**29 May 2018**

SUMMARY PAPER – response BY capitec TO QUESTIONS RAISED BY MEMBERS OF THE STANDING committee ON FINANCE

This brief provides matrix summary of the responses by Capitec to questions raised by Members of Parliament

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| **Consolidated responses from Capitec on the issues raised by the Standing Committee on Finance- 20 March 2018** |
| **Issue** | **Response** |
| Seriousness with which Capitec treated Viceroy ClaimsViceroy report subject to review* The Viceroy report affidavits suggest that a review be done by Parliament.
 | Capitec treated Viceroy claims with extreme seriousness. The bank tested the allegations of Viceroy internally. Capitec also gives a sequence of events and action taken in addressing these allegations. These include:* Interaction with SARB
* Various SENS( Stock Exchange News Service) feed issued on the day addressing the allegations

All court cases cited in the report are matters that are sub judice. Viceroy did not see fit to ask Capitec on any of the allegations as quoted and inferences drawn thereof. |
| Audit Fees* Why are Capitec audit fees lower than other banks

Origination Fees* Origination fees comprise 23% of capitec income
* Does Capitec charge multiple origination fees

Disproportionate Income* Disproportionate income (36%) out of the loan book
 | It is a mono line retail banking business with operations only in SA. There is no CIB or IB hence no treasury operations.Balance Sheet is verifiable as that rests in fixed interest investments in other SA banksCapitec has a single integrated system, simple products and stores client information directly on their system electronically using fingerprints. Auditors can cover large areas of business with sophisticated computer assisted auditing techniques, providing high levels of assurance at reduced costs. Incorrect- amount to R836 million of R16. 071 billion total income which is 5.2% of total lending and investment income. Page 209 of ARIncorrect- does not charge excessive and illegal interest rates. NCR reviewed the product details and were satisfied with the product. Income received on loan book complies with legal requirements set by NCA. Interest caps on unsecured credit is 27.55 and credit insurance could add up to 5.4% to these rates. Calculation performed to arrive at income derived out of loan book ignores the impact of income earned during the year on loans that are written off or repaid during the year. |
| Conflict of interest - Link between Directors Steinhoff and CapitecShareholding  | No common directors between Steinhoff and Capitec. Markus Jooste resigned in 2012 with possible conflict of interest when Steinhoff joined JD Group. Four founding directors are still on the board. Details of shareholding in AR  |
| Capital Adequacy * Inference that Capital Adequacy Ratio is high due to “billionaires being behind it”
 | Capital Adequacy determined by risk weighted assets (function of assets on B/S multiplied riskiness in each asset class and capital supply. A high adequacy ratio protects investors and depositors should there be significant losses.High capital adequacy ratio and founders wealth are both as a result of the bank success over the years. Bank started with R250 million and capital of R18.8 billion has been retained from reinvested profits. |
| Competitive Environment* Is it sabotage that Viceroy is releasing these reports
 | Capitec notes the possibility of Viceroy sabotage by profiting through short selling transactions but have no evidence to support it. FSB’s investigation will provide clarity |
| Summit Financial Advisors* Did Capitec appoint Summit as consumer protection advisor?
 | Capitec appointed Summit to assist its employees on matters including: credit report summary, financial health monitor, debt check and financial advice.Capitec pad for services Summit provided to Capitec employees. |
| Illegal Lending PracticeLoans* Capitec provided loans from R150 000 to R10 500 for monthly paid workers
* Capitec lends extent credit to clients in order to repay arrear loans
* Extend of cured loans

 * Garnishee Orders

Does Capitec issue garnishee ordersDebit Order RunsPreference given to Capitec debit ordersIllegal Credit Scheme* Capitec operates an illegal credit scheme and should notbe allowed to continue under current management?
 | Providing multiple loans to a single client are in not contravention of the NCA. The CEO of NCR did not find instances of reckless credit by Capitec.During the platinum mining strike Capitec assisted mine workers in the following way:* Offered payment break rescheduling during strike to provide relief to clients
* Capitec did not hand over accounts to External Debt Collectors
* No new credit was granted to striking mine workers

Capitec does not extend credit to clients that are in arrears. Capitec referred to “cured” in response to Benguela Global Fund Managers and Viceroy. This term is used to clients that were in arrears and have paid up their arrears instalments. No credit is extended to clients that are in arrears with Capitec.Garnishee orders (emolument attachment orders- EAO) are not used to collect debt. Only 1.5% of clients are collected using garnishee orders. They are used to collect debt as last resort by external debt collectors (EDC). Non- Authenticated Early Debit Orders (NAEDO’s) are used by many credit providers and regulated by Payment Association South Africa (PASA). Credit providers are not allowed to prefer their debits over other credit providers. These debit order are randomised. Participants who utilise NAEDO are audited.Banks are highly regulated in SA hence no basis in fact that it operates an illegal credit scheme. Regulators would have detected wrong- doing and appropriate sanction would have been applied. Client base rose to 10 million and acted within the ambit of all legislation |
| Systems Review of Capitec | Monitoring and investigation of specific complaints and queries is one approach by NCR. |
| Credit Methodology | Credit methodology disclosed in 2018 AR- internally developed and continually reviewed; open for inspection by SARB, periodically reviewed. Credit methodology includes looking at governance, rescheduling, products and channels.Credit granting at ATM is subject to a court case. |

**Source:**

Capitec, 2018 Formal response to questions raised by Members of Parliament