

**DRAFT NATIONAL CREDIT AMENDMENT BILL**  
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**PAYMENT DISTRIBUTION AGENCIES ORAL PRESENTATION WITH  
REFERENCE TO THE DRAFT NATIONAL CREDIT AMENDMENT BILL**

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by Anton Viljoen



Payment Distribution Agent Association of South Africa

## Overview

- Introduction
- Payment Distribution Agencies (PDA) Landscape
- PDA Value Proposition
- Regulatory requirements of a PDA and key differences to that of “switch”
- Industry challenges
- Recommendations
- Questions

## Introduction

- ***Purpose of today's presentation*** is to highlight the value proposition of Payment Distribution Agencies (PDA's) as well as to address the following concerns raised by some Industry bodies during the recent public hearings :
  - Payment Distributions Agencies must be regulated by PASA and not by the NCR
  - Payment Distribution Agencies are too expensive and result in additional costs for the consumer
  - Payment Distribution Agencies process payments manually and are contributing to terminations.

## PDA Landscape

- Introduced by the NCR in 2007 following a vigorous tendering process
- Currently governed by a service level agreement with the NCR and registered with PASA as a Third Party Payment Processor and / or System Operator

- **Objective :** To provide the Statutory Debt Review Industry with an

impartial, secure and reliable collection and distribution service whilst safeguarding consumer funds

- **The current numbers:**

- More than R12 bn distributed to Creditors since inception
- In excess of R3.5 bn paid to Creditors during 2013
- Currently PDA's distribute for +/- 93,000 consumers on per month
- PDA's distribute to more than 5,000 creditors on a monthly basis

# PDA Value Proposition

- **PDA's provide a cost effective service**

*"It is inexplicable and cause for consternation that debtors are expected to pay substantially inflated prices for the distribution of payments to creditors, whilst certified, approved and tested payment technologies can deliver the same (if not better) services at massively reduced prices (for example R5 per payment to a maximum of R50 per debtor per month **excluding VAT and bank charges**)"* source: Capital Software presentation to Portfolio Committee on Trade and Industry

- PDA charges are capped by the NCR at 3% of the available debt repayment instalment with a minimum of R50 and a maximum of R500 **including bank charges**.
- Compared to other collection charges for competing services e.g. administration orders charge 10% collection fee (capped to R300)
- Looking at the **cost drivers**, please bear the following in mind:
  - PDA's collect one payment and distribution to many individual accounts. (11 on average) not necessary creditors suspense or one account
  - PDA's finance development of front-end Debt Counselling systems
  - PDA's operate call centre's to support Debt Counsellors and other stakeholders
  - High cost of compliance in order to meet stringent NCR SLA requirements

## **PDA Value Proposition**

- **Mitigation of possible fraudulent activities**
  - PDAs independently verify all information captured by the Debt Counsellors(bank account information) on the Debt Counselling front end systems (audit function)
  - PDAs assist Debt Counsellors with the redistribution of funds returned by Creditors as a result of incorrect account reference numbers uploaded by Debt Counsellors.
- **Provision of Call centre facilities**
  - Support centre facilities are available to industry stakeholders, Consumers, Debt Counsellors and Credit Providers
  - Types of queries received vary from statement requests to payment plan enquiries / annual escalations / assistance with terminations.
  - Daily follow-ups are done on defaulting consumers.
  - Making available 24/7 helpline for distressed consumers.

# PDA Value Proposition

- **Provision of primary Debt Counselling software** (finance and development)
  - Without this, the Debt Counselling fraternity could not function at all.
  - Software is necessary to do the following :
    - Determining levels over-indebtedness,
    - Automation and facilitation of communication to creditors and consumers
    - Calculation of repayment plans required for collection and distribution purposes – all automated and integrated into the PDA software
  - PDA's feed all results back into the Debt Counselling software to ensure that the Debt Counsellors have updated information.
- **Protection of consumer funds**
  - PDA's are tightly managed by the NCR by means of a strict service level agreement
  - PDA's are required to provide adequate Fiduciary Insurance cover to safeguard consumers funds
  - Quarterly and annual audits are performed by NCR appointed auditors
  - PDA's need to submit monthly reports to the NCR giving a full reconciliation of all funds collected / distributed / interest accumulated etc.

## **PDA Value Proposition(Stakeholder benefits)**

- **Consumers**
  - Provision of debt review education to consumers on behalf of debt counsellors with the objective create certainty and to drive positive payment behaviour.
  - Provision notifications via sms / mms following collections and distribution to their creditors(daily)
  - Provision of monthly statements(monthly)
  - Notifications of escalations of instalments.
- **Debt Counsellors**
  - Provision of Debt Counsellor fee and revenue forecast reports(daily)
  - Notifications of defaulting consumers(daily)
  - Pro-active "Early warning reports" on accounts that will be paid off in the next 90 days in order to avoid possible terminations(monthly)
  - Data analysis on the performance of their practises.



# **PDA Value Proposition(Stakeholder benefits)**

- **Credit Providers**
  - Remittance advices (proof of payments) on all funds paid(daily)
  - Early warning notifications on “accounts being settled according to the PDA system”(monthly)
  - Frequent report on defaulting clients (defaulters > 3 months)(monthly)
- **National Credit Regulator**
  - Monthly reporting and reconciliations on all PDA financial transactions including funds received / funds distributed / account balances / DC fees paid / Legal paid
  - This information is used to monitor industry growth as well as to verify that Debt Counsellors do not charge fees on their prescribed in their conditions of registration.
  - Information pertaining to Debt Counsellors service levels to consumers.

# Regulatory requirements of a PDA and key differences to that of a "switch"

*(Payment Distributions Agencies must be regulated by PASA and not by the NCR)*

- PDA's value proposition must not be mistaken to be similar to that of a Third Party Payment Provider (TPP's), governed by PASA. TPP's is not audited and are not accountable to the NCR.
- PDA's are accredited with PASA as TPP's, but in addition to this also regulated by the NCR, which does offer consumers more protection.


PDA's	TPP's
1. Accredited by PASA and NCR	1. Accredited by PASA
2. Compulsory quarterly audits conducted	2. No compulsory guidelines
3. Integrated with Debt Counselling front end systems and responsible for the maintenance and continued development of these	3. N/A
4. Receive payment plans from Debt Counselling front end systems and perform validations checks according to NCR mandate	4. N/A

# Regulatory requirements of a PDA and key differences to that of a “switch”

- *(Payment Distributions Agencies must be regulated by PASA and not by the NCR)*

PDA's	TPPP's
5. Provide <b>extensive reporting(daily/weekly/monthly)</b> to all Debt Counselling Industry players	5. Limited reporting
6. Make available <b>support centre's</b> to assist industry stakeholders and follow-up on collections on behalf of DC's and consumers	6. N/A
7. Must have adequate <b>Fiduciary fund cover</b> and report that to the NCR	7. N/A
8. PDA's perform <b>audit functions on behalf of the NCR</b> as well as verification checks prior to distributions	8. N/A

# Allegations of Terminations by PDA's - Industry challenges

- *(Payment Distribution Agencies have too much manual processes and are contributing to terminations and unwanted payment delays)*
- **PDA's are often mistakenly accused of the following:** 

- **Terminations, late payments**

- The reasons for this allegations are a lack of a clear collective understanding of what it means "to adhere to a repayment plan". Different factors contribute to the deviations between PDA payments and proposals made to the creditors for e.g.:

- **Delays to clear debit orders or slight variations of deposit dates by consumers** could result in additional interest calculations and would therefore impact on balances causing deviations from the original payment plan supplied to the creditor.

- **Credit Provider levy additional charges** on consumers account, not originally provided for on the Certificate of Balance, thus leading to a mismatch in end-balances between the PDA and Credit Providers
- The non application of the "in duplum" rule by creditors.

## • **Manual Processes**

- We strongly disagree with this statement as all processes are automated. it will be impossible to service approximately 93,000 paying consumers without automated systems.

- All PDA systems are fully integrated with the various Debt Counselling software systems, which in return produce repayment plans needed by PDA's in order to effect collections and distributions.

## **Recommendations in terms of the Draft Bill**

- **PDA's be recognized as Industry participants as per section 44A of the Draft National Credit Amendment Bill**
- **Clear guidelines be issued on the adherence to payment plans**
  - **Example : Straight line method vs Real time balance recalculation**
- **PDA's continued to be regulated by the National Credit Regulator**
  - We believe that one body which oversees and integrates the whole process is vital in order to monitor governance across the industry

**Questions?**

**Thank you**

last one  
DC Partner  
mistakes -

① What was an arms length agreement - a leap for the relationship between ADP @ FNB → conflict of interest.

② Nr. of big banks & process of restructuring, but a glaring area of future - → leaving sector → employees → unreasonable

③ <sup>Swanepoel</sup> ABSA Bank - fermenting in R2 → necessity of cashflow

④ <sup>avakag</sup> Changing of bank accounts - all admitted existence to change bank accounts - preference by the bank - what was relationship between PDAs & debt counsellors. Consumers came, particular preferences.

CP - how many other banks did this and how where did other banks do the we - why was the

DD ① <sup>written</sup> structure / organization

② /

• Tel: 012 622 3604

• Email: info@pdasa.org.za

• Contact person: Cindy Mckechnie

012 622 3604

info@pdasa.org.za

PDASA Contact details



# Example of a Payment Plan

Installment Forecast From Period 2006-06		
Creditor View		
Client Information		
ID Number		
Surname		
Name	Anthony	
Creditor Payment Details		
Creditor	ELLERINES FURNISHERS	
Account Number	DCMF004R	
Scenario Number	-----	
Deduction Number	7321568	
Current Balance	11414.31	
Current Installment	500.00	
Current End Period	2008-09	
Suggested Balance	11414.31	
Suggested Installment	300.00	
Suggested End Period	2007-10	
Suggested Installments and Periods		
Period	Current Installment	Suggested Installment
2006-06	500.00	300.00
2006-07	500.00	300.00
2006-08	500.00	300.00
2006-09	500.00	300.00
2006-10	500.00	300.00
2006-11	500.00	300.00
2006-12	500.00	300.00
2007-01	500.00	300.00
2007-02	500.00	300.00
2007-03	500.00	300.00
2007-04	500.00	528.08
2007-05	500.00	1,800.00
2007-06	500.00	1,800.00
2007-07	500.00	1,800.00
2007-08	500.00	1,800.00
2007-09	500.00	1,800.00
2007-10	500.00	937.28
2007-11	500.00	
2007-12	500.00	
2008-01	500.00	
2008-02	500.00	
2008-03	500.00	
2008-04	500.00	
2008-05	500.00	
2008-06	500.00	
2008-07	500.00	
2008-08	500.00	
2008-09	328.22	
<b>Installment Total</b>	<b>13,828.22</b>	<b>13,463.35</b>
<b>Number of Period(s)</b>	<b>28</b>	<b>17</b>



PDAS Divergence -  
Mr Vlyden - 1st speaker

- 1 Who was PDA
- 2 What was the error rate
- 3 Where was the error banks?
- 4 Where there was a late payment, what was the acceptable amount of cost incurred?

1) Mortgage - number of allegations - money collected returned or consumed was regarded as defaults. Redundant or possible fraudulent activities in the value chain & possible remedies or multiple stakeholders involved possible remedies or multiple stakeholders involved

- 2) Whether the behavior was the same, whether the behavior dealt with a % of actual cases
- 3) Former relations with bargaining power that favored creditors and creditors did not comply with credit judgment and law did not negatively impacted overall

Belgium - governed by SA and NCR & PRA & recommended to be comfortable & fully managed and registered with NCR & courts - how was confided in SA & relate with experts opinion? Why

Organization: provide judgement or assurance over - required to provide payments - no penalty during late payment methods of payments - no penalty during late interest avenues. Why much? Why were?

- 2) Being led to believe that PDAS was part of problem by not forwarding money received. gentleman's handshake
- 3) In anyway instead to banks or financial more firms