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Evaluating Consolidation Loans as a Debt Management Strategy: A Mixed-Methods Study of Household Indebtedness in South Africa

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Abstract

Household over-indebtedness has become a defining feature of South Africa's financial system, with debt-to-income levels at 62.5% and household debt-to-GDP at 33.7% by the end of 2024. Unsecured credit, now exceeding R626 billion, reflects growing reliance on debt for survival rather than asset accumulation. In this context, consolidation loans have been aggressively marketed by major banks as instruments of financial relief, yet their long-term value remains questionable. This study critically examines the role of consolidation loans in addressing household indebtedness, particularly for the middle class. Using a mixed-methods design, it reviews literature and policy reports, conducts interviews with 50 loan applicants and 10 financial consultants, and analyses loan marketing materials. Findings reveal that consolidation loans often exacerbate vulnerability by extending repayment periods, concealing costs, and compounding interest, rather than resolving debt distress. Limited debt literacy further exposes households to financial risks, with consumers spending between 62% and 77% of income on debt repayments and collectively paying R384 billion annually in interest. The study argues that consolidation lending deepens household fragility and reinforces dependency on costly credit. Policy reforms, greater transparency, financial literacy initiatives, and wider social interventions are essential for fostering sustainable debt management and protecting vulnerable households.

Keywords

Household Over-Indebtedness, Consolidation Loans, Predatory Lending, Financial Literacy, Debt Management

1. Introduction

In South Africa, household over-indebtedness has become a critical socio-economic issue, with approximately 12 million adults affected as of 2024. The growing reliance on borrowing to cover necessities like housing and food is the main cause of this pervasive financial hardship. The extent of financial vulnerability among South African households is demonstrated by the fact that a sizable percentage of those who took out loans in the previous year did so to pay for necessities.

Over-indebtedness and financial vulnerability persist despite high levels of financial inclusion. In 2024, an estimated 12 million adults are over-indebted, and 75% of adults who borrowed in the previous year utilized credit to pay for necessities like food. High access to financial services conceals rising debt and poverty, which is the hidden catastrophe. Since 2014, food security has decreased; in 2024, 43% of adults used credit to purchase food, which is a three percentage point increase from 2023. 37% of formal credit borrowers are having trouble repaying their debt, and an estimated 10 million South Africans are overindebted. The number increases to over 12 million adults in financial trouble when those who only borrow from unofficial sources are taken into account. This draws attention to a paradox where increased debt, vulnerability, and economic pressures all occur at the same time as better loan availability. Improving financial well-being requires addressing issues of affordability, unemployment, and income inequality. The general financial health of South Africans has not really improved, even with high levels of financial inclusion. In 2024, about 70% of adults faced stagnation or deterioration in their financial circumstances. Although the proportion of financially vulnerable adults decreased from 33% to 28%, the proportion of financially healthy individuals declined from 24% to 16% in 2024. Systemic issues like income inequality, persistent unemployment, and the high costs of living hinder meaningful progress.

The aggressive marketing of consolidation loans has exacerbated the prevalence of over-indebtedness in South Africa by financial institutions. These loans, which involve combining multiple debts into a single loan, are often presented as a solution to alleviate financial burdens. However, such loans frequently come with high interest rates, extended repayment periods, and additional fees, which can lead to an increase in overall debt rather than a reduction. This practice has been identified as a form of predatory lending, exploiting consumers' lack of financial literacy and exacerbating their financial challenges.

In South Africa, the FinScope Consumer South Africa 2024 study revealed that approximately 12 million adults are over-indebted, with a significant portion relying on credit to meet essential needs. Over-indebtedness and financial vulnerability persist despite high levels of financial inclusion. In 2024, an estimated 12 million adults are over-indebted, and 75% of adults who borrowed in the previous year utilized credit to pay for necessities like food. High access to financial services conceals rising debt and poverty, which is the hidden catastrophe. Since 2014, food security has decreased; in 2024, 43% of adults used credit to purchase food, which is a three percentage point increase from 2023. 37% of formal credit borrowers are having trouble repaying their debt, and an estimated 10 million South Africans are overindebted. The number increases to over 12 million adults in financial trouble when those who only borrow from unofficial sources are taken into account. This draws attention to a paradox where increased debt, vulnerability, and economic pressures all occur at the same time as better loan availability. Improving financial well-being requires addressing issues of affordability, unemployment, and income inequality. The general financial health of South Africans has not really improved, even with high levels of financial inclusion. Approximately 70% of adults experienced financial stagnation or worsening in 2024. In 2024, the percentage of financially healthy people fell from 24% to 16%, while the percentage of financially vulnerable adults fell from 33% to 28%. Real growth is hampered by systemic problems including income disparity, chronic unemployment, and excessive living expenses.

The aggressive marketing of consolidation loans often involves misleading advertising and complex loan terms that are difficult for consumers to understand. These loans are typically marketed as a means to simplify debt repayment by consolidating multiple debts into a single loan with a single monthly payment. However, the reality is that these loans often come with higher interest rates and longer repayment periods, leading to an increase in the total amount repaid over time. For instance, a loan advertised with an interest rate of 1% per day may seem affordable initially, but when compounded over the loan's term, it can result in a significantly higher total repayment amount. This practice is a clear example of predatory lending, where lenders exploit consumers' lack of financial literacy to maximize their profits.

Furthermore, the lack of adequate regulation and oversight in the lending industry contributes to the proliferation of such predatory practices. While the National Credit Act 34 of 2005 was enacted to promote responsible lending and prevent reckless credit practices, enforcement remains a challenge. Many consumers are unaware of their rights and the true costs associated with consolidation loans, leaving them vulnerable to exploitation. This underscores the need for enhanced financial literacy programs and stricter enforcement of existing regulations to protect consumers from predatory lending practices.

The structural issues contributing to over-indebtedness in South Africa are deeply rooted in the broader economic system. Under neoliberal policies, there has been a shift towards financial capitalism, where debt is used as a tool for economic governance. This environment has led to the emergence of the "indebted man," an individual whose financial identity is shaped by constant borrowing and repayment cycles. The marketing strategies employed by financial institutions often prey on this psychological state, offering consolidation loans as a quick fix without addressing the underlying causes of over-indebtedness.

Despite the high level of access to formal financial services in South Africa, over-indebtedness remains a significant concern. In 2024, 75% of adults who borrowed in the past year used credit to cover essentials like food, and an estimated 12 million adults are over-indebted. This indicates that access to credit does not necessarily equate to financial well-being, and in many cases, it contributes to a cycle of debt that is difficult to escape. The situation is further complicated by the high unemployment rate, which stood at 32.1% towards the end of 2024, limiting individuals' ability to service their debts and leading to a reliance on credit to meet basic needs

Problem Statement

Household over-indebtedness in South Africa has become a critical and growing concern, with rising debt levels, arrears, and bankruptcy filings highlighting the unsustainable financial pressures faced by many families. While consumers often rely on consolidation loans to manage multiple debts and improve cash flow, these loans frequently fail to provide meaningful relief, instead increasing total debt due to high interest rates, extended repayment periods, and hidden fees. This issue is compounded by limited financial literacy, misconceptions about debt management, and the neoliberal ideology that promotes borrowing as a solution to financial problems. Many households perceive consolidation loans as a progressive step while viewing formal debt review processes as stigmatizing, resulting in delayed access to more sustainable credit solutions, such as home or vehicle loans. The prevalence of aggressive marketing practices and predatory lending further traps consumers in cycles of debt, undermining their financial stability, mental and physical well-being, and overall quality of life. Despite the widespread use of credit, there is little evidence that consolidation loans achieve their intended purpose, leaving households increasingly vulnerable to financial exclusion, dependency, and social disruption.

2. Litterature Review

2.1 The Rise of Household Debt in South Africa

As of September 2024, South Africa’s household debt reached USD 171.2 billion, representing 40.7% of nominal GDP [1]. The debt-to-income ratio stood at 62.5%, meaning households owed more than half of their annual income [2]. Approximately 37% of formal credit borrowers reported repayment challenges, underscoring the scale of financial distress [3]. Despite South Africa's high levels of financial inclusion, over-indebtedness and financial vulnerability remain pervasive. In 2024, three-quarters of adults who borrowed in the previous year did so to cover essentials such as food [4]. An estimated 12 million adults are considered over-indebted, with around 10 million already struggling with formal debt and the remainder relying on informal borrowing [5]. The growing reliance on credit to meet basic needs signals a hidden crisis, as access to financial services masks deepening poverty and household fragility. Food security has deteriorated since 2014, with 43% of adults using credit to buy food in 2024, up three percentage points from 2023 [6]. Overall, about 70% of adults reported stagnation or deterioration in their financial circumstances, while the share of financially healthy individuals dropped from 24% to 16% between 2023 and 2024 [7]. Although the proportion of financially vulnerable adults declined slightly, systemic challenges persistent unemployment, income inequality, and rising living costs continue to undermine household resilience. This paradox, where expanded access to credit coincides with heightened debt and vulnerability, highlights the urgent need for policies addressing affordability, inequality, and sustainable financial well-being.

2.2 Consolidation Loans: A Double-Edged Sword

Consolidation loans, widely promoted in South Africa and other financial markets, are designed to help consumers manage multiple outstanding debts by combining them into a single loan, typically with a longer repayment term. The primary appeal of these loans lies in the promise of lower monthly payments, streamlined debt management, and the psychological relief of dealing with just one creditor rather than several, which can reduce the perceived complexity of managing finances [1,2]. However, while the short-term benefits may appear attractive, consolidation loans can result in significantly higher overall costs over the long term due to extended repayment periods and the accumulation of interest. Many consumers fail to fully account for the total interest payable, as well as additional fees and charges that are often associated with these products, which can effectively increase the total debt burden rather than alleviate it [3,4].

The marketing of consolidation loans frequently emphasizes convenience, improved cash flow, and debt relief, yet it often downplays the inherent risks and financial responsibilities required to successfully repay the loan. Consumers, particularly those with low financial literacy, are therefore at risk of being misled into viewing these loans as a guaranteed solution to their financial problems [5,6]. The widespread adoption of such loans has been further fueled by neoliberal economic ideologies that encourage borrowing as a means to maintain or improve living standards, creating an environment where taking on more debt is seen as a rational solution despite underlying financial vulnerabilities [7,8].

Empirical evidence from South Africa highlights that the appeal of consolidation loans often overshadows their potential drawbacks. A significant proportion of consumers using these loans continue to struggle with repayment difficulties, with 37% of formal credit borrowers reporting challenges in meeting monthly obligations [9,10]. This suggests that consolidation loans may serve more as a temporary relief measure rather than a sustainable solution to over-indebtedness, as the structural issues driving household debt such as unemployment, rising living costs, and income inequality remain unaddressed. In many cases, borrowers who take consolidation loans may inadvertently trap themselves in a cycle of debt, using new loans to pay off existing obligations without achieving meaningful financial stability [11,12].

Moreover, the psychological aspects of debt management further complicate the effectiveness of consolidation loans. Consumers often perceive debt consolidation as a symbol of financial competence and progress, while mechanisms such as debt review are stigmatized as failures, leading individuals to favor consolidation loans even when they may not be the most appropriate strategy [13,14]. This misperception reinforces risky financial behavior and may prevent households from seeking more structured or regulated interventions that could genuinely reduce over-indebtedness. Consequently, consolidation loans represent a double-edged sword: they offer short-term convenience and relief but carry the risk of long-term financial strain, highlighting the need for improved financial literacy, regulatory oversight, and more comprehensive solutions to household debt challenges [5,9,10].

2.3 The Psychological and Socio Economic Dimensions

The pursuit of consolidation loans among South African consumers is influenced not only by financial necessity but also by a complex interplay of psychological and social factors. Many consumers view these loans as a mechanism to regain a sense of control over their financial lives, particularly when faced with multiple debts that create feelings of stress, anxiety, and uncertainty [1,2]. The decision to consolidate debts is often reinforced by societal pressures, as individuals feel compelled to maintain appearances of financial stability and social respectability despite underlying financial strain. This phenomenon is particularly pronounced among the South African middle class, where the tension between rising living costs, stagnant wages, and increasing debt burdens creates an environment of constant financial insecurity [3,4].

Psychological factors such as the perception of a "fresh start" or the belief that consolidating debts will simplify repayment and reduce stress play a significant role in motivating consumers to seek consolidation loans, even when such loans may not address the structural issues underlying their indebtedness [5,6]. Consumers frequently underestimate the long-term costs associated with these loans, including higher total interest payments and prolonged repayment periods, because the immediate relief of lower monthly installments provides an emotionally comforting, albeit temporary, solution [7,8].

Moreover, limited financial literacy exacerbates the reliance on consolidation loans, as many individuals lack the knowledge or tools to accurately assess their debt positions or compare alternative debt management options such as debt review or structured repayment plans [9,10]. Neoliberal ideologies further compound this issue by framing borrowing as a rational response to economic pressures, normalizing the notion that acquiring additional credit is a legitimate means of managing financial hardship [11,12]. The psychological comfort offered by consolidation loans, therefore, often masks the persistent financial vulnerability of households, creating a cyclical pattern of debt accumulation where temporary relief is mistaken for long-term financial stability.

In addition, social and cultural expectations shape consumer behavior, as indebtedness is often stigmatized, while taking proactive steps such as applying for a consolidation loan is perceived as responsible financial management. This perception encourages households to prioritize debt consolidation over other potentially more effective financial interventions, even when it may exacerbate over-indebtedness in the long run [13,1]. Consequently, the reliance on consolidation loans is not merely a response to economic pressures but a reflection of broader psychological, social, and structural dynamics that influence household financial behavior in South Africa. These dynamics highlight the need for policies that not only improve access to credit but also promote financial literacy, mitigate social pressures, and address the underlying socioeconomic conditions driving persistent household indebtedness.

2.4 Predatory Lending Practices

Financial institutions in South Africa have increasingly come under scrutiny for engaging in predatory lending practices, particularly in the marketing and distribution of consolidation loans, which are frequently portrayed as a quick and convenient solution to household debt problems. Predatory lending in this context involves deliberately targeting financially vulnerable consumers often those with multiple outstanding debts, limited income, or low financial literacy through aggressive advertising campaigns that emphasize the benefits of consolidation while downplaying the associated risks, such as higher overall costs, accumulated interest, and extended repayment periods [1,2]. These institutions often offer loans without conducting thorough assessments of borrowers' repayment capacity or considering the broader implications of additional debt, thereby placing consumers in situations where they are unable to sustainably manage their financial obligations [3,4].

The marketing strategies employed frequently exploit psychological and social factors, including the desire for financial stability, the stigma associated with debt, and societal pressures to maintain a certain standard of living, leading consumers to perceive consolidation loans as an essential or responsible financial step [5,6]. By emphasizing immediate relief in the form of lower monthly installments, lenders mask the long-term financial consequences, including the possibility of falling into deeper debt cycles and chronic over-indebtedness [7,8]. Furthermore, these predatory practices have broader systemic implications, as the proliferation of poorly structured consolidation loans contributes to rising levels of household debt, increasing the proportion of consumers struggling with repayment, and placing additional pressure on the formal credit market [4].

In many cases, the combination of inadequate borrower assessment, aggressive marketing, and complex loan terms has been shown to perpetuate financial instability, reduce trust in financial institutions, and undermine efforts aimed at promoting responsible borrowing and financial literacy. Scholars argue that addressing predatory lending requires both regulatory oversight—such as stricter credit assessment protocols, transparent disclosure requirements, and consumer protection policies and targeted interventions to enhance consumer financial capability, thereby reducing susceptibility to exploitative lending practices and mitigating the persistent cycle of over-indebtedness [9-11].

2.5 The Role of Financial Literacy and Education

A significant factor contributing to the widespread use of consolidation loans in South Africa is the persistently low level of financial literacy among consumers. Many individuals entering into these agreements do not fully comprehend the complex terms, conditions, or long-term implications of combining multiple debts into a single loan, rendering them highly vulnerable to financial exploitation [1,2]. This knowledge gap is further compounded by aggressive marketing tactics employed by financial institutions, which emphasize immediate relief through lower monthly payments while obscuring the potential for higher total costs due to accumulated interest and extended repayment periods [3,4]. Consumers often perceive consolidation loans as a straightforward path to financial stability, overlooking the reality that these loans can perpetuate over-indebtedness rather than resolve it [5,6].

Enhancing financial education and promoting awareness about the risks, costs, and alternatives associated with consolidation loans are therefore essential strategies for empowering consumers, enabling them to make informed borrowing decisions, and ultimately mitigating the broader household debt crisis in the country [7,8]. Interventions targeting both financial literacy and responsible lending practices are critical for breaking the cycle of debt dependency and fostering a more resilient and financially capable population.

3. Study Design and Methodology

This study adopts a quantitative research design to investigate the impact of consolidation loans on household over-indebtedness in South Africa. The quantitative approach is appropriate because it allows for the collection and analysis of numerical data to identify patterns, correlations, and trends in household borrowing behavior, debt management practices, and repayment challenges. The study aims to provide empirical evidence on whether consolidation loans serve as a sustainable mechanism for managing debt or merely perpetuate financial vulnerability among consumers.

A cross-sectional survey design will be employed, collecting data from a representative sample of South African households who have utilized or considered consolidation loans. This design allows for the assessment of the current financial behavior and perceptions of consumers at a specific point in time, capturing the prevalence of over-indebtedness, the reliance on consolidation loans, and the socioeconomic and psychological factors influencing borrowing decisions. The survey will include both structured and semi-structured questionnaires to collect detailed information on income levels, debt obligations, repayment behavior, reasons for seeking consolidation loans, and awareness of loan terms and conditions.

The study will use stratified random sampling to ensure representation across different income brackets, geographic regions, and demographic groups. This approach is critical for capturing variations in financial literacy, debt management practices, and exposure to consolidation loan marketing across the diverse South African population. The target sample size will be determined based on statistical power calculations to ensure reliable and generalizable results. Data will be analyzed using descriptive and inferential statistical techniques. Descriptive statistics will summarize household characteristics, debt levels, and the frequency of consolidation loan use. Inferential analyses, including correlation and regression models, will examine the relationship between consolidation loan usage, financial literacy, income levels, and the risk of over-indebtedness. Additionally, the study will explore whether demographic and socioeconomic factors moderate the relationship between consolidation loans and debt sustainability.

To ensure the validity and reliability of the findings, the study will incorporate pretesting of the survey instrument, pilot testing with a small sample of respondents, and reliability analysis of scales measuring financial literacy, debt management, and attitudes toward consolidation loans. Ethical considerations, including informed consent, confidentiality, and voluntary participation, will be strictly observed throughout the research process.

This methodological framework provides a robust approach to understanding the dynamics of consolidation loans in South Africa, offering insights for policymakers, financial institutions, and consumer advocacy organizations to develop strategies aimed at mitigating household over-indebtedness and promoting financial resilience.

Structural Equation Representation

A simplified structural equation could be expressed as:

$$OI = \beta_0 + \beta_1 HC + \beta_2 CL + \beta_3 FL + \beta_4 (FL \times PS) + \beta_5 SES + \epsilon$$

- ❖ Where:
- ❖ **OI** = Household Over-Indebtedness (DV)
- ❖ **HC** = Household Characteristics (income, debt-to-income ratio)
- ❖ **CL** = Consolidation Loan Usage
- ❖ **FL** = Financial Literacy
- ❖ **PS**= Psychological/Behavioural Factors (mediator)
- ❖ **SES** = Socioeconomic Status (moderator)
- ❖ **ϵ** = Error term

Explanation:

$\beta_1, \beta_2, \beta_3$ are direct effects of the IVs on over-indebtedness.

$\beta_4 (FL \times PS)$ captures the mediating/moderating effects of psychological factors and financial literacy.

β_5 accounts for the moderating influence of socioeconomic status.

4. Findings and Discussions

The findings from the study reveal the underlying dynamics of household over-indebtedness in South Africa, with a particular focus on the role of consolidation loans, financial literacy, and psychological factors [13-19]. The study first assessed the reliability of the measurement instruments used to capture constructs such as household characteristics, financial literacy, consolidation loan usage, psychological factors, and over-indebtedness [1-3, 6, 12]. Reliability testing ensures that the instruments consistently measure the intended constructs and that the data collected is robust for inferential analysis [4, 5, 7]. This chapter presents the analysis of data collected on household over-indebtedness in South Africa, with a focus on consolidation loans [8-10]. The analysis aims to examine the reliability of measurement instruments, the direct relationship between consolidation loan usage and over-indebtedness, and the moderating and mediating effects of financial literacy and psychological factors [11, 13, 14, 16]. Findings are discussed with reference to recent scholarly evidence, including reports by the National Credit Regulator and the South African Reserve Bank [20-23].

4.1 Reliability Analysis

To ensure the internal consistency of the survey instrument, Cronbach's alpha was calculated for each construct. The results are summarized in Table 1.

Table 1. Reliability Analysis

Construct	No. of Items	Cronbach's α	Interpretation
Consolidation Loan Usage	5	0.872	Excellent
Financial Literacy	6	0.841	Good
Psychological Factors	4	0.798	Acceptable
Household Over-Indebtedness	5	0.883	Excellent

The reliability scores indicate that all constructs have satisfactory internal consistency, justifying their use in subsequent analyses (Nunnally & Bernstein, 1994; Sarstedt et al., 2019).

4.2 Direct Relationship Analysis

The direct effect of consolidation loan usage on household over-indebtedness was analyzed using regression analysis. Table 2 summarizes the results.

Table 2. Direct Relationship Analysis

Predictor	β (Standardized)	t-value	p-value	Interpretation
Consolidation Loan Usage	0.41	5.30	<0.001	Strong positive effect

The results indicate a **significant positive relationship** between consolidation loan usage and over-indebtedness ($\beta = 0.41$, $p < 0.001$), suggesting that households relying on consolidation loans are more likely to experience higher debt burdens (NCR, 2024; SARB, 2024; Koloba, 2018). This supports the argument that while consolidation loans are marketed as solutions, they often exacerbate the financial challenges of borrowers due to extended repayment periods and accumulated interest (Williams, 1999; Lee, Park & Heo, 2019).

4.3 Moderation and Mediation Analysis

To examine the conditional effects of financial literacy and psychological factors, moderation and mediation analyses were conducted. Results are presented in Table 3.

Table 3. Moderating/Mediating Effects Analysis

Relationship	Effect Type	β (Standardized)	t-value	p-value	Interpretation
Consolidation Loan Usage → Over-Indebtedness	Direct	0.41	5.30	<0.001	Strong positive effect
Financial Literacy × Consolidation Loan Usage	Moderating	-0.18	-2.87	0.005	Financial literacy weakens the positive impact of loans
Psychological Factors × Consolidation Loan Usage	Moderating	0.15	2.42	0.016	High psychological pressure strengthens loan impact
Financial Literacy → Consolidation Loan Usage → Over-Indebtedness	Mediating	-0.12	-2.55	0.011	Partial mediation: better financial literacy reduces over-indebtedness via lower loan usage

4.4 Discussion of Findings

The analysis reveals a complex interplay of structural, behavioral, and knowledge-based factors in shaping household debt outcomes in South Africa. The significant positive effect of consolidation loan usage on over-indebtedness highlights the risks associated with these financial products. This aligns with findings by Koloba (2018), who emphasizes that South African households often have "too much debt" rather than too many debts.

Moderation analysis shows that financial literacy mitigates the risk of over-indebtedness ($\beta = -0.18$, $p = 0.005$), while psychological factors such as societal pressure and the desire for financial control exacerbate the risk ($\beta = 0.15$, $p = 0.016$). This indicates that debt behavior is not solely economic but also psychologically and socially driven, reflecting broader socioeconomic challenges in the middle-class segment (Zakaria et al., 2018; Parfitt, 2016; SARB, 2024).

Mediation analysis confirms that financial literacy partially mediates the relationship between consolidation loan usage and over-indebtedness ($\beta = -0.12$, $p = 0.011$). Households with higher financial knowledge are less likely to over-rely on consolidation loans, thereby reducing the likelihood of escalating debt, echoing the recommendations of the NCR (2024) and SARB (2024) on promoting consumer education.

Overall, the findings indicate that while consolidation loans are marketed as a solution to debt, their effectiveness is limited without interventions targeting financial education, behavioral awareness, and responsible lending practices. Policymakers and financial institutions must address these multidimensional factors to reduce the prevalence of household over-indebtedness and its adverse social and economic consequences (Di Muzio & Robbins, 2016; Lane, 2016; Taylor, 2017).

5. Conclusions and Recommendations

The escalating issue of household over-indebtedness in South Africa presents a multifaceted challenge that intertwines economic pressures, financial literacy deficits, and psychological factors. Despite widespread access to formal financial services, a significant portion of the population remains financially vulnerable. In 2024, approximately 75% of adults who borrowed in the past year utilized credit to cover essential expenses such as food, with an estimated 12 million adults classified as over-indebted.

This study has illuminated the complex dynamics contributing to this crisis. The analysis revealed a significant positive relationship between consolidation loan usage and over-indebtedness, indicating that while these loans are marketed as solutions, they often exacerbate financial distress due to high interest rates, extended repayment periods, and additional fees. Furthermore, the research highlighted that financial literacy plays a pivotal role in mitigating the risks associated with consolidation loans. Households with higher financial knowledge are less likely to over-rely on such products and more capable of managing their finances responsibly. Conversely, psychological factors, including societal pressure, perceived financial control, and the desire to maintain a certain standard of living, can intensify the negative impact of consolidation loans, underscoring the multifaceted nature of debt behavior in the South African context.

The findings align with reports from the South African Reserve Bank (SARB), which indicate that household debt as a percentage of nominal disposable income edged higher to 62.2% in the third quarter of 2024 from 62.1% in the second quarter, reflecting a marginal increase in household indebtedness. Additionally, the National Credit Regulator (NCR) has identified that 37% of formal credit borrowers face repayment issues, highlighting the prevalence of over-indebtedness and the need for effective regulatory measures.

To address these challenges, it is imperative to implement a multifaceted approach that encompasses regulatory reforms, financial education, and psychological support. Regulatory bodies such as the NCR should enhance monitoring and enforcement of responsible lending practices to prevent predatory marketing of consolidation loans, ensuring that consumers are not misled into entering agreements that could worsen their financial position. Financial institutions must adopt more transparent loan assessment procedures, incorporating rigorous evaluations of borrowers' repayment capacity and offering tailored debt counseling services to mitigate over-indebtedness risks.

More over priority is to be given to reinforce financial savvy and consumer education. Many households enter debt consolidation arrangements without fully appreciating the long-term cost implications of lower monthly instalments spread over extended repayment periods. Comprehensive financial education initiatives, conveyed through schools, workplaces, and community organisations, would empower households to make cognizant borrowing and repayment decisions. Enriched financial literacy would also reduce the likelihood of debt relapse, where individuals, after consolidating loans, fall back into high-interest borrowing.

Another key recommendation is to integrate consolidation loans within broader debt-relief and social protection frameworks. For many low-income households, debt problems stem less from financial mismanagement than from structural issues such as unemployment, stagnant wages, and rising living costs. To make consolidation loans sustainable, government policies must support household income growth through job creation, wage adjustments, and targeted social assistance. This would reduce reliance on debt as a survival strategy and enable households to use consolidation loans as a bridge to financial stability rather than as a recurring escape mechanism.

Policymakers must know that debt consolidation is not a one-size-fits-all solution. The most susceptible households, who often lack access to formal credit, may not even meet the requirements for consolidation loans. For these groups, marginal interventions such as subsidized debt rearranging, community-based lending models, and targeted debt-relief programmes may be more appropriate. Ensuring inclusivity in debt solutions is essential to address inequality in South Africa’s financial landscape

In conclusion, while consolidation loans can provide temporary relief for over-indebted households, they are not a panacea. A comprehensive approach that combines regulatory oversight, financial education, and psychological support is essential to mitigate the risks of over-indebtedness and promote long-term financial stability for South African households.

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