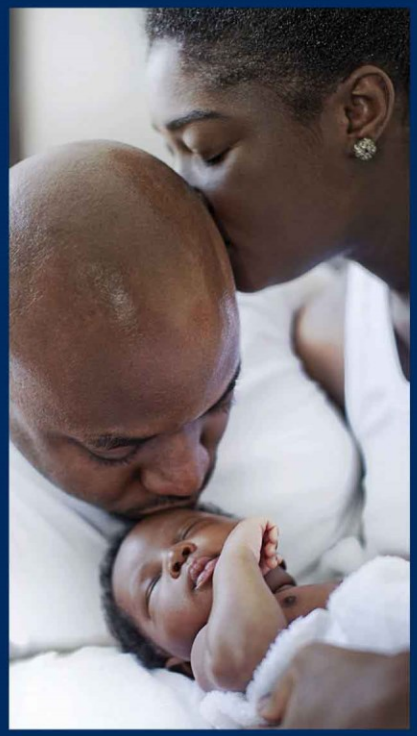
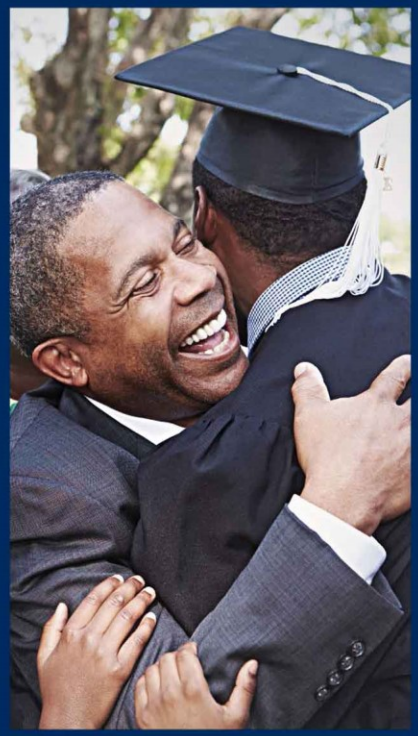
Debt Relief Measures To Deal With Over-Indebtedness

African Bank

Debt Relief Measures (Not Provided For In The NCA)

Debt Counselling Rules System (DCRS):

- African Bank currently applies the DCRS and will continue applying it with no intention to withdraw from it.
- Concessions consist of decreased interest rates (as far as zero), the waiving of fees, and the extension of the credit agreement term.

Payment Moratoriums/Restructuring/Bespoke Arrangements:

- Providing customers with payment indulgences is a regular feature of our business when they experience financial difficulties.
- Concessions are made on interest rate, term and instalments.
- We provide customers with the opportunity to enter into a voluntary arrangement based on their individual circumstances.

Debt Consolidation:

- African Bank offers customers a credit product that allows the customer to consolidate his/her debt with the aim of reducing the monthly instalment.

Settlement Campaigns:

- African Bank offers its customers that are in default the opportunity to settle their debt at a discount based on the customers individual circumstances.

Retrenchment Cover:

- Customers are offered full retrenchment cover as part of their credit life insurance cover, which covers a consumer's full outstanding balance in the event that they are retrenched, irrespective of the retrenchment circumstances (including voluntary retrenchment).

Legal And Other Challenges

Legal and other challenges in the implementation of the debt relief measures

- The debt relief process should be a voluntary process based on prescribed debt relief principles, which become part of a credit provider's registration conditions. Credit providers should have the discretion to apply rules aligned to the prescribed debt relief principles, to assist financially distressed customers on a case by case basis depending on each customer's individual circumstances.
- The current legislation should be amended to permit credit providers to list any customer that is under statutory debt counselling or participating in any voluntary debt relief process on the credit bureaus, in order to prevent these customers from obtaining further credit while participating in these processes. The listing of these customers on the credit bureaus will prevent these customers from becoming further indebted, and will assist in the rehabilitation of these financially distressed customers.
- The current legislation should be amended to the effect that the product insurance that customer's are compelled to pay for in terms of a credit agreement is limited, and is included as a charge constituting the cost of credit. This will result in the reduction in the cost of credit, especially for customers in the lower income segments of the credit market.
- Credit providers should not be permitted to grant customers more than two pay-day or one-month loans in a 12 monthly cycle. The practice of granting "revolving pay-day or one-month loans" creates a debt-spiral for the customers, and further locks customers into a single credit relationship with a specific credit provider. This prohibits the customers from obtaining alternative and cheaper credit.

Debt Relief Measure

- We propose a voluntary debt mediation service to lower income consumers earning less than a predetermined threshold (for example: R5000.00 gross monthly income). To be implemented at no cost to the consumer, and funded by credit providers.
- The maximum period in respect of which the debt relief measure will apply should be 5 years (which is in line with the DCRS criteria).
- Unsecured and revolving credit products should be included in this process.
- Voluntary individual applications for debt relief should be made by the customers.
- Debt relief measures will include criteria similar to the DCRS rules (i.e. extension of the term, reduction in interest rate and the waiver of fees).
- The voluntary debt relief program should be housed by a non-profit organisation.

Impact, Consequences and Challenges

Possible impact of implementing the measures, including in respect of consumers, credit providers, the cost of credit and the economy as a whole

- The fundamental commercial principle of lending is the repayment of the loan and this principle should not in any way be compromised by implementing any debt relief measures.
- Any debt relief measure that is introduced should not cause a further deterioration to the fragile financial industry but should be implemented in a manner that would promote the strengthening of the financial industry and promote growth in the economy.
- The repayment of monies lent to customers promotes financial stability and investor confidence in the financial markets. The implementation of any debt relief measures should take cognisance of maintaining the financial stability of the South African financial markets.
- The debt relief measures should be aimed at customers in the lower income sector with the aim of providing debt relief to distressed customers. These customers may be rehabilitated and are able to re-enter the credit market.
- The implementation of any debt relief measures should not result in the expropriation of the rights of a credit provider, but the measures should be based on fair commercial principles which take into account the rights of both the consumer and the credit provider, and further promotes growth and stability of the South African economy as a whole.
- Ring-fencing the debt relief measures to a defined lower income segment of the market may increase the cost of credit for consumers generally but such debt relief measures should only be implemented if the larger benefit to society and the economy as a whole would off-set such costs.

Response To Questions Posed

- African Bank supports responsible lending and discourages consumption lending.
- Based on the NCR statistics unsecured lending has reduced significantly since 2012.
- The Bank fully supports the affordability regulations and guidelines, which prevents the granting of credit in a reckless manner.