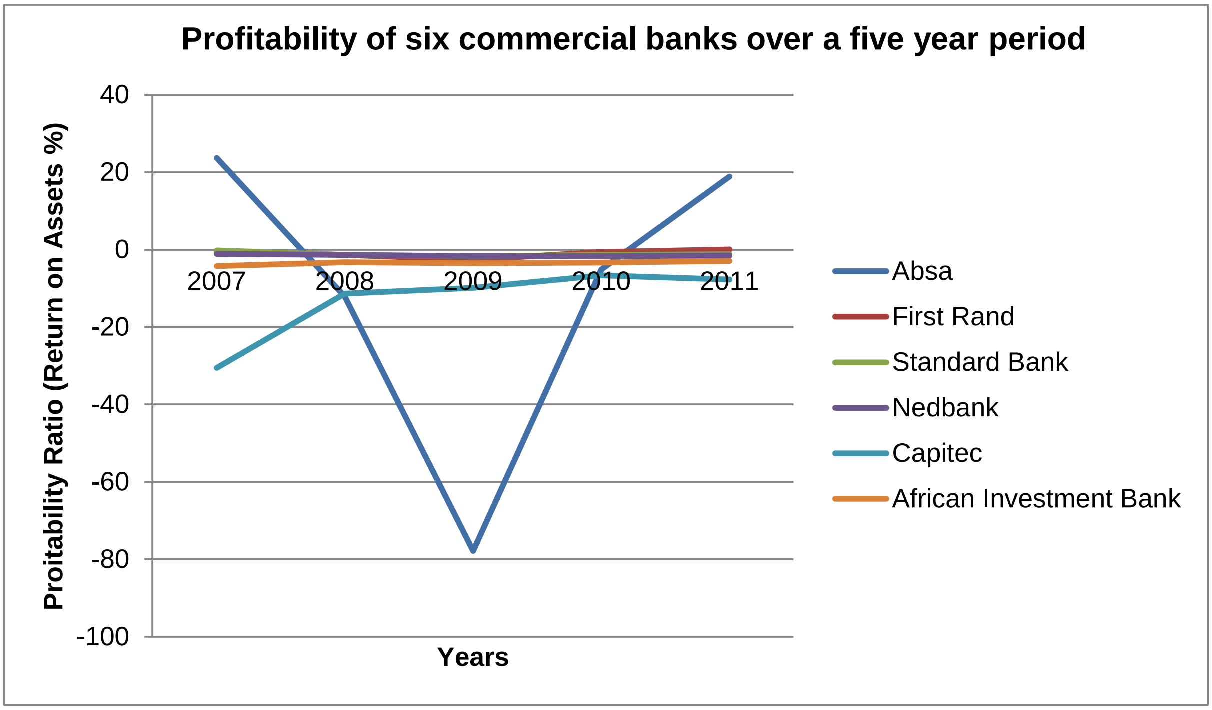

Figure 2. The profitability (ROA %) for six commercial banks over a five year period.

It should be mentioned however that for two banks, namely African Investment Bank and Capitec profitability is on the rise for most of the five year period which can be attributable to the growth in unsecured credit, since the unsecured credit market is their largest source of business on a national level. This is shown in Table 2, as over the five year period there has been year-on-year growth has been positive with the exception on the 2010 – 2011 period for Capitec. The decrease in the growth of profitability in this period could be attributable to various factors which affect profitability like newly implemented strategy, the loss of consumers or the acquisition of assets. Additionally in Table 2 below the year on year growth of the ROA% seems to decrease from 2007 to 2009 for the big four banks, namely ABSA, First Rand, Nedbank and Standard Bank, however from 2009 to 2011 a growth has been seen in profitability. The initial decrease could be attributable to the financial crisis in 2008 as these four banks are subsidiaries of larger banks which are based in the US or the UK. It is not conclusive that this growth in profitability is due to the growth in unsecured credit, this growth could be attributable to various strategies.

Year-On-Year % change of Profitability	2007-2008	2008-2009	2009-2010	2010-2011
ABSA Bank	-151%	-544.00%	93%	464%
First Rand Bank	-164%	-86%	78%	114%
Standard Bank	585.00%	-30.60%	22.70%	12.50%
Nedbank	-20.20%	-25.50%	0%	11.05%
Capitec	62.75%	13.20%	32.42%	-16.34%
African Investment Bank	23.13%	5.78%	4.31%	12.31%

Table 2. The year-on-year percentage change in profitability (ROA %) over a five year period.

The second factor which has been analysed is liquidity. The liquidity factor which is used in this study is the current ratio which indicates whether the bank will be able to meet its short term debts when they become payable. The liquidity was reviewed for the five year period for all six commercial banks within this study. It was established that in relation to liquidity in these six banks there is no conclusive pattern indicating that unsecured lending may have had any effect on the liquidity of the banks.

Refer below to Figure 3, which indicates the current ratio (liquidity) over the five year period.

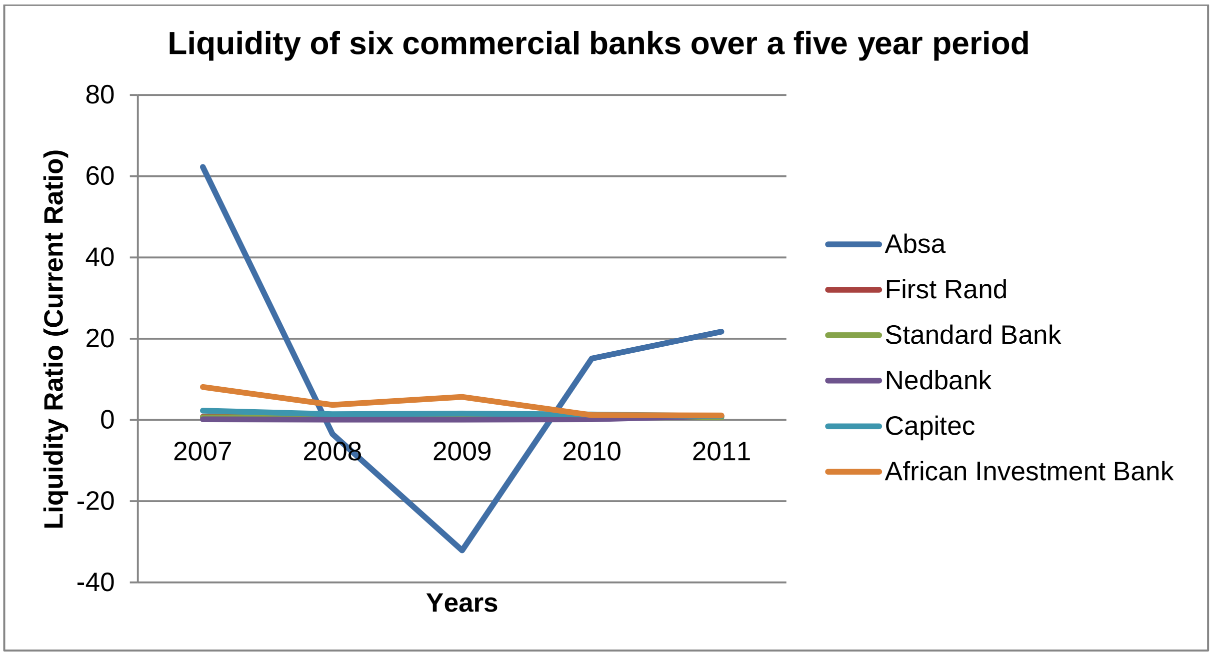

Figure 3. The liquidity (current ratio) indicated for six commercial banks over a five year period.

These results are further supported by the year-on-year percentage change in liquidity, which highlights the lack of an established pattern in relation to liquidity. Refer to Table 3 which depicts this percentage change for the five year review period. These results indicate that there are numerous factors which affect liquidity; however it is inconclusive as to the effect the growth in unsecured credit has on liquidity due to the fluctuating results.

Year-on-year % change of Liquidity	2007-2008	2008-2009	2009-2010	2010-2011
ABSA	-105.55%	-826.87%	147.05%	43.90%
First rand	-9.76%	29.73%	-8.33%	1.14%
Standard bank	6.06%	-7.14%	7.69%	-8.57%
Nedbank	-25%	-16.67%	30%	669.23%
Capitec	-40.09%	12.95%	-16.56%	-25.19%
African Investment bank	-54.08%	53.64%	-78.60%	-12.30%

Table 3. The year-on-year percentage change in liquidity (current ratio) over a five year period.

The last factor which has been reviewed is the growth in bad debts over the five year period with respect to the six commercial banks within this study. In light of the characteristics of unsecured credit, mainly the issue which suggests that due to the riskier nature of this type lending this will negatively affect bad debts, this factor was included in the study to further understand the effect of unsecured loan growth. As indicated by Figure 4 below most banks have seen a rise is bad debts between 2007 and 2009, with a decrease thereafter with regard to ABSA and Standard Bank, however this decrease could be as a result of the implementation of a new strategy to reduce bad debts as result of the concerning growth during the first three years reviewed. It should be highlighted that banks predominantly in the unsecured credit market like African Investment Bank and Capitec, have only shown growth in bad debts which is attributable to the exponential growth in unsecured credit nationally.

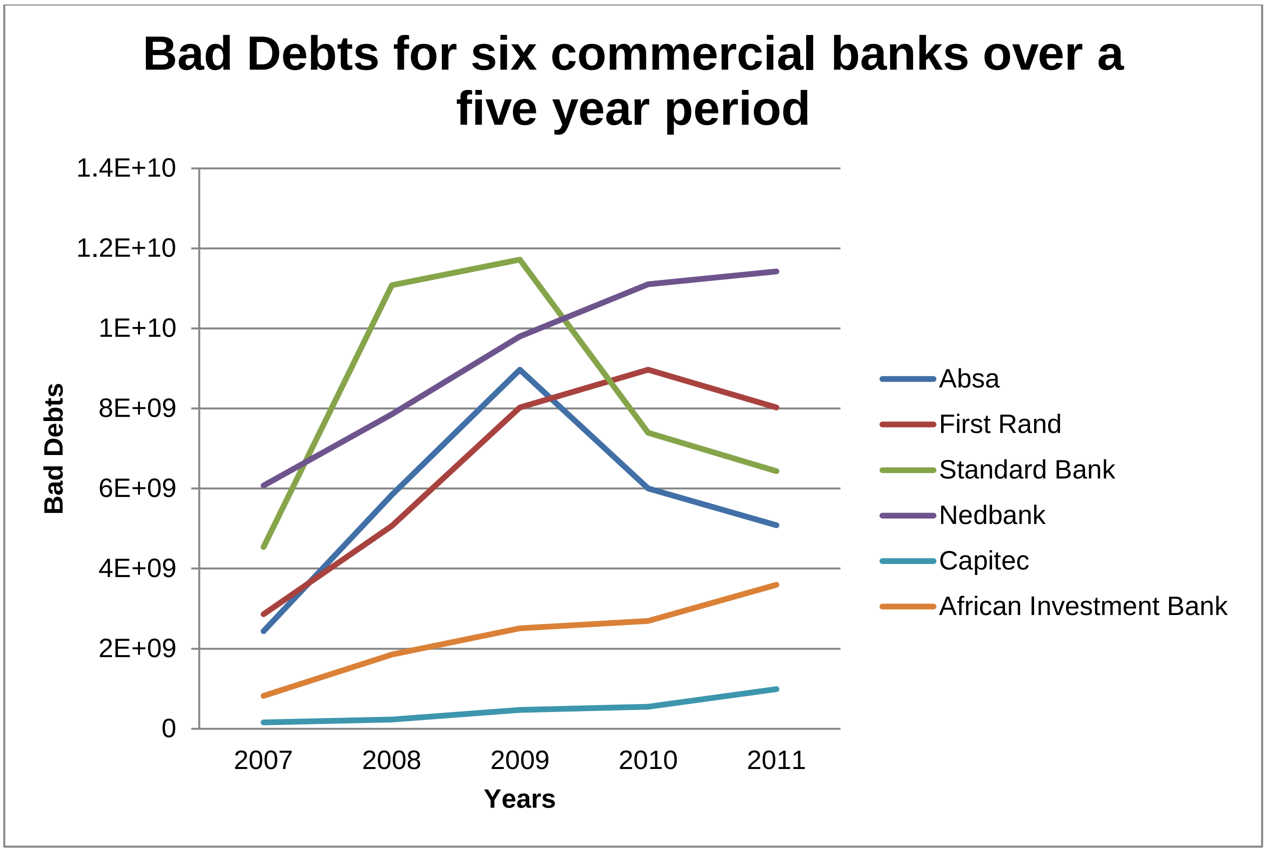

Figure 4. Bad Debts of six commercial banks over a five year period.

Furthermore Table 4 indicates the percentage changes in bad debt over the five year period. This supports the results which indicate that bad debts increases or grows as a result of the growth in unsecured credit; this result is true for three of the six banks assessed. However, with regard to banks which have shown decreases in the percentage changes of bad debt, namely ABSA, First Rand and Standard Bank, this is as a result of the banks realising the growth in bad debt is concerning and needs to be addressed and reduced. Therefore in light of the bad debt growth seen over the five year period in most of the commercial banks analysed, it has been established that the effect of growth in unsecured credit has negatively affected bad debts within commercial banks in South Africa.

Year-on-year % change in Bad Debts	2007-2008	2008-2009	2009-2010	2010-2011
ABSA	140.00%	53.57%	-33%	-15.39%
First rand	77.25%	58.45%	11.81%	-10.59%
Standard Bank	144.18%	5.75%	-36.91%	-12.96%
Nedbank	29.30%	24.67%	13.33%	2.86%
Capitec	43.16%	102.59%	17.10%	80.41%
African Investment bank	125.52%	35.29%	7.25%	33.53%

Table 4. The year-on-year percentage change of bad debts in six commercial banks over a five year period.

The growth in unsecured credit has been established on a national level over a five year period. However, when assessing the effect this growth has had on three factors the results drawn vary considerably. Firstly with regard to the effect the growth in unsecured credit will have on profitability it was ascertained that there is not conclusive evidence to support whether or not growth in profitability is as a result of the growth in unsecured credit as there are various factors which affect profitability of commercial banks in South Africa. Secondly, with regard to the effect the growth in unsecured credit will have on liquidity, a pattern could not be established as the liquidity of commercial banks is affected by various factors. The effect of unsecured credit growth on liquidity fluctuates, which indicates unsecured credit appears to one of many factors which affect liquidity. Lastly, the effect the growth in unsecured lending has on the bad debts has been established due to the close link between unsecured lending and the increased risk of bad debts. The results indicate the growth in unsecured credit negatively affects bad debts in commercial banks, meaning bad debts tend to increase when unsecured credit increases unless the banks implement a strategy in order to reduce these harmful effects.

6. LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

The effect of growth in unsecured lending on profitability, liquidity and bad debt of the six commercial banks assumes that the change in profitability, liquidity and bad debt has only occurred as a result of the growth in unsecured lending. This is a misconception, as there are numerous factors which would affect profitability, liquidity and bad debt. However, this study simply establishes whether or not the growth in unsecured lending positively or negatively affects these factors. It does not review the extent to which profitability, liquidity and bad debts are affected due to the numerous other factors which could have affected these factors. The results of this study are therefore limited as all other factors, like changes in other lending or a change in the bank's strategy have not been included in this study.

Additionally due to the lack of unsecured lending data for each individual commercial bank, this study is limited as the national level of unsecured credit takes into account all unsecured credit transactions in South Africa and not only those relating to the commercial banks. However, commercial banks like African Investment Bank and Capitec do predominately operate in this market. It should also be noted that according to The Wall Street Journal (2012) commercial banks account for a large part of this lucrative market.

7. CONCLUSION

The growth in unsecured credit in South Africa has been established as being accelerated by the NCR of South Africa. There have been various speculations with regard to the effect this growth will have on South African banks, other credit providers and the South African public. This study focused on the effect the growth in unsecured lending has on South African commercial banks.

There were three factors which were considered to be effected by the growth in unsecured credit, these include; profitability, liquidity and bad debts. However, due to the fact that profitability is affected by various factors it was difficult to conclude that the growth shown in profitability was due to the growth in unsecured lending. With regard to liquidity, there were fluctuations with regard to the growth rate and a pattern could not be established in order to ascertain the effect the growth in unsecured credit has had on liquidity that is if there is an effect at all. Lastly, due to the link between unsecured credit and bad debts it was established that the growth in unsecured lending has a negative effect on bad debts, however if bank implement strategies in order to prevent the growth in bad debt like ABSA Bank and Standard Bank the growth in bad debt can be reduced.

Therefore it has been established that the growth in unsecured credit does have an effect on commercial banks in South Africa. However, these negative effects seem minimal as banks have liquidity and profitability ratios to meet according to banking regulations like Basel III. It is frameworks like Basel which will prevent the occurrence of a banking crisis due to the accelerated growth in unsecured credit. There are however major concerns with regard to the effect unsecured credit growth will have on the South African public, which could be reviewed as a further study to determine the effects of the acceleration of unsecured credit on everyday consumers.

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