MAF008 Individual human needs satisfied by long-term liabilities

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Abstract

South African households are increasingly under pressure to meet their monthly obligations mainly due to over-indebtedness. This paper investigates if this position is not due to individuals using long-term liabilities to satisfy short-term needs. In determining if liabilities are used correctly the paper firstly classifies South African liability products available to individuals in terms of the credit product classification framework. Using Alderfer's ERG theory the human needs that should be addressed when using different types of liabilities are evaluated. Using empirical data obtained from individuals using long-term liability products, it is determined which needs are satisfied by these products. The analysis found that although the majority of South Africans are using long-term debt correctly, there are a considerable number of individuals that use these long-term debts to satisfy short-term needs.

Key words: Alderfer's ERG theory, credit product classification framework, long-term liability usage, liability use process

INTRODUCTION

According to the South African Reserve Bank (2014) household debt increased consistently during the last decade to R1 696 billion in December 2014. Considering the growth in the number of credit active consumers coupled with an increase in the gross debtors' book of consumer credit, it is clear that individuals are increasingly making use of credit products to satisfy their financial needs (National Credit Regulator, 2014a; 2014b). Several commentators have expressed concern that individuals are making use of incorrect credit, for example making use of long-term debt to finance short-term needs (National Credit Regulator, 2014a).

To understand the implication of this the principles governing household financial management needs to be analysed. Household financial management is based on the principles contained in the basic accounting equation (Goodall, Rossini, Botha & Geach, 2014; Swart, 2012; Momentum & Unisa, 2014; South African Reserve Bank, 2014). The accounting equation was developed in the seminal work of Luca Pacioli (a Franciscan friar) in 1494, and can be used to explain the financial relationship between equity, assets and liabilities.

The accounting equation can be expressed as follows:

$$E = A - L$$

where

E	=	equity (retained or unused income)
A	=	assets
L	=	liabilities

When acquiring assets a person can use his saved income (E) or make use of liabilities (L). The incorrect use of long and short-term liabilities can result in a person becoming over-indebted, that is if the value of his or her liabilities exceeds the sum of his or her assets and equity ($L > A + E$). This situation is exacerbated when a person's expenses for a period (consisting of living expenses and debt repayments) exceed his or her income for the period which then results in the person having to take up additional liabilities to pay for his or her expenses. Household financial management theory suggests that long-term liabilities should only be used to acquire long-term assets (used to satisfy long-term needs) (Goodall et al., 2014).

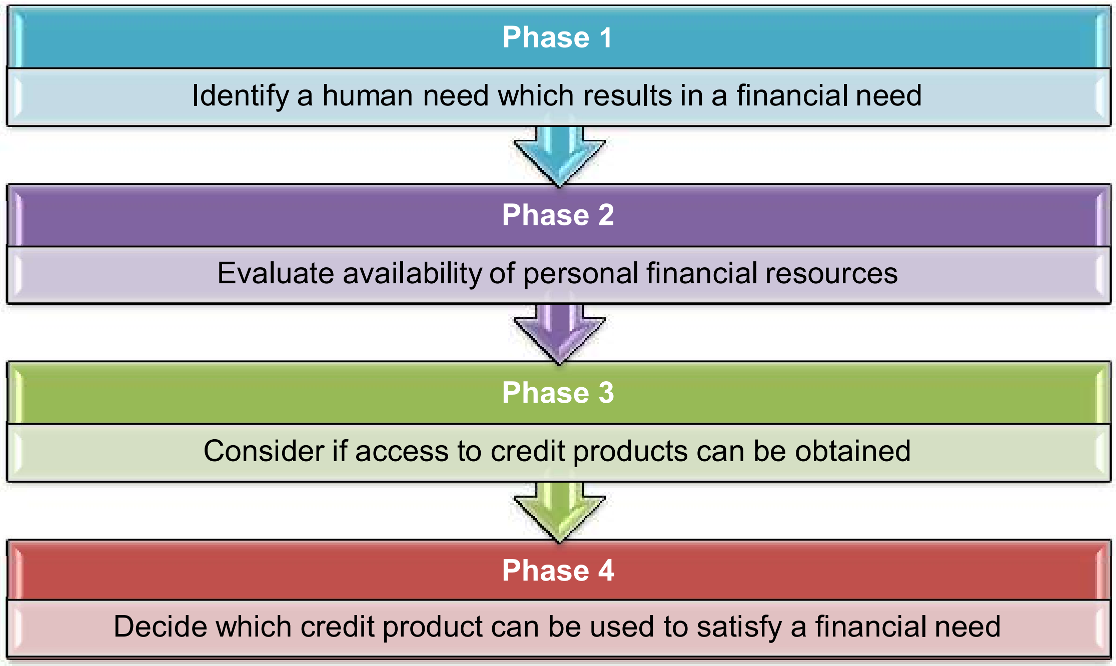
The objective of this study is to examine if South Africans use long-term liabilities to acquire long-term assets rather than satisfying short-term needs. The study will use the credit product classification framework to identify long-term credit products used by individuals in South Africa. Using empirical data obtained from individuals the needs satisfied when using these liabilities will be examined, in order to determine if appropriate needs are satisfied when using long-term liabilities. In order to meet the objectives of the paper the following research question will be investigated: "What needs are South Africans satisfying when using long-term liabilities?"

The research method applied in the paper consists of two phases. During the first phase a critical literature review is conducted to describe and identify long-term liabilities available to households and financial needs that can be satisfied when using liabilities. In the second phase of the research a quantitative research approach was adopted. The findings obtained from data collected from individual credit users were coded and analysed to establish which financial needs individuals satisfy when long-term credit products (liabilities) are used.

THE DECISION PROCESS WHEN SELECTING CREDIT PRODUCTS

The motivation for using liabilities (either short-term or long-term), also known as credit products, can be related back to the need to satisfy human needs (Goodall et al., 2014; Watkins, 2009). When a human need develops that a person wants to satisfy, they must either use existing assets or take up a liability. The decision to take up liabilities can be described in the following four phase process (refer to figure 1).

Figure 1: Decision process when selecting credit products (liabilities)



(Source: Venter & Botha, 2014 - *adapted*)

The first phase in the decision process is driven by the human needs individuals have (Goodall et al., 2014; Maslow, 1943). Maslow (1943) developed the theory of human motivation in which he considered both emotional and physical needs to develop five different human need levels (physiological, safety and security, love and belonging, esteem and self-actualisation needs). Although Maslow’s theory provided the theoretical framework for various studies considering human needs, for example Seeley (1992), Oleson (2004), and Venter and Botha (2012), it does present some application problems. In order to address some of these application problems Alderfer (1969) proposed some changes to Maslow’s grounded theory and developed his ERG theory (existence relatedness growth theory). Some of the changes included combining Maslow’s five levels of needs into three levels namely existence (e.g. need for housing), relatedness and growth needs. In order to fulfil these human needs individuals usually have to make use of services or buy goods, therefore the human needs result in a financial need (the need to acquire something).

In the second phase of the decision process, the individual has to decide how to pay for an identified financial need. The individual firstly determines if he has sufficient assets (cash or savings) to fulfil his financial need (Barba & Pivetti, 2009). Alternatively, if the individual does not have sufficient cash resources, he must consider whether the need must be left unfulfilled or must liabilities be used to satisfy the need now and then pay for it later (Barba & Pivetti, 2009; Mashigo, 2006; Botha, du Preez, Geach, Goodall & Rossini, 2009). In order to assist individuals in meeting their needs financial institutions have developed specific credit products (liabilities) to satisfy different financial needs.

If the individual decides to use credit products (liabilities), the third phase in the process entails considering whether the individual can obtain access to the credit required. Previous studies identified certain factors both physical and regulatory that influence access to credit, for example life stages, income, race, gender, and employment status (Finscope, 2010; Tippett, 2010; Schooley & Worden, 2010; Brown, Garino & Taylor, 2008; Thums, Newman & Xiao, 2008; Lee, Lown & Sharpe, 2007; Venter & Stedall, 2010; Yilmazer & DeVaney, 2005).

In the final phase the individual selects a credit product (liability) to satisfy the identified financial need. In order to assist individuals financial institutions develop specific credit products to satisfy specific needs, for example mortgages to buy a house. This study considers if an individual decides to use a long-term liability, whether they are using it to satisfy long-term or short-term needs. In order to achieve this objective, credit products that can be classified as long-term liabilities will be identified using the credit product classification framework discussed below.

CREDIT PRODUCT CLASSIFICATION FRAMEWORK

The credit environment in South Africa is a large and complex industry (National Credit Regulator & Devnomics, 2012). Currently organisations such as Finscope, the National Credit Regulator, South African Reserve Bank and International Accounting Standards Board have classification guidelines that are used to report on liabilities (also referred to as credit or debt) usage by individuals. After analysing the different classification methods used in South Africa the following three groups that can be used to analyse liabilities were identified:

- ***Informal or formal liabilities***
  Finscope classifies credit products as informal or formal. Informal credit products refer to financial products and/or services that are not regulated by financial institutions (Finscope, 2014; Bankseta, 2013). Examples of informal credit products include borrowing from friends, family or colleagues, stokvels, burial societies, savings clubs, private money lenders such as mashonisas or loan sharks and spaza shops (Finscope, 2010; 2012; Bankseta, 2013). Formal credit products refer to financial products and/or services that are regulated by financial institutions (Finscope, 2014; Bankseta, 2013). Examples of formal credit products include personal loans, mortgages, vehicle loans, garage or credit cards, overdraft facilities, store cards and student loans (Finscope, 2010; 2012; Bankseta, 2013).

- ***Secured or unsecured liabilities***
  The National Credit Regulator of South Africa classifies credit products as unsecured or secured credit. Unsecured credit includes credit transactions which are not secured by pledge or other personal security (South Africa 2006: Section 39(3)). The terms and conditions of credit products can indicate whether a credit product should be classified as unsecured or secured debt. Examples of unsecured credit products include credit cards,

garage cards, bank overdrafts and store cards. Examples of secured credit products include mortgages, motor vehicle finance, retail furniture finance, pension-backed loans and insurance-backed loans (National Credit Regulator, 2008).

- ***Long-term and short-term liabilities***
  The South African Reserve Bank prepares household balance sheets using the System of National Accounts (SNA). The SNA classifies credit products as short-term or long-term credit. According to the SNA credit products which are repayable within a period of one year or less are classified as short-term whereas credit products which are repayable in a period of more than one year is classified as long-term (European Commission, International Monetary Funds, Organisation for Economic Cooperation and Development, United Nations & World Bank, 2009).

  Similarly, the International Accounting Standards Board classifies credit products as non-current or current credit in terms of the International Financial Reporting Standard. Non-current credit is classified as credit that is settled in a period of more than twelve months, for example mortgages. Current credit is classified as credit that is settled within a twelve month period, for example bank overdraft facilities (International Accounting Standards Board, 2010). Due to the similar definitions used by the South African Reserve Bank and International Accounting Standards Board, non-current credit can therefore also be referred to as long-term credit while current credit can be referred to as short-term credit.

These classification groups can be used to develop a credit product classification framework for a list of credit products available in South Africa. Due to the variety of individual credit products available in South Africa, it was not possible to classify each product, therefore products were grouped into groups that have similar characteristics. The initial credit product list was derived from the Finscope survey which focusses on financial products used by South Africans.

The characteristics of each credit product group were analysed in order to classify it as informal or formal, secured or unsecured and long or short-term credit products (refer to table 1).

Table 1: Credit product classification framework

Type of credit product	Informal or formal liabilities	Secured or unsecured liabilities	Long-term or short-term liabilities
Friends, family or colleagues	Informal	Unsecured	Short-term
Payday loans[1]	Informal	Secured	Short-term
Loans from mashonisas	Informal	Unsecured	Short or long-term
Loans from societies	Informal	Unsecured	Short or long-term
Loans from pawnbrokers	Informal	Secured	Short-term
Loans from spaza shops	Informal	Unsecured	Short-term
Micro-loans	Formal	Unsecured	Short-term
Store cards	Formal	Unsecured	Short-term
Store loans	Formal	Unsecured	Long-term
Credit cards	Formal	Unsecured	Short-term
Overdraft facilities	Formal	Unsecured	Short-term
Personal loans	Formal	Unsecured	Short or long-term
Loans against policies	Formal	Secured	Long-term
Instalment or lease agreements	Formal	Secured	Long-term
Property mortgage loans	Formal	Secured	Long-term
Garage cards	Formal	Unsecured	Short-term
Educational loans	Formal	Unsecured	Long-term
Emergency loans	Formal	Unsecured	Short-term
Loans from other banks	Formal	Secured or unsecured	Short or long-term

[1]Traditionally payday loans are classified as informal; however, some registered financial institutions may offer this product which will then classify it as a formal credit product.

As the aim of this study is to consider if South Africans use long-term liabilities to satisfy the correct needs, only long-term products identified in the framework will be analysed in the remainder of the paper.

In order to determine how each credit product in the framework should be utilized, the selected products' classifications were expanded by classifying each credit product according to Alderfer's ERG theory to establish which needs should be fulfilled when using each credit product.

INTENDED USE OF LIABILITIES ACCORDING TO ALDERFER'S ERG THEORY

Alderfer's ERG theory identifies different groups of needs that individuals must satisfy which consist of existence, relatedness and growth needs. In order to determine what needs should be satisfied by a specific long-term liability a comprehensive analysis of each of the levels was done. The following sections provide a brief overview of each of the levels included in the theory.

Existence needs are classified as basic needs which include, for example, the need for food, water, clothes, shelter (house), transportation (including buying a motor vehicle), utilities (electricity), medical insurance, life and disability insurance, personal care (beauty or barbershop, cosmetics) and household furnishings (Alderfer, 1969; Ball, 2012; Venter & Botha, 2014).

Relatedness needs are classified as needs which relate to external esteem; involve socializing, being part of relationships and being socially recognized (Alderfer, 1969; Ball, 2012). Relatedness needs, for example, include entertainment (such as movies, hobbies, sports club memberships), communication (telephone, television, internet), accessories (designer jewellery, shoes, handbags) and needs related to family and friends (such as gifts).

Growth needs are classified as needs related to an individual's internal esteem and self-development (Alderfer, 1969; Ball, 2012), for example having an education, going on vacation or owning a business. Table 2 presents a summary of examples of needs in each of Alderfer's three need levels.

Each credit product in the credit product classification framework can be classified according to the three levels of needs in Alderfer's ERG theory by referring to the credit product's characteristics, intended use and examples of needs in each need level. In table 2 the credit product classification framework is expanded by including examples of intended use for each type of credit product and thereby classifying it according to Alderfer's need levels.

Table 2: Credit product classification framework according to Alderfer's needs

Type of credit product	Credit product classifications			Intended use when using the credit product	Alderfer's needs fulfilled
	Informal or formal credit	Secured or unsecured credit	Long-term or short-term credit		
Loans from mashonisas	Informal	Unsecured	Short or long-term	For emergencies, luxuries, home improvement, family rituals (labola), education, business opportunities, debt clearance or top-up of income (Micro Finance South Africa, 2012)	Existence Relatedness Growth
Loans from societies	Informal	Unsecured	Short or long-term	For any type of need, including for example food, burial expenses, personal needs, entertainment or education.	Existence Relatedness Growth
Store loans	Formal	Unsecured	Long-term	Depending on the type of store, usually used for unexpected or once-off expenses of any kind, differs from store cards intended for monthly purchases.	Existence Relatedness Growth

Type of credit product	Credit product classifications			Intended use when using the credit product	Alderfer's needs fulfilled
	Informal or formal credit	Secured or unsecured credit	Long-term or short-term credit		
Personal loans	Formal	Unsecured	Long-term	For daily living expenses, expensive items, or consolidating debt (Goodall et al., 2014).	Existence Relatedness Growth
Loans against policies	Formal	Secured	Long-term	Used as a last resort in a financial crisis (Goodall et al., 2014).	Existence Relatedness Growth
Instalment or lease agreements	Formal	Secured	Long-term	Usually used to buy motor vehicles (Standard Bank, 2012).	Existence
Property mortgage loans	Formal	Secured	Long-term	To buy a residential home, or pay for renovations, (Goodall et al., 2014).	Existence
Educational loans	Formal	Unsecured	Long-term	To pay for tuition fees, accommodation, books or study related equipment (Nedbank, 2012).	Growth

Type of credit product	Credit product classifications			Intended use when using the credit product	Alderfer's needs fulfilled
	Informal or formal credit	**Secured or unsecured credit**	**Long-term or short-term credit**		
Loans from other banks	Formal	Secured or unsecured	Short or long-term	Depending on the type of loan, can satisfy any type of need.	Existence Relatedness Growth

Table 2 indicates the type of needs that should be satisfied when using different types of long-term liabilities. Some credit products can be used to satisfy more than one type of Alderfer's needs while others are intended to satisfy a specific need.

Table 3 summarises the different long-term credit products into groups with similar characteristics which are used for further analysis in this paper.

Table 3: Main long-term credit product groups

Main credit product groups	Credit products in each main group	Classification according to Alderfer's ERG theory
Informal, unsecured, short or long-term loans	• Loans from mashonisas • Loans from societies	Existence needs Relatedness needs Growth needs
Formal, unsecured long-term loans	• Store loans • Personal loans • Educational loans	Existence needs Relatedness needs Growth needs
Formal, secured, long-term loans	• Loans against policies • Instalments or lease agreements • Property mortgage loans	Existence needs

(Source: Venter & Botha, 2014 - *adapted*)

The credit products in the credit product classification framework with similar characteristics can be grouped together and are used for credit usage analysis to answer the research question of this paper. The products included in the first group in table 3 can be used as both long and short-term liabilities, as it was not possible to identify for which time period respondents used these products. These products were therefore excluded from the remainder of analysis in the paper.

METHODOLOGY

To complete the quantitative phase of the research survey data which identify the reasons why individuals use credit products was required. Due to the cost of collecting primary data, secondary data sources that contained data that could be used for the intended purposes was considered. The analysis of available sources found that some of the information contained in the Finscope data basis could provide the insights required. The latest data available for academic purposes containing this information was the Finscope 2010 survey data. Permission was obtained to use the data and all ethical clearance processes were satisfied. In order to transform the data into a format that could be used in this study, the raw data was firstly coded into answers with similar themes (e.g. fuel for car). These themes were hereafter converted into major expense groups (for example transportation). Finally each of these expense groups was allocated to one or more of Alderfer's ERG theory levels.

The survey from which the data was obtained was performed nationwide by means of face-to-face interviews using a semi-structured questionnaire. The data in the survey was collected by interviewing 3 900 randomly selected respondents (16 years of age and older). A number of 278 trained interviewers conducted the interviews. Quality checks were performed by regional supervisors before data were captured and coded. Applicable ethical standards were followed during the collection and analysis of data. The profiles of respondents that participated in the survey as well as those that make use of liabilities are provided in table 4.

Table 4: Demographics profile of respondents of sample

Demographic variable*	Total sample N	Liability users (N)	Liability users distribution **
Sample	3 900	1 729	
Marital status			
Married civil/religious	1 026	578	33.45%
Married traditional/ customary	308	158	9.14%
Living together	262	125	7.23%
Single/never married	1 727	614	35.53%
Widower/widow	380	158	9.15%
Separated	92	42	2.43%
Divorced	104	53	3.07%
Age ***			
16 – 17	135	20	1.16%
18 – 29	1 195	444	25.81%
30 – 44	1 270	632	36.75%
45 – 59	776	402	23.37%
60+	511	222	12.91%
Province			
Eastern Cape	499	217	12.55%
Free State	372	132	7.63%
Gauteng	636	354	20.48%
KwaZulu-Natal	624	295	17.06%
Limpopo	292	92	5.32%
Mpumalanga	336	95	5.50%
Northern Cape	259	123	7.11%
North West	327	114	6.59%
Western Cape	555	307	17.76%
Monthly personal income			
No income	561	155	11.19%
Irregular monthly income	426	148	10.69%
R1 – R999	531	204	14.73%

Demographic variable*	Total sample N	Liability users (N)	Liability users distribution **
R1 000 – R1 999	684	269	19.42%
R2 000 – R3 999	314	161	11.62%
R4 000 – R6 999	283	157	11.34%
R7 000 – R9 999	187	117	8.45%
R10 000 – R14 499	123	88	6.35%
R14 500 – R19 499	57	32	2.31%
R19 500+	67	54	3.90%

* *Excluding refusals/uncertainties*

** *% calculated based on the number of liability users*

*** *Continuous variable categorized for reporting purposes*

Although the data set obtained has been statistically verified to provide reliable information it does have some limitations. For example, respondents participating in the survey were required to do self-reporting on their financial behaviour which could lead to inaccurate information and analysis. Another limitation is that not all credit products identified in the literature were included in the omnibus survey instrument and data set; where there were very few respondents that made used of a specific product (for example an educational loan) it was classified as other, resulting in it not being possible to extract exact data for some products identified in the literature. Although the effect of these limitations was minimal it is important to take note of it. As the objective of the study was to determine if long-term liabilities were used to satisfy needs other than those for which the product was intended, only products that were designed to be used as long-term credit products were extracted from the data. The analysis provided in the paper focuses on two groups of products, namely formal secured long-term liabilities and informal secured long-term liabilities.

Of the 3 900 respondents, 1 729 respondents indicated that they had used credit products in the past or were currently using credit products. Table 5 presents the number of respondents using the selected long-term liability products.

Table 5: Credit products used when fulfilling needs

Credit products used to fulfil needs	Number of times the credit product was used
Formal, secured, long-term liabilities	**745**
Instalment or lease agreements	376
Property mortgage loans	369
Formal, unsecured, long-term liabilities	**530**
Personal loans	478
Store loans	52

Using the method described above the following expense groups were identified from respondent's responses: housing, transport, daily living/basic needs, emergencies, entertainment, family and friends, food and groceries, goods, personal use, telephone, education, clothing, pay debt and bills, electricity and business expenses.

These expense groups were then allocated to Alderfer's ERG theory levels (the analyses was done based on the underlying answers provided for each expense group):

- **Existence needs**: housing, transport, daily living/basic needs, emergencies, personal use*, clothing, pay debt and bills* and electricity
- **Relatedness needs**: entertainment, family and friends, personal use*, telephone and pay debt and bills*
- **Growth needs**: food and groceries, goods, personal use*, education, pay debt and bills* and business expenses
  - * Allocated to more than one level.

To identify for which purposes long-term credit products are used in terms of Alderfer's ERG theory, the needs satisfied by each respondent were analysed and classified into one of the levels above.

RESULTS AND FINDINGS

Formal, secured, long-term liabilities

The expectation exists that formal, secured, long-term liabilities are used for gratification of existence needs, namely housing and transport needs, especially since this group consists of instalment or lease agreements (used to buy motor vehicles or housing fittings) and property mortgage loans. Consistent with the theory, respondents indicated that formal, secured, long-term liabilities are mainly used to satisfy existence needs in the form of housing and transport. A credit usage analysis of the subcomponents in this credit product group is provided below (table 6).

Table 6: Needs fulfilled per credit products group (Formal, secured, long-term liabilities)

	Alderfer's need levels			
Credit product group and type	**Existence needs**	**Relatedness needs**	**Growth needs**	**Total**
Property mortgage loans	86%	7%	7%	100%
Instalment or lease agreements	90%	5%	5%	100%
Formal, secured, long-term liabilities	**88%**	**6%**	**6%**	**100%**

Credit usage of the products in this loan group to satisfy needs is noticeably similar. As expected, these loans are mainly used to satisfy existence needs of a long-term nature. To better understand the needs satisfied by each of the credit products, an analysis of the needs satisfied when using each of the products in this group is provided in tables 7 and 8.

Table 7: Needs satisfied when using property mortgage loans

Needs satisfied when using property mortgage loans	% Usage
Housing	78%
Personal use	14%
Pay debt, bills	7%
Transport	1%
Total	**100%**

Table 7 indicates that the majority of respondents use property mortgage loans to satisfy housing needs, which is consistent with the product's intended use. Of concern is the fact that 22% of respondents indicated that they used it for other purposes such as paying other debt or personal use items which is classified as short-term needs.

Table 8: Needs satisfied when using instalment or lease agreements

Needs satisfied when using instalment or lease agreements	% Usage
Transport	84%
Personal use	12%
Pay debt, bills	2%
Housing	1%
Emergencies	1%
Total	**100%**

Table 8 clearly indicates that respondents use instalment or lease agreements to satisfy transport needs and personal use needs which could include buying a television set or groceries. As no detailed information is available for personal use needs it cannot be analysed further, however due to the legal regulation governing these loans it is assumed that the majority of the loans in this category are to acquire personal use assets. A concerning fact is that some respondents indicated that they used these loans to pay other debt, for example refinancing debt. This might be due to the fact that they cannot meet their existing obligations and need to extend the period in order to reduce the payments.

Formal, unsecured, long-term liabilities

For formal, unsecured, long-term liabilities the allocation of credit usage among the different levels of needs is noticeably different when compared with the other long-term liability group. This is consistent with the expectation that loans in this credit product group should be used to satisfy all three levels of needs. To identify differences in credit usage when satisfying needs, credit usage of each subcomponent in this group is indicated below (table 9).

Table 9: Needs fulfilled per credit products group (Formal, unsecured, long-term liabilities)

Credit product group and type	Alderfer's need levels			Total
	Existence needs	Relatedness needs	Growth needs	
Store loans	60%	21%	19%	100%
Personal loans	48%	21%	31%	100%
Formal, unsecured, long-term liabilities	**49%**	**21%**	**30%**	**100%**

A number of clear credit usage differences exist in the formal, unsecured, long-term liability group. When comparing the two credit products, it is clear that store loans have a higher gratification of existence needs and a lower credit usage to satisfy growth needs. Both products satisfy relatedness needs in the same way. It is also noted that the usage of credit from personal loans is more evenly spread through the different levels of needs, which is in line with the expectation that loans in this category are used to satisfy needs at all three levels of Alderfer's ERG theory. For a better understanding of the differences in credit usage between the products in this group, the details of the needs satisfied when using each product are provided in tables 10 and 11.

Table 10: Needs satisfied when using store loans

Needs satisfied when using store loans	% Usage
Personal use	36%
Clothing	29%
Pay debt, bills	15%
Goods	12%
Friends and family	4%
Business expenses	2%
Transport	2%
Total	**100%**

The main needs satisfied when using store loans include personal needs, clothing needs, the need to pay existing debt and bills and the need to purchase goods. Considering the design of the product it is mainly used to satisfy the needs as expected based on Aldefer's ERG. The fact that 15% of respondents indicated that they use these store loans to pay other debts is however of concern as it indicates that the respondents have entered the debt spiral where one form of debt is used to pay another debt.

Table 11: Needs satisfied when using personal loans

Needs satisfied when using personal loans	% Usage
Personal use	45%
Housing	12%
Pay debt, bills	12%
Education	10%
Transport	8%
Emergencies	4%
Goods	3%
Business expenses	2%
Friends and family	2%
Clothing	1%
Food and groceries	1%
Total	**100%**

Almost half of credit from personal loans is used to satisfy personal needs, while some credit is also used to fulfil housing needs and the need to pay for existing debt and transport needs. Consistent with expectations, even though loans in this group are mainly used to satisfy existence needs, it is clear that a small proportion of credit is also used to satisfy relatedness and growth needs.

CONCLUSIONS

Humans have various needs that develop through their life time. Alderfer differentiated between three types of needs namely existence, relatedness and growth needs in his ERG theory. In order to satisfy these human needs individuals are usually required to spend money and therefore a financial need develops. After a financial need develops the individual has to consider if he has sufficient assets available to meet the need. If the individual does not have sufficient assets he must either leave the need unsatisfied or make use of liabilities to obtain the funds required to meet the needs. The liabilities available to individuals can be classified in different ways, for example, short and long-term liabilities. Ideally short-term liabilities should be used to satisfy short-term financial needs and vice versa. Individuals often develop financial difficulties when they use long-term liabilities to satisfy short-term financial needs.

This paper investigates which needs South Africans satisfy using long-term liabilities. The analysis of the data obtained indicates that the majority of South Africans do use their long-term liabilities to satisfy the needs for which the products were intended to be used (long-term needs). It is however of concern that a significant number of respondents also used the liabilities for other purposes, including short-term needs despite the fact that the financial product being used was a long-term product.

Possible explanations for this could be that the individuals do not have access to short- term-products or that they use the long-term debt since it usually has a lower interest rate. Figures published by the National Credit Regulator suggest that consumers are over extended and unable to meet their liabilities, which probably results in them having to use long-term liabilities to meet their short-term needs.

These findings pose the question if the current legislation framework that regulates credit usage does indeed protect clients. There are various regulations including the National Credit Act that aims to protect users of financial services, but based on the analysis provided in this paper it is still inadequate to prevent clients from making incorrect long-term financial decisions. Role players in the industry should therefore focus on improving financial literacy of clients in order to prevent additional regulations that could negatively impact the industry and users of credit, being introduced.

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