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ACCESS TO CREDIT AND SAVING BEHAVIOUR OF GENERATION Y STUDENTS. ARE WE EDUCATING AN OVER-INDEBTED GENERATION?

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─Abstract ─

Credit is deemed central to the economy of a country. However, it becomes a problem when people find it difficult to meet their financial obligations and end up becoming over-indebted. Previous research in consumer behaviour among South Africans has revealed that households are over-indebted. Coupled with this, South Africa is known as a consuming nation with a poor savings culture. The review of literature reveal that university students are not spared since companies are targeting them with credit products in an effort to increase their market share. The purpose of this study was to investigate the influence of access to credit on the savings behaviour of Generation Y students. The study adopted a quantitative research approach. Data were analysed from a total of 145 Generation Y students who had fully completed the questionnaire. Exploratory factor analysis was used to establish whether the data were factorable. Correlation analysis was used to investigate the relationship between access to credit and savings behaviour of Generation Y Students. Single regression analysis was used to investigate whether access to credit influences savings behaviour of Generation Y students. The results show that access to credit has positively influenced the saving behaviour of Generation Y students. Based on this, if access to credit is not managed well, Generation Y students and young people in general will find themselves over-indebted. A culture of saving among this cohort should be encouraged. It is therefore recommended that Universities should introduce financial literacy programmes for students across different fields of study. Furthermore, government should institute stringent measures to punish non-compliance with the National Credit Act by credit providers.

Key Words: Access to credit, Savings behaviour, Generation Y students, Over-indebtedness

JEL Classification: D14

1. INTRODUCTION

Credit is deemed central to the economy of a country. However, it becomes a problem when individuals are unable to meet their financial obligations. In other words, when credit is not well managed, an individual may end up becoming over-indebted (Renke et al., 2016). According to Ardington et al. (2004), access to credit is good, however, over-indebtedness of the individual can be a source of vulnerability. This view is shared by Kim et al. (2014) who remark that despite the fact that debt promotes economic growth, beyond a certain level, it can have opposite effects. Similarly, De Wet et al. (2015) posit that although credit allows a consumer the benefit of usage and/or ownership of an item or resource, and only pay later, its over-usage has the ability to potentially affect the consumer negatively and also cause instability in the economy. This is so since when households are over-indebted, they may be exposed to a myriad of adverse effects such as unemployment shocks, asset price shocks and income shocks (Meniago et al., 2013).

For these reasons, many governments around the world have prioritize the protection of consumers against unscrupulous lending with the aim of preventing them from becoming over-indebted (Marron, 2012; Schicks, 2013). In the case of South Africa, the National Credit Act (NCA) was introduced to among others, prevent reckless lending by credit providers, prevent and alleviate over-indebtedness of consumers and prevent high costs of borrowing (Kelly-Louw, 2008). Furthermore, policymakers in South Africa have seen the need to investigate ways to encourage savings since the levels of saving among South Africans are comparatively low (Cronjé and Roux, 2010).

2. LITERATURE REVIEW

Although there is no universally accepted indicator which one can use to measure over-indebtedness, the most basic one is the amount of debt one holds (Schicks, 2013). For this reason, there has been a steady increase in studies that focus on over-indebtedness. Many authors provided some definitions of the concept. For example, a person is seen as over-indebted when they continuously find it difficult to meet their repayment deadlines and structurally has to make unduly high sacrifices with regard to their loan obligations (Schicks, 2013). Another perspective is that when a private household's income over an extended period of time is insufficient for servicing debt on time notwithstanding the fact that they might have reduced their standard of living, then they are considered to be over-indebted (Nyaruwata, 2009). Similarly, there is a view that a person is over-indebted when their existing and foreseeable resources are insufficient to meet their financial commitments without lowering their standard of living (Ntsalaze and Ikhide, 2016).

The UK government adopted a framework recommended by the influential Personal Finance Research Centre to assess levels of over-indebtedness (Marron, 2013). Firstly, according to this framework, an individual is considered to be over-indebted when they spend more than 25% of their gross monthly income on total payments. Secondly, a person will also be over-indebted when they spend more than 50% of their gross monthly income on total borrowing repayments (secured and unsecured). Thirdly, when an individual has four or more credit commitments the likelihood is that he/she will be over-indebted. Fourthly, when an individual is experiencing arrears on credit commitments or domestic bills for more than three months then it will be appropriate to consider the person as over-indebted. Lastly, when individuals perceive their household borrowing repayments to be a ‘heavy burden’ then they are over-indebted. In terms of the National Credit Act 34 of 2005, 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 financial means, prospects and obligations and 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” (Ssebagala, 2016).

2.1 Saving behaviour in South Africa

In line with the afore-mentioned definitions, previous research on consumer behaviour have revealed that the levels of over-indebtedness among households in South Africa are disturbingly high (Meniago et al. 2013). The unsustainable levels of debt among South African households are not surprising since the country is known to be a consuming nation with a poor saving culture (Nga, 2007). Sadly, an increasing desire to consume can develop into an over-indebted nation (Jacobs and Smit (2010). Due to the low levels of saving among South Africans, the country is dependent on foreign investment to finance growth. Cronjé and Roux (2010), caution that dependence on foreign investment is not always healthy since investors can withdraw at any time in response to any bad news.

Engelbrecht (2011) highlights that the country's savings vulnerability score of 5.74 indicates that the levels of savings among South Africans is alarmingly low since they tend to spend more money than they earn because of poor financial planning. A case in point is that despite the government setting the national savings rate at 23% of the gross domestic product, South Africa's savings rate stood at around 17 % as at the year 2009 (Cronjé and Roux, 2010). In other words, South Africans spend a huge percentage of their income servicing debt. This is a disturbing reality since the benefits of saving are immense not only for households but also for the whole nation (Mahdzan and Tabiani, 2013). It is imperative that excessive consumption among South Africans is curbed in order to provide for future well-being of individuals, improve their quality of life and relieve the State of the burden to provide (Cronjé and Roux, 2010).

2.2 Factors determining over-indebtedness

The review of literature reveals that one can analyse the borrowing and lending patterns to identify potential determinants of the levels of debt among households (Meng et al. 2013). In other words, the cause of over-indebtedness can be categorized into supply and demand factors (Ntsalaze and Ikhide, 2016). Among others, the demand for debt, the household's disposable income as well as the purpose for borrowing are some of the determinants of over-indebtedness among households (Meng, et al., 2013). This could be interpreted as suggesting that the demand factors focus on the behaviour of the household. In the main, households demand large amounts of debt to smooth their consumption and buy assets such as houses and cars (Meniago et al., 2013). Therefore, this can be interpreted as suggesting that there is a natural link between materialism and over-indebtedness of an individual (Jacobs and Smit, 2010).

Conversely, the supply factors include marketing and innovation by credit providers. For example, due to strong competition, retail stores introduce store cards to market their merchandise by offering attractive benefits to attract and retain customers (Erasmus and Lebani, 2007). It would therefore be rational to put the blame squarely on the shoulders of retail stores with the introduction of store cards that contributed to the increase in over-indebtedness among South African consumers (Jacobs and Smit, 2010). Coupled with this, the insufficient scrutiny of applicants by retail stores, makes it easy to obtain a store card. The sad thing about this is that the majority of people who own store cards do not have the competency to manage this form of credit (Erasmus and Lebani, 2007).

In South Africa, there is a diverse range of credit products, which households can choose from. This ranges from informal family loans to home loans which commercial banks grant to qualifying households (Ardington, et al., 2004). However, the majority of South African consumers do not have access to mortgages, vehicle finance or overdrafts and therefore only qualify for store cards, credit cards, hire purchases or micro loans (Hurwitz and Luiz, 2007). Debt procured in this way normally attracts higher interest rates. In addition, when people borrow money from lenders who charge high interest rates, the likelihood is that they will be over-indebted hence vulnerable to poverty (Ardington et al, 2004). Therefore, consumers find themselves in a ‘debt trap’ which to a certain degree is caused by having multiple retail accounts, and consequently take loans to repay other loans (Hurwitz and Luiz, 2007).

2.3 Access to credit and debt levels among Generation Y students

Today, credit has become freely available to many people and acquiring goods on credit has become socially acceptable (Jacobs and Smit, 2010). This is in line with the rising interest rates which allow banks to maximise profits thereby further expanding credit to those who were traditionally excluded, including university students (Houle, 2014). Some of the credit products that can be accessed easily include micro-loans, store cards, credit cards and hire purchase transactions. In today’s societies, credit cards have replaced cash as a form of payment while it is easier to obtain a store card as they are afforded less respect than other forms of credit (Erasmus and Lebani, 2008). For this reason, consumer credit has become an indispensable component in today’s consumption practices and the wider financial economy (Marron, 2013). Fuelled by the changes in consumer tastes, consumption patterns and buying behaviour, there has been an unprecedented growth in the retail sector (Tendai and Crispen, 2009). In the case of South Africa, the growth in the retail sector has contributed to the expansion of the credit sector which is seen as the source of over-indebtedness among households (Hurwitz and Luiz, 2007).

Generation Y (also known as Millennials) is defined as those born between the years 1981 and 2001, they are proficient in technology, multitask and intricately connected to social media (Black, 2010). They are known for their pampered upbringing, confidence, opinionated dialogue, free-spending habits and openness to change (Dugas, 2010). During the recent past decades, Generation Y student debt has risen dramatically (Houle and Berger, 2015) and this generation experience high levels of debt which accumulated throughout undergraduate term

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(Whiting et al., 2012). Access to credit and taking on debt provides Generation Y students with the necessary financial means to meet their myriad of needs (Houle, 2014). This is not surprising since Generation Y students are faced with a range of financial pitfalls as they embraced expensive high-tech gadgets and added credit card debt onto student loans (Dugas, 2010).

Credit card companies are targeting university students in an effort to increase their market share (Williams et al., 2008; Robb and Sharpe, 2009) since university students have become an important consumer market segment (Sabri and MacDonald, 2010). These companies also use loyalty cards, points or bonus programmes to attract university students (Akpojivi, 2013). For example, in a study among university students in the southern United States, Williams et al. (2008) found that 64% of students had a credit card. The end result is that university students may end up over-indebted since there is a close relationship between credit card usage and lower credit knowledge among university students (Robb and Sharpe, 2009). This assertion is supported by Sabri and Macdonald (2010) who conducted a study among Malaysian students and found that more than half of students surveyed did not save but spend their money on shopping. Evidently, the students who own store/credit cards do not necessarily have the required competence to manage credit that is so generously approved (Erasmus and Lebani, 2008).

Previous research has revealed that the financial vulnerability of South African households has increased significantly as a result of having too much debt (Engelbrecht, 2011; Kelly-Louw, 2008). It is reported that half of South Africa's consumers who use credit are unable to service their debt and about 6000 of them apply for debt counselling every month (Bimha, 2014). In the past, this over-indebtedness among consumers in South Africa has led to many social problems (Stoop, 2009). Over-indebtedness appears to be a serious problem in South Africa since in 2008 the household debt to income reached 78.2% (Nyaruwata, 2009) while in 2012 and 2014 was 76.3% and 73.5% respectively (Bimha, 2014). In other words, Majority of those who have debt, they spend a huge percentage of their income servicing debt. For example, at one point 40% of credit active households in South Africa were experiencing financial difficulty due to over-indebtedness (Renke et al. 2006) while over 11 million are described as over-indebted (anonymous, 2016). One can therefore conclude that these are the results of consumer credit that is readily available and very costly (Gathergood, 2012).

Research has indicated that university students spend a lot due to low levels of financial literacy (Sabri and MacDonald, 2010).

Based on this, the current study attempted to investigate the relationship between access to credit among Generation Y students and their savings behaviour. This is in line with the increasing debt among students. In this case, access to credit include credit cards and store cards which students applied for and granted. Therefore, the research question is stated as follows: Does access to credit lead to lack of saving among Generation Y students?

Based on the review of literature, the following hypotheses were formulated:

H_1: There is a statistically significant relationship between store/credit card usage and lack of savings among Generation Y students.

H_2: Store/credit card usage influences savings behaviour of Generation Y students.

3. METHODOLOGY

An extensive review of literature was conducted to collect the secondary data. This among others, included published articles, databases, and the internet. A quantitative research approach was followed to collect the primary data. This approach is systematic and objective since it uses statistical techniques to analyse the collected data. A questionnaire was developed by taking items from Roberts and Jones (2001) study. The Statistical Package for Social Sciences (IBM – SPSS version 23 for Windows) was used to analyse the data. Descriptive statistics was used to analyse the demographic profile of participants. Correlation and regression analysis were used to establish relationships and causals among the variables.

3.1 Sample

The sample comprised Generation Y students in a selected university in the Free State province of South Africa. A non-probability convenience sampling technique was used. University students were invited because they are likely to own a store-card or a credit card. A total of 200 students were invited to participate. Of those who responded, data was analysed from 145 eligible questionnaires.

3.2 Measuring instrument

A self-administered questionnaire was developed. Store/credit card and lack of savings comprise seven and three items respectively. The questionnaire was divided into three sections. Section A of the questionnaire comprised statements requesting demographic information of participants. Section B comprised statement regarding credit/store-card usage among Generation Y students and Section C comprised statements regarding savings behaviour of Generation Y students.

3.3 Data collection

Once permission was granted to conduct the research, trained fieldworkers were employed to distribute the questionnaires. In most cases, the questionnaires were completed in the presence of the fieldworkers, thus ensuring that they were properly completed and to generate a high response rate.

3.4 Reliability and Validity analysis

Cronbachs' Alpha was used to determine the reliability of the measuring instrument. According to Nunnaly (1978), the reliability is acceptable when it is 0.7 or above. The reliability values of the two constructs, namely Store/credit card usage and lack of saving were 0.845 and 0.715 respectively. Therefore, above the recommended 0.7 value. Furthermore, the face, content and convergent validity of the measuring instrument were established. Two experienced researchers checked the instrument for errors and ensured that the items measured what they are intended to. Factor analysis was used to check whether the items loaded on the factors. The individual item loading for the constructs ranged from 0.557 to 0.827 and therefore, above the recommended 0.4 (Pallant, 2013). Table 1 provide the Cronbah's Alpha values and item loadings.

3.5 Ethical considerations

A number of ethical considerations were complied with. Among others, permission was obtained from the institution to survey the students. Once granted, arrangements were made regarding the administration of the questionnaire. The purpose of the study was explained to all the invited participants. They were informed that their participation is voluntary and they may withdraw at any time without repercussions. In addition, their anonymity and confidentiality was guaranteed. The data provided were analysed in an aggregated format.

4. RESULTS

4.1 Sample profile

Of the 145 Generation Y students who participated in the survey, 130 were Black, 10 White, 3 Coloured, 1 Indian and 1 other group. The gender comprised 79 males and 66 females. In terms of the year of study, third year students were in the majority (n=40; 27.6%), followed by first years (n=38; 26.2%), second years (n=35; 24.1%) and postgraduates (n=32; 22.1%). The participants were from different fields of study including Commerce (n=40; 27.6%), Health (n=15; 10.3%), Law (n=16, 11%), Natural sciences (n=30; 20.7%), Education (n=13; 9%) and Humanities (n=31; 21.7%).

4.2 Factor analysis

Kaiser-Meyer-Olkin Measure of Sampling Adequacy and the Bartlett's test of Sphericity were performed to establish the factorability of the data. The KMO value of 0.827 indicated that the data were acceptable (Pallant, 2013) and the Batlett's test of Sphericity was significant at 0.000 supporting the factorability of the data (Malhotra, 2010). Two factors were extracted and labelled store/credit card usage and lack of savings respectively. The two factors accounted for 56.327% of the variance explained. Table 1 provides a detailed report on the factor structure.

Table 1: Scale reliability

Research constructs		**Descriptive statistics**		**Cronbach's test**		**Factor Loading**
		Mean	SD	Item-total	α	
Store/credit card usage	SCC1	1.96	0.65	.826	.845	.827
	SCC2			.825		.783
	SCC3			.822		.745
	SCC4			.831		.672
	SCC5			.829		.660
	SCC6			.822		.644
	SCC7			.811		.557
Lack of Savings	LSV1	2.57	0.71	.612	.715	.815
	LSV2			.534		.777
	LSV3			.713		.730

SCC1 –SCC7=Store/Credit card items; LSV1-LSV3=Lack of saving items

4.3 Correlations

Pearson correlation was used to test whether there was any relationship between store/credit card usage and lack of savings among Generation Y students. There was a statistically positive correlation between store/credit card usage and lack of saving at $p<0.01$. Correlation matrix in Table 2 revealed a moderate ($r=.368$) relationship between store/credit card usage and lack of savings among Generation Y students (Pallant, 2013). This finding is consistent with the findings of Sabri and MacDonald (2010) where they found an association between poor savings behaviour of students as a result of misuse of these credit products. Similarly, Robb and Sharpe (2009) found a close relationship between credit card usage and lower credit knowledge among university students. The future belongs to Generation Y. When this Generation does not take savings seriously, this can have devastating consequences for the country. This is so since it is through savings that the much needed investments are made.

Table 2: Correlation analysis

		Store/credit card usage	Lack of Saving
Store/credit card usage	Pearson Correlation	1	.368**
	Sig. (2-tailed)		.000
	N	145	145
Lack of Savings	Pearson	.368**	1
Correlation	Sig. (2-tailed)	.000	
	N	145	145

**. Correlation is significant at the 0.01 level (2-tailed)

4.4 Regression

Single linear regression analysis was used to test whether store/credit card usage influences the savings behaviour of Generation Y students. Regression analysis in Table 3 revealed that store/credit card usage influences the lack of savings among Generation Y students. This finding is consistent with the view that store/credit card usage leads to lower credit knowledge among university students hence lower savings (Robb and Sharpe, 2009). Similarly, Sabri and Macdonald (2010) found that students with credit cards did not save but spend their money on shopping hence over-indebted. Dugas (2010) also reported that Gen Y members do not build up a cash cushion and accumulate too much credit card debt. This can therefore be interpreted as suggesting that reckless usage of credit/store cards contribute to lack of saving among students (Generation Y).

Table 3: Regression analysis – with lack of savings as dependent variable

Model Independent variable	Unstandardized Coefficient		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	.000	0.77		.000	1.00
Store/credit card usage	.368	0.78	.368	4.732	.000*

*$p<0.05$. Dependent variable = Lack of savings. F=22.395; R=.368; R^2=.135; Adjusted R^2= .129

5. DISCUSSION

This study investigated the influence of access to credit on saving behaviour of Generation Y students. The findings confirm that access to credit influence the saving behaviour among Generation Y students. Generation Y students who own store/credit cards save less. This is reflected through the usage of credit/store cards among Generation Y students. Reflecting on the results in this study, it is evident that Generation Y students through their usage of credit/store cards, do not save sufficiently for rainy days. If this is not attended to urgently, in the near future, there is a likelihood of pushing students' debt levels upwards. Furthermore, soaring debt and minimal savings has the potential to jeopardize the economic security of the entire generation (Dugas, 2010). This does not auger well for Generation Y students since in not a distant future many of them will enter the job market. They cannot afford to enter the labour market heavily indebted. This is so since according to Writer (2017), store card as a category of debt, was the highest among those aged 18 to 20 years in South Africa.

As previously stated, debt drives consumption levels upwards and the result is that savings levels decrease (Cronjé and Roux, 2010). When Generation Y students become overburdened with debt, the likelihood is that their ability to achieve economic independence will diminish which may have serious consequences for their economic and psychological well-being (Houle, 2014). This is a huge policy concern since young graduates are crucial for economic growth and development. For example, a major concern for policy makers is that student debt delays young people from investing in important assets such as property (Houle and Berger, 2015).

Economic growth can improve only if there is a savings culture among South Africans, particularly young people. Savings can lead to future investments.

According to the Investec and the Gordon Institute of Business Science research, the poor rate of savings among South Africans is holding back its economic growth (Anonymous, 2016). Generation Y students are the future of South Africa. For this reason, South Africa must increase the savings levels in order to eradicate poverty, inequality and unemployment, particularly among young people. When investments increase jobs can be created. Unfortunately, as reflected by the results of this study, Generation Y students are likely to be indebted. One can therefore argue that we are educating an over-indebted generation. Sadly, when one is indebted, this may tarnish their job prospects due to unfavourable credit profile. Therefore, there is an urgent need to come up with programmes that will encourage saving among Generation Y students.

6. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Similar to any study, this study has limitations. Firstly, the sample was drawn from one institution of higher learning. Therefore, the views expressed by Generation Y students in this instance did not necessarily represent the views of the entire Generation Y across the country. Secondly, the study did not incorporate other factors that could have an influence on lack of saving among Generation Y students. In light of the afore-mentioned, future research should incorporate Generation Y students from other institutions. Perhaps the results would be different. Furthermore, when conducting future studies, other factors such as declining incomes, the state of the economy and so on should be incorporated when investigating the savings levels of Generation Y students.

7. RECOMMENDATIONS

The time has arrived for South African policy makers to come up with measures to discourage consumption and create a saving culture among its citizens. From an early age, students should be taught the benefits of saving. This could be achieved through introducing financial literacy subjects and modules across different fields of study. Government should institute stringent measures to punish non-compliance with the National Credit Act by credit providers. Borrowing from Cronjé and Roux (2010), there should be innovative saving instruments that are simple and affordable to encourage saving, particularly among young people. Instead of targeting young people (Generation Y students) with credit products, banks, retail stores and other financial institutions, they should offer products that encourage saving.

8. CONCLUSION

Reflecting on the results of this study it is important that access to credit by Generation Y students is managed well. If not, Generation Y students and young people in general will find themselves over-indebted. A culture of saving among this cohort should be encouraged. Furthermore, it is only through savings that investments will take place. This has the potential to grow the economy thereby creating the much needed jobs.

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