
MEDIA STATEMENT

Government moves to protect consumers and assist over-indebted households

This statement elaborates on a Cabinet decision taken last week, authorising Ministers of Finance and Trade and Industry to take measures to assist over-indebted households and also prevent them from becoming over-indebted in future

While Government recognises that access to credit is critical for household consumption expenditure and economic growth, Government is concerned about the very high levels of household debt and over-indebtedness. Thus, in addition to broader financial sector regulatory reforms, an immediate set of comprehensive steps is necessary to deal with the problem of present and future household over-indebtedness.

Preventative steps to minimise the risk of over-indebtedness in the future will include the following:

- Setting clear affordability criteria that all retail lenders have to adhere to and clearly defining a “reckless” loan, thus enhancing reckless lending controls under the National Credit Act.
- Ensuring the provision of credit is not only affordable but suitable. For example it is clearly inappropriate to promote a short-term (30 day) loan as being suitable for supporting borrowing over longer periods.
- Reviewing the pricing caps under the National Credit Act to ensure that current levels of caps are appropriate, especially for pay-day loans where rates are excessive.
- Strengthening regulatory monitoring, supervision and enforcement to ensure the shutting down of unregistered credit providers and full compliance of registered credit providers.
- Reviewing the regulatory framework for credit insurance policies that are sold with, or linked to, credit.
- Setting norms and standards for access to the payment system, including for debit orders. Persistent reckless lenders should be denied access to the payments system.
- Setting norms and standards for emolument attachment and garnishee orders issued for credit.
- Extending and strengthening the debt collection law to apply to legal firms.
- Regulating credit-linked deductions allowed on employer payroll systems.
- Investigating simpler and lower-cost insolvency arrangements for lower- and middle-income individual persons.

Government is considering assisting households that are already in the debt trap by:

- Engaging with lenders and their industry associations to provide appropriate relief to qualifying distressed borrowers by reducing their installment burden, without additional cost to the borrower.
- Enabling major lenders to provide voluntary debt relief measures to distressed borrowers without charge, in addition to the current debt counseling process, subject to compliance with the National Credit Act and Financial Advisory and Intermediary Services Act
- Engaging with current lenders to take steps to withdraw certain categories of existing emolument attachment orders for credit, and to use such orders for future credit only as a last resort and according to a robust code of conduct.
- Regulating debt-collection firms, including legal firms, to ensure they do not indulge in unscrupulous debt-collection practices.
- Encouraging employers to investigate the legitimacy of all emolument attachment or garnishee orders they may be enforcing against their employees (for purposes of credit not maintenance) and to write to credit providers to reduce or even remove all onerous orders. Public sector employers will be expected to lead by example and implement the above proposals early next year, as soon as guidelines for the public sector are published.

Cabinet also noted the need for better co-ordination and co-operation between all sector regulators (National Credit Regulator, Financial Services Board, South African Reserve Bank), in order to regulate the credit market more effectively.

Most retail credit is good for the economy and households. While Government recognizes that most lenders have responsible lending practices, Government is concerned about reckless lending. The retail lending and credit sector, like the rest of the financial sector, must be regulated vigorously for both prudential and market conduct reasons.

Government has identified poor market conduct practices by some players in the financial industry as major problem. This includes a multiplicity of fees and commissions that are often high and opaque, inadequate or poor disclosures to customers and the sale of unsuitable products.

Government will ensure that all financial institutions operating in the retail credit market observe the highest standards of market conduct, and not tempt customers to take on unaffordable debt. Expensive pay day loans should not be used to trap consumers in a vicious debt spiral from which they cannot extricate themselves. Treating customers fairly should be instilled into the corporate culture of lenders. It is important that these consumer protection standards are higher in the financial sector than the more general consumer protection standards set through laws such as the Consumer Protection Act and the National Credit Act.

Government will continue to engage with major lenders to consider steps they may take to assist currently over-indebted households. Bearing in mind the need to comply fully with the National Credit Act and the Financial Advisory and Intermediary Services Act, major lenders are encouraged to offer debt relief measures without charge to distressed borrowers, which will be a welcome addition to the menu of options available to borrowers who are overwhelmed by their debt.

The success of such interventions can be better realised if lenders, government, regulators and the NGO sector work together to take this process forward in order to bring urgent relief to households.

The Ministers of Finance and Trade and Industry will develop a more detailed implementation framework next year.

BACKGROUND ON HOUSEHOLD INDEBTEDNESS

The level of household indebtedness has risen to 76 per cent of disposable income in June 2013 compared to 50 per cent in 2003. The economic slowdown after the 2008 global financial crisis resulted in many households falling into arrears and/or defaulting or deleveraging.

However, reckless lending and the abuses in payday loans have aggravated this problem, driving many over-indebted households into a vicious cycle of debt. The number of customers in arrears for more than three months or more is 4.2 million out of 20 million credit-active customers.

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