



Presentation to the National Assembly Portfolio Committee on Trade and Industry

Nedbank's Perspectives on the Draft National Credit Amendment Bill, 2018

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see money differently

NEDBANK

INTRODUCTION

- Our Philosophy and Approach to Lending
 - Learning's to inform the design of equitable and sustainable debt intervention mechanisms
- Key Facts
- Proportion of good standing customers with an impaired status
- Nedbank Approach to Debt Intervention and Debt Intervention Measures
 - Raft of equitable existing debt relief measures Nedbank avails to its consumers
- Perspectives on Draft National Credit Amendment Bill
 - Consequences of of proposed legislated and open-ended debt interventions
 - Credit Lending as a guided process
 - Credit Life Insurance
- As a caring bank, Nedbank places its expertise at the Committee's disposal to support and inform the design of equitable and sustainable debt intervention mechanisms



OUR PHILOSOPHY

'Nedbank recognises that it has a responsibility not only to be good with money, but more importantly to do good with it. Our core purpose as a bank is therefore to use our financial expertise to do good for individuals, businesses and society across our country and our continent. By seeing money differently in this way, we are confident that we will achieve our vision to be Africa's most admired financial services provider.'

Mike Brown, Chief Executive: Nedbank Group



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).

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.

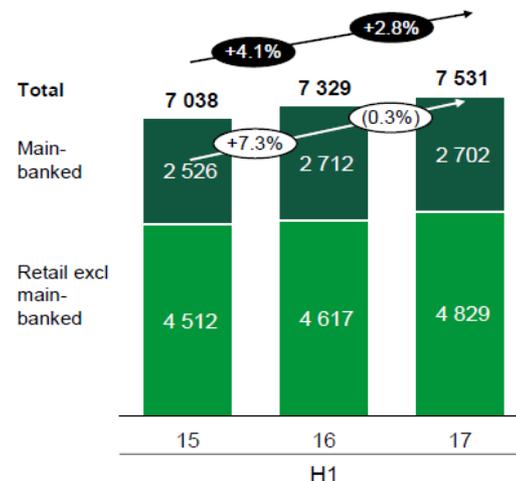


NEDBANK IN A NUTSHELL

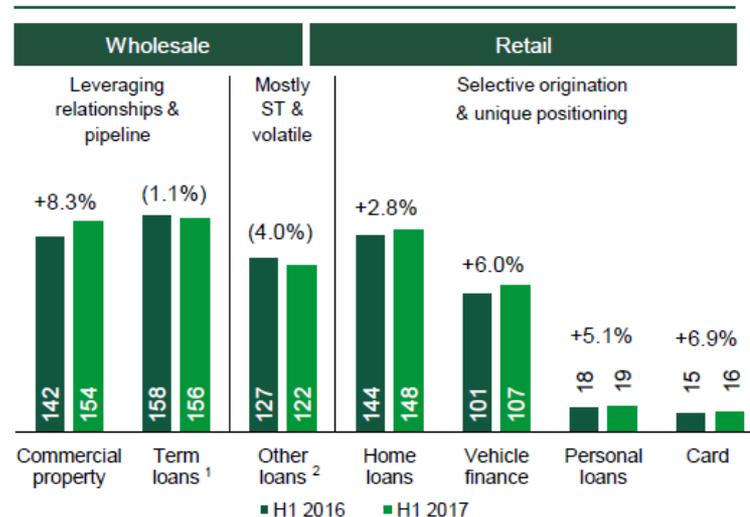
Key facts about Nedbank Group at 30 June 2017

- Market capitalisation: R104 billion
- Total Loans: R722 billion
- Loans to Consumers and Small Businesses: R230,5 billion
- Deposits: R763 billion
- Outlets: 716
- ATMs: 4 060
- Employees: 33 349
- Clients: 7,8 million

Total retail client base (000s)

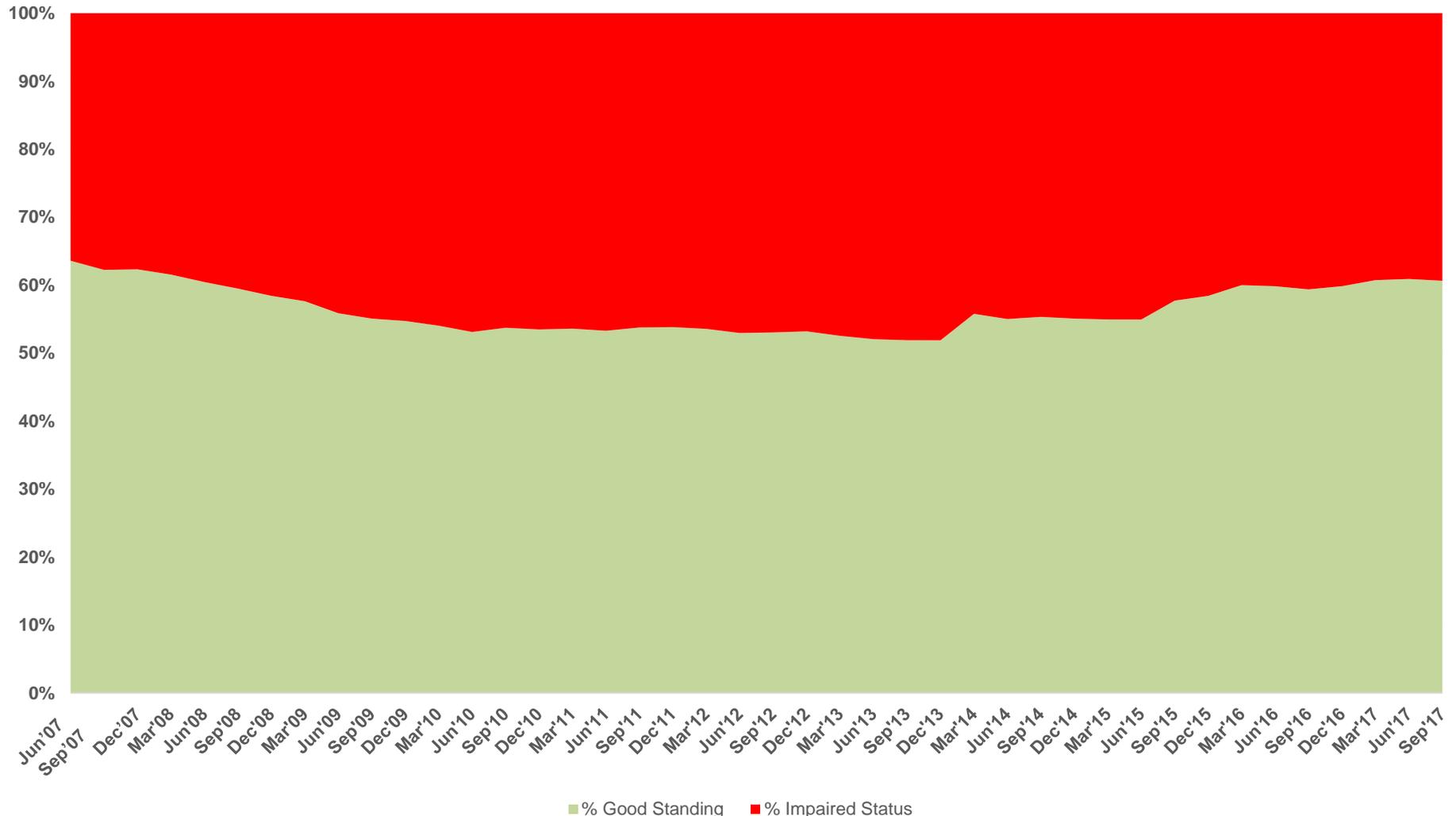


Gross advances (Rbn)



IMPROVEMENT SINCE ECONOMIC DOWNTURN IN RATIO OF GOOD TO IMPAIRED CONSUMERS

Proportion of Good Standing Consumers to Consumers with an Impaired Status



■ % Good Standing ■ % Impaired Status

Source: NCR Credit Bureau Monitor



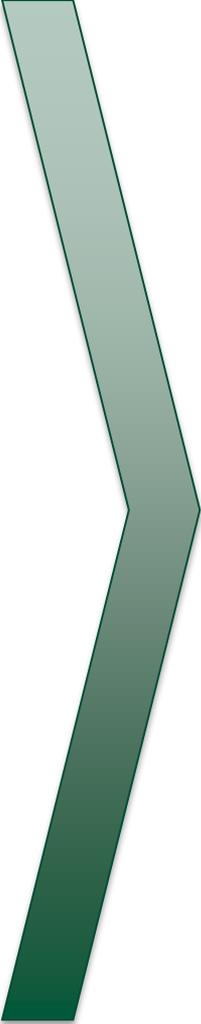
OUR APPROACH TO DEBT INTERVENTION

According to the NCR, under half of SA's credit-active consumers have impaired credit records. However, this level has been improving over the past few years.

In order to resolve over-indebtedness sustainably, we support the design of **equitable** debt intervention mechanisms.

Managing the credit lifecycle has been an integral part of Nedbank's ethos at all times, an overarching principle that goes beyond 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, **consistently strives to be a prudent lender**. Nedbank always takes cognisance of the challenges consumers and the community at large have experienced at various times, both in terms of the macroeconomic environment as well 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 Intervention measures when approached by a distressed consumer, or in response to an adverse industry event.



As at September 2017, there were 2,83 million more clients in good standing compared to March 2014.

Retail consumer defaults as a percentage of book at 5,4%

Credit Loss Ratio, i.e. how many rands banks lose for every R100 lent, was 1,42% for Nedbank Retail as at 30 June 2017

HIGHER COST BURDEN ON CREDIT PROVIDERS ALREADY VOLUNTARILY UNDERTAKING DEBT INTERVENTION MECHANISMS

1. Restructures

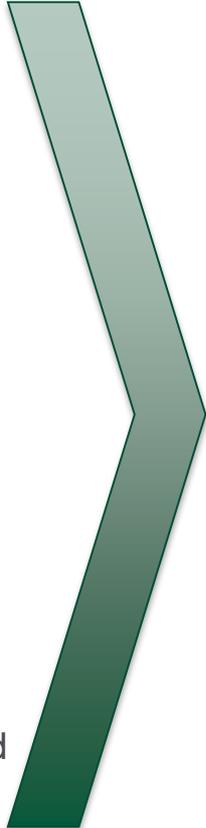
Term extension and sometimes reducing monthly instalments. This is made available when a client is unable to catch up missed payments in the short term.

2. 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. We have reduced indebtedness by a total of almost R400m since inception for clients who successfully participated in the programme.

3. Debt Counselling

Both the Debt Counselling Rules System (DCRS) and voluntary concessions (interest rates and fees) has resulted in a higher level of Debt Counselling restructures than would ordinarily have been achieved by the statutory Debt Review process, whilst simultaneously reducing the repayments of distressed consumers.



Over 30 000
Home Loans
clients
restructured

Over 4,300 clients
have benefited
from the assisted
sale

More than R300m
per annum in
concessions
have been
granted by
Nedbank

HIGHER COST BURDEN ON CREDIT PROVIDERS ALREADY VOLUNTARILY UNDERTAKING DEBT INTERVENTION MECHANISMS

4. Arrangements

Includes the reduction or increase in repayment to bring the account up to date over a period of a few months.

5. Debt Consolidation

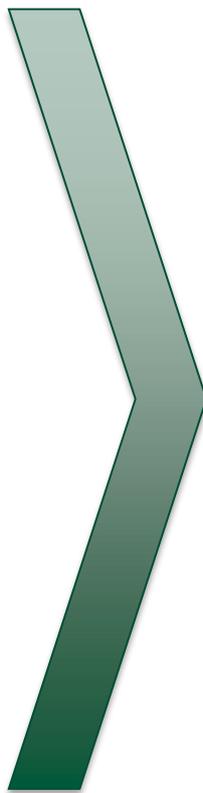
Consolidation of all loan agreements into a single agreement charged at a lower interest rate, thereby reducing the overall net monthly instalment to the borrower.

6. Freeze of payments for an agreed period:

As an example - for maternity leave or to provide a grace period for unemployment / retrenchment.

7. Suspend/ Stop legal action under the following circumstances:

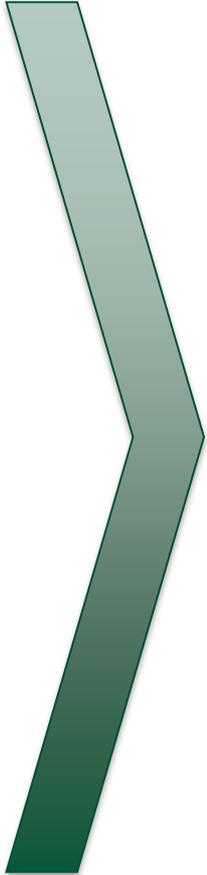
Balance outstanding versus capital borrowed, deceased estates resulting in child headed household, industry adverse events such as strikes.



Cash flow relief to more than 1 million borrowers annually who are experiencing financial stress, and where necessary, delaying legal action based on circumstances of the client.

COST IMPLICATIONS FOR NEDBANK OF THE PROPOSED LEGISLATED DEBT INTERVENTIONS

- Income pressures due to the margin compression (due to lower net interest income) as well as lower non-interest revenue as a consequence of the extinguishing of debt.
- A through the cycle (long term average) Credit Loss Ratio for a prudent unsecured credit lender is around 10%. It is estimated that the impact of the provisions with respect to applying a once-off Debt Intervention as provided for in Draft Bill, in absence of clearly defined qualifying criteria, to the Credit Loss Ratio for Unsecured Lending Portfolios could be around 14%, equating to a deterioration in the quality of the portfolio by approximately 40%.
- The remedies sought by S88A-F of the Draft Bill will impact the various debt intervention measures that Nedbank applies to its entire consumer population. This will negatively impact on the concessions granted currently amounting to more than R300 million per annum and serve the interests of all clients, based on each persons financial circumstances. Due to facing the uncertainty of having to extinguish consumers' debts at any time, the ability to continue to voluntarily assist overindebted consumers will be significantly restricted.



Debt Intervention provisions currently proposed are not equitable.

It will be unfair to a prudent credit provider like Nedbank to incur additional financial losses despite having taken all the necessary steps to grant credit judiciously, in compliance with legislation and who has voluntarily assisted clients.

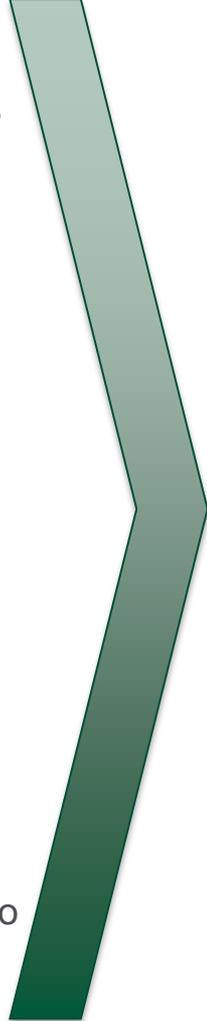
CREDIT REMAINS AN EXERCISE IN JUDGMENT...

- Credit lending remains a guided process subject to judgements, assessments and evaluations. It is a best efforts approach based on a combination of regulation, credit provider policies and in implementation, the credit assessment, which provides the structure for credit lending.
- Prudential Regulations in terms of current legislation (e.g. Banks Act, Companies Act) as well as draft legislation (e.g. Financial Sector Regulation Act) already attaches punitive consequences to directors found guilty of any intentional dereliction of duty.
- There is therefore a surfeit of legislation penalising both banks and its directors for failing to act with the necessary diligence to protect various stakeholders, including consumers. Furthermore, commercial sanctions set out in the NCA (reckless lending, unlawful credit agreements and unlawful provisions in credit agreements) augments said legislation by restricting the ability to enforce credit agreements under prescribed circumstances.
- The introduction of criminality provisions of the Draft National Credit Amendment Bill in the absence of clear intent on the part of directors and/ or prescribed officers is therefore unduly punitive. It furthermore fails to balance the interests of consumers and credit providers in that there are no similar sanctions provided for consumers who mislead credit providers when applying for credit.



CREDIT LIFE INSURANCE

- S106(1A) of the Draft Bill states that credit providers must enter into a credit life insurance agreement for any credit agreement for loans with a principal debt of less than or equal to R50 000 and a tenure of more than 6 months.
- Nedbank, as is the case with most credit providers, is not a registered insurer with the Financial Services Board. Accordingly, Nedbank does not have the authority to enter into credit life insurance agreements with persons whose loan meets the criteria of S106(1A). Such an agreement is concluded between an insurer and a consumer.
- S106(8)(b) of the Draft Bill only requires the Minister of Trade and Industry to consult with the Minister of Finance with respect to the maximum cost of credit life insurance that may be charged with respect to insurance contemplated in terms of S106(1A). Furthermore, proposed benefits and exclusions for such a policy falls within the jurisdiction of the Financial Services Board in terms of prevailing insurance legislation.
- In the event that insurers are unable to price for the risk, benefits and exclusions for credit life insurance envisaged under S106(1A), low income consumers applying for credit longer than 6 months with a loan size of up to R50 000 will not be able to obtain credit from the formal sector.



A typical scenario that could come into being is that consumers with a gross income of R10 000, applying for credit of up to R50 000 over a 24 month term will be severely curtailed if no viable credit life insurance product can be offered by insurers to this population. . These consumers will consequently seek credit via the informal sector.

CONCLUSION

- In order to resolve over-indebtedness **sustainably**, Nedbank supports the design of **equitable debt intervention mechanisms**.
- Nedbank, as one of the custodians of the nation's savings, **cautions against open-ended legislation**, which extensively imposes certain mandatory debt relief interventions on us as a bank, with the intention that we absorb the cost and implications of such with substantive implications in terms of the risk appetite of banks as well as the stability and sustainability of the credit market eco-system.
- Nedbank is cognisant 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. **Nedbank offers its consumers, at any time, a raft of equitable debt intervention measures** when approached by a distressed consumer, or in response to an adverse industry event.
- As responsible lender, **Nedbank provides debt relief mechanisms to its distressed borrowers, amounting to in excess of R300m** annually in Nedbank's interest income.
- Nedbank estimates that **lending to consumers with a gross income of R10 000 or less will be severely curtailed if no viable credit life insurance product can be offered by insurers**. These consumers will consequently seek credit via the informal illegal sector.
- **A pragmatic approach** should be undertaken in respect of the extent to which legislated debt relief and debt interventions are imposed on the credit market. Extensive and unduly open-ended action will directly impact bank funding costs as well as curtail further lending to those borrowers that benefit from unfunded and imposed permanent write-offs/debt extinguishment from credit providers.

