**2. Report of the Portfolio Committee on Trade and Industry on the National Credit Amendment Bill [B 30-2018], dated 5 September 2018**

The Portfolio Committee on Trade and Industry (the “Committee”), having initiated the National Credit Amendment Bill [B 30-2018] (the “Bill”), classified by the Joint Tagging Mechanism as a section 76 Bill, reports as follows:

1. **Introduction**

Currently, South Africa has three statutory measures offering debt relief, namely sequestration, administration and debt review. These measures constitute the South African natural person insolvency system, which remains largely creditor-oriented, requiring benefit to the creditor in one form or another: the consumer must have some form of disposable income or assets to settle the whole or part of the debt before the consumer may be released from their liability. However, this system effectively excludes poor and low-income debtors based on financial grounds, which is contrary to international trends and best practice.

Furthermore, among consumers who do qualify for one of the alternative debt-relief measures, there are some who are discriminated against as they have no possibility of a discharge – some repay debt over an indefinite period of time because they earn very little. This also perpetuates the disadvantaged social position of these consumers who are in the lower tiers of the economy. According to the Committee, this constitutes unfair discrimination based on socio-economic status and also undermines the dignity of the affected consumers. These exclusions, therefore, affect the equal enjoyment of rights as envisaged in section 9 of the Constitution, as well as the right to dignity as envisaged in section 10 of the Constitution.

In addition, the Committee had been concerned about the impact of the growing unsecured lending market on over-indebtedness of the poor and vulnerable since 2012. The main concern was whether this was being done in a reckless manner and what the impact was on overall over-indebtedness given that this was their primary source of credit. In more recent years, the Committee relooked at this given the impact of the economic downturn on employment levels coupled with rising living costs, particularly the cost of electricity, water, fuel and food, which has constrained most South Africans disposable income.

The process of developing the National Credit Amendment Bill [B 30-2018]to provide an option for these consumers to prevent them from simply continuing in the spiral of debt began on 13 October 2016 when the Committee adopted a resolution that it should consider initiating legislation to pursue debt-relief measures for the most vulnerable of consumers. On 6 December 2016, the Portfolio Committee on Trade and Industry requested the permission of the House in terms of National Assembly Rule 273(1) to develop a Committee Bill that would amend the National Credit Act. This was agreed to by all political parties. The aim of the Bill was to amend the National Credit Act, 2005 (Act No. 34 of 2005), so as to provide for—

(a) simpler and more rigorous enforcement of the Act;

(b) criminal prosecution of lenders who contravene the Act;

(c) legal certainty on in duplum debt accumulation;

(d) an effective debt counselling framework for low-income workers; and

(e) capped debt relief to promote a change in the borrowing and spending habits of an over indebted society.

This report outlines the process followed in developing this Bill, the amendments made to the National Credit Act, 2005 (Act No. 34 of 2005), its financial implications, the Joint Tagging Mechanism’s decision, its certification, and the recommendation to the National Assembly.

1. **Amendments to the National Credit Act**

The Portfolio Committee on Trade and Industry’s proposed Bill, the National Credit Amendment Bill, introduces the following specific measures and procedures and makes a number of consequential amendments:

* 1. **For the targeted, over-indebted consumers:**
     1. Clauses 1(b) and 13: The criteria to qualify as a debt intervention applicant.
     2. Clauses 3 and 13: A new, long-term debt intervention measure has been introduced for qualifying consumers that re-arranges their obligations similar to how a debt counsellor would during the debt review process. This will be administered and processed by the National Credit Regulator (NCR) without charge to the targeted group. The intention is that the consumers who are able to repay their debts, after an adjustment to their obligations, should do so, and they should not be excluded from using a natural person insolvency measure (debt review) simply because they cannot pay a debt counsellor enough to be an economically viable customer.
     3. Clause 14(b): All of the recommendations for debt intervention applicants must be considered by the National Consumer Tribunal.
     4. Clause 29(b): The Minister may annually review the qualifying values for gross income and total unsecured debt for the long-term debt intervention.
     5. Clauses 3, 13 and 15: A short-term intervention will be available for three years after implementation. This measure involves the extinguishing of debt (defined in Clause 1(c)) for those applicants who are unable to either pay their debts at all or are unable to solve within a reasonable time (about 60 months) even if the debt is rearranged, under long-term debt intervention measure. The measure initially suspends such consumer’s debt for 12 months, which is renewable for a further 12 months if their financial situation has not improved within this period. If, at the end of the 24 months, the consumer is still unable to service their debt, a portion of the debt or the full amount may be extinguished. The consumer will be permitted to re-enter the credit market after being prohibited from obtaining any further credit for a mandatory period of at least 6 months, which can be extended by the National Consumer Tribunal (NCT) by up to a further 6 months. The Minister should assess the impact of this measure within 48 months of implementation and report to the National Assembly in this regard.
     6. Clause 16: Qualifying debt intervention applicants may enter a rehabilitation process to be enabled to re-enter the credit market sooner, if their financial circumstances change and they have settled the debt that was extinguished to the satisfaction of the affected credit providers.
  2. **For all over-indebted consumers applying for debt review:**
     1. Clause 10: Debt counsellors must now, when assessing a consumer during a debt review application, consider whether any credit agreements may be reckless and must report any suspected reckless credit agreements to the National Credit Regulator, if the debt counsellor rejects the debt review application, or to the Magistrate’s Court, if a recommendation for debt review is being made.
     2. Clause 12(b): The Magistrate’s Court is being enabled to lower the rate of interest, fees or other charges under a credit agreement as part of the debt rearrangement proposal by the debt counsellor as part of the debt review process. On the powers of the Magistrates’ Court and the National Consumer Tribunal’s powers to lower interest rates and credit fees, the Committee considered that this is already being implemented by a number of credit providers’ under the voluntary Debt Review Task Team Agreement they concluded with the National Credit Regulator in 2010. The source of this Agreement is section 48(1) of the principal Act under which credit providers make a commitment to the National Credit Regulator to combat consumer over-indebtedness.
     3. Clause 29(a): The Minister must prescribe guidelines on how the court should apply this power to reduce the cost of credit. One of the main determinations is the formalisation of the existing voluntary Task Team Agreement that guides credit providers and debt counsellors on how to restructure debt so that consumers can solve within 60 months. These regulations must differentiate between the lowering of the rate of interest between unsecured and secured loans.
  3. **For all credit active consumers:**
     1. Clause 19(b): The Minister of Trade and Industry, after consultation with the Minister of Finance, is empowered to introduce regulations for targeted credit life insurance for all unsecured credit that is extended for 6 or more months up to a value of R50 000.
     2. Clause 19(e): In this regard, the Minister of Trade and Industry, in consultation with the Minister of Finance, must further prescribe a cap on such credit life insurance that is lower than the existing insurance caps.
  4. **New enforcement measures:**
     1. Clause 25: The Bill introduces new criminal offences in relation to intentionally misrepresenting information when applying for debt intervention, engaging in prohibited conduct in terms of credit agreements, and failing to register as a credit provider, credit bureau, debt counsellor, payment distribution agency and alternative dispute resolution agent. Therefore, it is now a criminal act to perform activities, which if not for the Bill only constitutes unlawful actions resulting in unenforceable agreements. These offences now include operating as an unregistered credit provider.
     2. Clause 26: The Bill also introduces penalties for these offences.

The Committee agreed to all clauses except clause 14(b) (Section 87(1A)(ii)(*dd*)), where the Democratic Alliance proposed an amendment. The Committee rejected the amendment proposed by the Democratic Alliance in this regard.

Furthermore, on Clause 1(b) (definition on ‘debt intervention applicant’) and Clause 13 (Section 86A(1)) regarding the R7 500 gross income cap and the R50 000 total unsecured debt cap, the Democratic Alliance indicated that they do not support these caps.

1. **Process followed**

On 21 October 2016, the Committee adopted a resolution to establish a subcommittee that would spearhead the process of initiating legislation for debt relief for the most vulnerable of consumers. The subcommittee was tasked to develop a draft Memorandum as required by National Assembly Rule 273(1) and draft a Bill if permission was granted by the National Assembly.

On the recommendation of the subcommittee, the Committee held public hearings on 15, 17 and 25 November 2016 and invited the following stakeholders to explore debt relief measures and the possibility of initiating legislation:

Debt Counsellors Association of South Africa (DCASA); the Large Non-Bank Lenders Association (LNBLA); Banking Association of South Africa (BASA); the Chamber of Mines; Congress of South African Trade Unions (COSATU); Standard Bank; Nedbank; Capitec Bank; African Bank; ABSA; First Rand Bank; Micro Finance South Africa (MFSA); Black Sash; Summit Financial Partners; and National Clothing Retail Federation of South Africa (NCRF).

The subcommittee had further deliberations with the Department of Trade and Industry (DTI), the National Credit Regulator, Debt Counsellors Association of South Africa and African Bank following the public hearings. On 6 December 2016, the Committee adopted a Memorandum in terms of National Assembly Rule 273(1) seeking permission for the introduction of the following legislation in the House, namely the National Credit Amendment Bill, 2016. On 2 March 2017 (*see Minutes, dated 2 March 2017),* the House granted the Committee permission to introduce legislation amending the National Credit Act, 2005 (Act No. 34 of 2005).

On 17 May 2017, the Committee received a briefing from the DTI on the policy that would underpin debt relief. On 24 and 30 May 2017, the National Treasury provided an input on the policy with respect to debt-relief measures. The Department of Justice and Constitutional Development provided an input on the policy with respect to debt relief measures on 13 and 27 June 2017. On 14 June 2017, the National Credit Regulator and the National Treasury briefed the Committee on statistics with respect to over-indebtedness of South African consumers.

On 20 June 2017, the Constitutional and Legal Services Office of Parliament submitted a Framework Bill for the Committee’s consideration. On 28 September 2017 the Democratic Alliance also submitted a framework on the Bill which was distributed but not presented in the Committee. However, concepts such as the suspension of reckless lending by the NCR and mandatory credit life insurance as proposed in this document was considered in the subcommittee and was incorporated in the Bill. During the months of August, September and October 2017, the Committee had a number of meetings deliberating on the Framework Bill. The Committee further engaged with the Departments of Labour and of Justice and Constitutional Development, the South African Reserve Bank, and the South African Revenue Service on 17 October 2017. The Committee continued with deliberations during the month of October and November 2017 on the Bill.

On 14 November 2017, the Committee adopted a resolution that it had developed the necessary draft legislation and intended to publish the draft National Credit Amendment Bill, 2017, in the *Government Gazette* in accordance with National Assembly Rule 275. The Committee advertised and called for submissions on the draft Bill in the Government Gazette *(No 41274, Notice 922 of 2017, 24 November 2017).*The Committee received 31 submissions from the following stakeholders and held public hearings on the draft Bill on 30, 31 January 2018, 2 and 13 February 2018:

Association of Debt Recovery Association; Agricultural Business Chamber; AMC Classic; BASA; Chamber of Mines; Consumer Goods Council of South Africa (CGCSA); Credit Bureau Association; DCASA; Department of Justice and Constitutional Development; DTI; Finbond Group Limited; Fish Hoek Valley Ratepayers & Residents Association; Liberty Group Limited; Madiba Bay Women’s Peace Table; MFSA; MMI Holdings; Mr R Ishwarlall; Mr Z King; NCRFSA; National Debt Counsellors Association; National Treasury; Nedbank; Pres Les; Prof M Kelly-Louw; South African Credit & Risk Reporting Association; South African Institute of Professional Accountants; South African Reserve Bank; Standard Bank of South Africa; Transaction Capital Risk Services; Wonga; and Ms Y Oberholzer.

The Committee received and considered a detailed submission from the DTI on the comments from stakeholders and the DTI’s responses to those stakeholder comments. The Committee considered these proposals and made the necessary changes accordingly. During this period, the Committee also approached the National Economic Development and Labour Council (NEDLAC) to make a submission on the Bill. NEDLAC did not provide a unified position; however, the business and labour constituencies made individual presentations to the Committee.

During the months of February and March 2018, the Committee continued with its deliberations also receiving legal opinions from the DTI and National Treasury on the first draft of the Bill. Both legal opinions were on the constitutionality of the proposed debt intervention procedures. Both legal opinions concurred that the powers to the Minister to prescribe debt intervention measures under urgent circumstances might pass constitutional muster if tightened up, but they agreed that the broad additional powers to the Minister to prescribe debt intervention measures would not pass constitutional muster as it constituted delegation of the law making powers of Parliament. They further commented that debt intervention should be couched within the existing mechanisms as far as possible. The Committee considered all the issues that arose from the legal opinions obtained by the DTI and the National Treasury.

The Committee received input from National Treasury and Eighty20, as well as the NCR, on statistics in relation to over-indebtedness. The inputs highlighted the levels of over-indebtedness amongst consumers targeted by the Bill. The statistics of the NCR showed that almost 38% of the 25 million credit active population have impaired credit records. The situation is not helped by the current high levels of unemployment and low economic growth. During the month of April 2018, the Committee undertook a study tour to the United Kingdom of Great Britain and Northern Island (UK) regarding its legislative provisions for Low Income Low Assets debtors who are unable to honour their debt obligations to apply for debt relief. A key finding was that they had not experienced significant moral hazard and the unintended consequences were negligible in the UK with the implementation of its legislation.

The Committee continued with its deliberations and called for further submissions on specific clauses with respect to the Bill. The Committee received 10 submissions from the following stakeholders:

BASA; Black Sash; the CGCSA; COSATU; DCASA; First Rand Bank Limited; LNBLA; MFSA; NCRF; and Nedbank.

The Committee was of the view that it was not necessary to call for further public hearings on the additional advertised clauses but it should be noted that in 7.2.1 the minority view on this issue, is reflected. The written submissions received adequately captured the essence of the stakeholders’ concerns. There would also be further opportunities for stakeholders to engage on the substance of the Bill during the National Council of Provinces’ process.

Given the comments by the DTI, the National Treasury and stakeholders regarding the constitutionality of the debt intervention measures, the Committee requested an opinion from Adv W Trengove, SC, on whether the extinguishment of debt, and thus of the claims of creditors, is a permissible form of deprivation of property under section 25(1) of the Constitution, and whether the power conferred on the Minister of Trade and Industry to prescribe other measures for household debt relief by regulation is a constitutionally permissible delegation of legislative power.

In the opinion provided to the Committee, he concluded that the debt forgiveness mechanism is permissible and lawful under section 25(1) of the Constitution, but that the power conferred on the Minister to introduce new debt intervention measures constitutes an unconstitutional delegation of power.

During the month of July 2018, the Committee considered the opinion from Adv W Trengove and continued with its deliberations on the Bill. The Committee made the necessary amendments in light of the opinion with respect to the delegation of powers to the Minister of Trade and Industry and also considered and addressed concerns expressed by Adv Trengove on matters in the Bill that could be seen as vague or contradictory. Adv C van der Merwe, a Senior Parliamentary Legal Adviser (Legal Drafting), in consultation with the Parliamentary Constitutional and Legal Services Office and in accordance with the National Assembly Rules, then certified the final Bill as constitutional as that Office was of the view that the Committee’s amendments to the Bill sufficiently addressed the constitutional concerns raised by the Counsels briefed by the Department of Trade and Industry and National Treasury, as well as by Adv Trengove.

1. **Financial Implications**

The Committee consulted the Department of Trade and Industry on the cost to implement the Bill. The National Credit Regulator and the National Consumer Tribunal will require additional capacity to process the applications for debt intervention. The Committee noted that the NCR and NCT have experience and expertise in the credit market, which can be applied to the debt intervention measures. The NCR and NCT presented their proposed implementation plans and funding requirements; however, these can only be finalized once the Bill has become law. Currently, Parliament is not required to submit a Socio-Economic Impact Assessment Study (SEIAS) on any Committee Bill that it develops; however, the Committee considered a number of studies and reports from National Treasury, the Black Sash and the NCR on the impact of the debt intervention measures as captured in draft Bill published at that stage. These studies and reports greatly contributed to the development of the Bill. Furthermore, the DTI is currently undertaking an impact assessment study on the Bill to inform implementation.

1. **Joint Tagging Mechanism (JTM)**

In compliance with National Assembly Rule 279(1)(c)(vi), a Bill introduced by a Committee must include a legal opinion on the classification of the Bill. The JTM classified the Bill as a section 76 Bill.

1. **Certification of the Bill**

In compliance with National Assembly Rule 279(4), a Bill introduced by a Committee must be certified by the Chief Parliamentary Legal Advisor or a parliamentary legal advisor designated by her. Adv C van der Merwe certified that the National Credit Amendment Bill [B 30-2018] intended for introduction in the National Assembly by the Portfolio Committee on Trade and Industry is-

1. consistent with the Constitution and existing legislation; and
2. properly drafted in the form and style which conforms to legislative drafting practice.
3. **Minority views**
   1. **With respect to clauses of the Bill**
      1. The Democratic Alliance was of the view that:
      * In terms of the Clause 1(b) (definition on ‘debt intervention applicant’) and Clause 13 (Section 86A(1) (the R7 500 gross income and the R50 000 total unsecured debt qualifying caps), these amounts may be considered arbitrary, as the explanation of how these figures were arrived at and how a person earning R7 500 per month could be considered ‘indigent’ was inadequate.
      * Section 87A(2)(b) and (6) (the suspension and extinguishing of debt) is one of the most concerning aspects of the Bill, as it will potentially have a big impact on credit provision to this target group, as well as the cost of credit and may unintentionally lead to more people approaching illegal lenders.
      1. The Freedom Front Plus (FF Plus) was of the view that:

* In terms of Clause 29(b), the Minister should not have the power to increase the gross income and total unsecured debt qualifying caps, as the intervention should have been once off, as initially intended.
  1. **With respect to the process**
     1. The Democratic Alliance was of the view that public hearings should have been scheduled based on the second call for submissions on changes to Clauses 12(b), 29(a) and 29(b) of the National Credit Amendment Bill.
  2. **With respect to the financial implications of the Bill**
     1. Although there is no requirement for a Socio-Economic Impact Assessment Study (SEIAS) for Committee Bills, and despite the Committee having taking into account numerous reports and studies on the impact of the Bill, the Democratic Alliance and the Freedom Front Plus were concerned that a Socio-Economic Impact Assessment Study was not concluded before the Bill was adopted.
  3. **Other**
     1. The Democratic Alliance was of the opinion that the Committee had not effectively dealt with point (d) of the original memorandum, which refers to *an effective debt counselling framework for low-income workers*, as it did not attempt to reform the existing debt counselling system to make it accessible for low-income consumers.

1. **Acknowledgements**

The Committee would like to thank its subcommittee, consisting of Mr A Williams (ANC) (chairperson), Ms P Mantashe (ANC), Mr D Macpherson (DA), Ms E Ntlangwini (EFF) and Adv A Alberts (FF Plus), as well as Ms S van Schalkwyk (ANC) and Mr G Hill-Lewis (DA) who were subsequently discharged as members of the Committee, for its dedication and hard work in supporting the Committee during this process. It would also like to express special gratitude to Adv C van der Merwe for her diligence and guidance in drafting this substantive piece of legislation. Her contribution and advice throughout the process should not be underestimated. The Committee also wishes to thank its support staff, in particular the Committee Secretaries, Mr A Hermans and Mr T Madima; the Content Advisor, Ms M Sheldon; the Researcher, Ms Z Madalane; the Committee Assistant, Ms Y Manakaza; and the Executive Assistants, Ms T Macanda and Mr A Sokupa, for their professional support and conscientious commitment to their work.

The Committee also acknowledges the inputs and proposals from the Department of Trade and Industry, the National Credit Regulator and the National Consumer Tribunal, as well as the National Treasury, the Department of Justice and Constitutional Development, the South African Reserve Bank, the South African Revenue Service and the Department of Labour, during the extensive consultative process. Furthermore, the Committee wishes to thank all stakeholders for their contributions in developing the legislation and in addressing the constitutional gap that exists with respect to the South African natural person insolvency system. The Committee wishes to emphasise that National Treasury fully supports the Bill and thank them for their contribution on the development of the Bill.

The Chairperson thanks all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive proposals made in this legislation.

1. **Recommendation**

The Portfolio Committee on Trade and Industry recommends that the House adopts this report and approves the second reading of the Bill as introduced.

Report to be considered.