

MAKE
THINGS
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NEDBANK
GROUP

Presentation to the Portfolio Committee for Trade and Industry

Nedbank Perspectives on Debt Relief

A Member of the



OLDMUTUAL Group

Our strong legacy position as SA's green and caring bank means we are uniquely placed to develop a differentiated commercial offering that shapes our country's macro environment and delivers a better future for all. **Only by aligning what's good for SA, good for our clients and good for Nedbank, can we make significant strides towards realising our vision to be Africa's most admired bank.**

- Mike Brown Chief Executive: Nedbank Group

NEDBANK IN A NUTSHELL

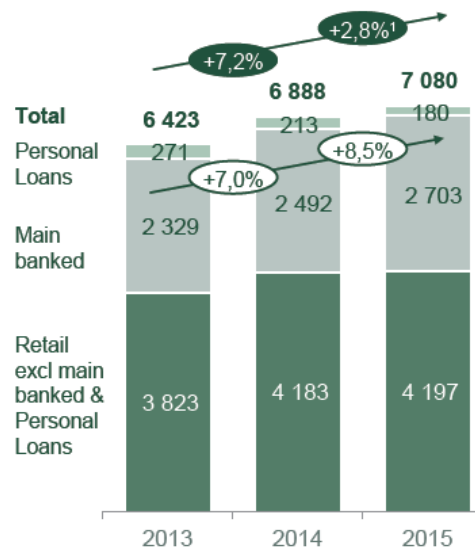
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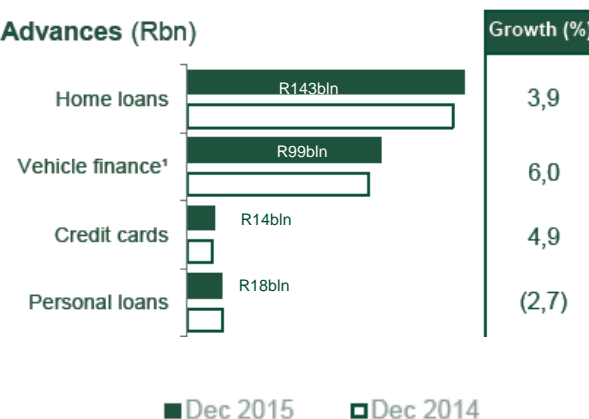
Key facts about Nedbank Group at 30 June 2016

- Market capitalisation: R92 billion
- Total Loans: R693,3 billion
- Loans to Consumers and Small Businesses: R223,6 billion
- Outlets: 1 143 (including rest of Africa)
- ATMs: 3 840 (including rest of Africa)
- Employees: 31 915
- Clients: 7,7 million
- Country presence: 39 in Africa through our Ecobank alliance
- **Granted Loans worth R57 billion in 2015 to consumers, largely in Homeloans and Vehicle Finance of R42 billion**

Total retail client base
#000



Advances (Rbn)



OUR APPROACH TO LENDING



To manage the risk associated with our retail lending business, without compromising the ability of our qualifying clients to access the credit they need, our retail credit policies, affordability rules and scorecards allow for a fair, comprehensive and robust credit assessment in compliance with the standards set by both the National Credit Regulator (NCR) and the South African Reserve Bank (SARB).

Our success in the retail lending space is largely a result of our robust governance systems and commitment to ensuring portfolio quality. Our credit governance committees are chaired by experienced risk managers who are independent of the respective business units. Portfolio quality is closely monitored and managed prudently, lending standards are appropriately set and carefully adhered to, and collections action is timely and effective. Nedbank Retail also reviews its credit policies and processes twice a year, with any tactical changes made regularly, depending on the prevailing credit conditions. Modelling standards are regularly improved, which delivers a steady increase in the availability of good data.

Nedbank Retail is an active participant in all industry discussions and interacts closely with regulators and other market participants to improve lending practices in the SA market.

OUR APPROACH TO DEBT RELIEF



According to the NCR, just less than half of SA's credit-active consumers have impaired credit records and this level has remained consistently high for the past three years. We therefore support and provide a fair and sustainable client rehabilitation strategy.

Managing the credit lifecycle has been an integral part of Nedbank's ethos at all times, regardless of the regulatory prescripts that have been implemented over several years, ranging from the Credit Agreements Act, the Usury Act, the Magistrates Courts Act, the Bank's Act (with the inclusion of the various Basel Accords) to the promulgation of the National Credit Act.

Nedbank, in its aspirations to be world class at managing risk and to maintain its reputation as a green and caring bank, has therefore always strived to be a prudent lender. It has also taken cognisance of the challenges consumers and the community at large have experienced at various times, both in terms of the macroeconomic environment as well as at the individual level where an unforeseen and unfortunate event has arisen. The bank has always sought to offer consumers, at any time, several equitable debt relief measures when approached by a distressed consumer, or in response to an adverse industry event.

OUR APPROACH TO DEBT RELIEF



Nedbank's overall collections philosophy is geared toward rehabilitating consumers whose accounts are in arrears, wherever possible.

Rehabilitation is a preferred option as opposed to hard legal collections. In cases where we have identified pressure points which could be industry/product specific, we consider additional steps to assist affected consumers.

Nedbank has recognised that clients who found themselves in distress would need to be assisted in a different way to what may have been prevailing practices historically. For that reason Nedbank became more pro-active in terms of developing appropriate debt relief solutions for clients.

DEBT RELIEF INITIATIVES AS PER NCA and OTHER LEGISLATION



NCA

- Debt Counselling
- Prescription - Nedbank has, in the absence of regulatory guidance, developed a set of rules to guide the self identification of when debts have prescribed
- Affordability Assessment Regulations
- Credit Life
- S103(5) Statutory in duplum – Nedbank, upon consultation with the NCR, proposed guidelines that would be applied to calculate the in duplum cap for NCA governed credit agreements.

Magistrates Courts Act

- Administration Orders - Orders granted by a Magistrates Court to a financially distressed consumer whose indebtedness is capped at R50 000.

Insolvency Act

- Insolvency and Sequestration - Insolvency is the situation where a company or a person is unable to meet their obligations for paying their debt and where liabilities exceed their income. Sequestration is the process whereby you surrender your estate through an application to a court in the country to regain control over your finances.

DEBT RELIEF INITIATIVES OVER AND ABOVE THE NCA



- Debt Counselling via the Debt Counselling Rules System (DCRS) - incorporates a number of concession rules across all credit agreement types beyond the statutory debt review provisions as set out in the NCA. This has enabled the bank to approve a higher percentage of Debt Counsellors' rearrangement proposals (87% via DCRS v 66% for the statutory process) than would ordinarily have been achieved by the statutory Debt Review process, whilst simultaneously reducing the repayments of distressed consumers
- Voluntary Debt Mediation Service - VDMS aimed to address issues in the current debt review process and debt rehabilitation environment, by institutionalizing debt rehabilitation. The benefits of VDMS included:
 - Streamlined affordability and eligibility criteria for an over-indebted consumers
 - Improving the solve rate for distressed borrowers
 - Simplification and improvement of existing debt rearrangement processes
 - No cost to the consumer, thus benefiting poorer consumers, a key drawback of the statutory Debt Counselling processUnfortunately, this project was never realised due to reservations from certain industry stakeholders.
- Consumer Education – several consumer education drives provided. Initiatives underway utilising industry developed material to educate clients at key transactional and maximum engagement points, especially during loan applications and collections processes.

VOLUNTARY DEBT RELIEF MEASURES



- Arrangements - including reduced or increased payment amount to bring the account up to date over a period of a few months
- Debt Consolidation – consolidation of all loan agreements into a single agreement charged at a lower interest rate, thereby reducing the overall net monthly instalment to the borrower
- Freeze of payments for an agreed period: e.g. for maternity leave or to provide a grace period for unemployment / retrenchment
- Suspend/ Stop legal action under the following circumstances – balance outstanding versus capital borrowed, deceased estates resulting in child headed household, industry adverse events such as strikes
- Restructures - by extending term and sometimes reducing monthly instalments. This is made available when a client is unable to catch up missed payments in the short term. In the case of Home Loans - more than 30,000 of our clients experiencing financial challenges have managed to keep their homes, Vehicle Finance –more than 200,000 clients experiencing financial challenges have had their accounts restructured in order to maintain possession of the car, a key transport enabler for workers.
- Assisted Sales – as a preferable alternative to repossessions, if the client is unable to make any reasonable payment such that the loan can be paid back, we offer to assist the client by obtaining offers for the asset or assist with a sale at public auction. To date over 3,800 clients have benefited from the assisted sale offering to the value of R2.33b. We have reduced indebtedness by a total of almost R400m since inception for clients who successfully participated in the programme.

For consumers requiring debt relief measures, Nedbank takes into consideration the following factors in order to achieve a bespoke and equitable solution for each distressed client:

- Employment & income situation
- Industry specific factors, for example steel and mining strikes
- Reason for non-payment
- Remaining loan term
- Conduct of account
- Overdue position
- Availability of credit insurance in the case of retrenchment.

Duration, Type and Manner of Debt Relief Measures

These factors inform the type and duration of the debt relief measure agreed to by the bank and the consumer. Arrangements are generally temporary in nature and a highly effective tool in alleviating temporary consumer distress. Arrangements also have the effect of allowing consumers the freedom, after resolving the temporary financial distress, to remain credit active without the negative consequences attached to any permanent rearrangement of a loan. The remaining debt relief measures are more permanent in nature based on the financial circumstances of the consumer. The consequence however is that a moratorium on further lending/ borrowing is recommended given the nature of the relief provided.

Concerns around the high level of overindebtedness is of primary concern to Nedbank. Lending is seen as a mutually beneficial contractual arrangement between a credit provider and a consumer, which if managed responsibly benefits not only the contractual parties, but the economy at large. It is therefore not surprising that Nedbank reported, as at 31 December 2015, that only 4.6% of consumers were classified as in default.

This evidences the outcome of a prudent lending stance and, under the prevailing economic challenges, the success of the several debt relief measures undertaken by Nedbank.

It would therefore be improper and unfair to penalise responsible credit providers who have demonstrated a sound lending practice underpinned by a strategy to be a strong corporate citizen. The NCA gives effects to the consequences of irresponsible lending and borrowing, avenues which should be actively pursued via enforcement of the reckless provisions of the said Act.

The various debt relief approaches highlighted in this presentation have assisted our clients.

Applying a blunt debt forgiveness initiative to targeted populations could be seen to be discriminatory and unconstitutional to consumers who indeed repay their debt willingly. Consumers who previously repaid their debts could become dis-incentivised to do so in the future as debt forgiveness programmes rewards negative repayment behaviour. Nedbank is a strong proponent in ensuring that the rights and obligations of all its consumers are maintained through a fair and balanced approach to managing financial distress. Furthermore, there is a risk, as evidenced by the impact of debt forgiveness programmes applied in other countries, that the initial beneficiaries of such a programme will in future struggle to participate in the formal regulated credit lending market.

These debt relief measures are therefore a more equitable means of relieving overindebtedness due to no fault of the credit provider or the borrower, rather than applying a debt forgiveness programme that targets only certain populations, thereby discriminating against the remaining consumers as well as credit providers at large.