Portfolio Committee on Trade and Industry

OUTCOMES OF THE INDEPENDENT SOCIO-ECONOMIC ASSESSMENT OF THE NATIONAL CREDIT AMENDMENT BILL, 2018

10 September 2019

Background

- **the dti** got approval from the Portfolio Committee on Trade and Industry (Committee) to conduct a socio-economic impact assessment on the National Credit Amendment Bill, 2018 (the Bill) that the Committee drafted.

- **the dti** compiled the Terms of Reference in consultation with National Treasury (NT), National Credit Regulator (NCR) and the National Consumer Tribunal (NCT). These were presented to the Committee on 16 May 2018 for approval.

Background

- Genesis Analytics was appointed to conduct the socio-economic impact assessment study on the Bill.

- The study commenced on the 02 November 2018, and was completed on 27 May 2019.

- The Project Steering Committee comprised of **the dti**, the National Treasury and the National Credit Regulator.

Methodology

The impacts assessment employs a **12 step methodology**

1. Inception workshop with Steercom
   Finalise Inception Report
2. Initial desktop research on credit markets
3. Review of documents provided by Steercom
4. Identification of stakeholder groups
   Identification of representative sample
   Approach for consultation
5. Stakeholder consultations in person
   Review of written submissions
6. Prepare a logical enquiry
   Ask three credit bureaux to provide results
   Triangulate results to assess scale of the challenge accurately
7. Prepare status quo part of report
8. Undertake comparative study (UK)
9. Undertake impact analysis and calculations
10. If broadly positive, assess viability and timing of implementation
11. Consider alternatives
    Prepare recommendations
12. Draft report
    Commentary
    Final report

Background

- The debt intervention within the National Credit Amendment Act targets consumers who earn R7 500 or less with a maximum unsecured debt of R50 000 (i.e. debt not supported by pledge or right in property/ other forms of personal security or collateral).
- It applies to consumers who are over-indebted.
  - Over-indebted consumer is any consumer who is +90 days in arears on at least 1 credit agreement being, short term credit transaction or credit facility) as of the past three months from the date of enquiry.
- Unsecured debt relates to loans not secured by tangible assets.
- The current insolvency measures as well as debt review do not cater for the target group.

Impact on consumers

- The study indicates the total number of credit active consumers at 20, 2 million.
- There are 11,7 million consumers in this target group. The study states that it is highly probable that some consumers in this big group are facing high levels of debt stress even if they do not de jure qualify as over-indebted.
- The report estimates that 510 803 consumers will de facto apply for debt intervention (DI) with a corresponding book value of R4.1 billion.
- The study argues consumers who do not qualify in this group may in good faith believe they qualify or in bad faith view debt intervention as an attractive option in the short term because it brings immediate relief from debt stress and the application cost to the applicant is zero.
- During the development of the Bill, it was estimated that 1,7 million consumers may qualify for debt intervention.
- However, the study found that 359 276 consumers will de jure qualify for debt intervention. This figure was derived from the analysis and triangulation of data from three credit bureaux. The study finds that it appears the size of the problem may have been overstated.
- This is a relatively small number of consumers as it makes up only 3,1% of the 11,7 million consumers who earn R7 500 or less with unsecured debt of 50 000 or less and only 1,8% of all credit active consumers (20,2 million).

Impact on consumers

- The study assesses the impact of the Bill in two scenarios:
  – The baseline scenario which is regarded as most likely and a High-uptake scenario which is less likely but possible depending on the responsibility of public communication about debt intervention.
  – In the most likely scenario 510 803 applicants will apply. In the less likely scenario, there are 2, 089, 290 applicants with an outstanding book value of R16,1 billion.
  – The most likely scenario is emphasised.

Main Findings

The biggest positive impacts of the Bill

- Parliament has correctly identified a gap in statutory protection for lower-income consumers because the study has found that 96% of consumers in the target group are currently excluded from debt review. Only 4% consumers in this target group are currently in debt review and estimated at 13 941.
  - Cost is the reason, consumers may not be able to pay debts, may not be willing to pay debts, there may be poor understanding of debt review and they may be put off by stigma.
  - The study recommended there may be a need for further research to determine why these consumers do not use the debt review system.
- The study estimates that 177 759 over-indebted consumers will benefit from debt restructuring under the debt intervention measure.
- Of the applicants, 99 237 consumers representing an outstanding book value of R266 million will qualify for debt extinguishment. The study confirms that this is less than predicted by stakeholders and represents only 0,49% of all credit active consumers.
- 85 815 actual over-indebted consumers will benefit from having their debts extinguished.
- The 99 237 is a de jure prediction using the proxy against the credit consumer database, and the 88 815 is the de facto prediction derived from the predicted number of applications.
- Of all applicants accepted, the estimated applicants estimated to withdraw or terminate are 42 907.
- Insurers, who benefit from the introduction of mandatory credit life insurance.
- The informal market Mashonishas) which perversely gains about R7,6bn in new demand.

Main Findings

- The study suggests that while it has now been proven that there is a valid problem to address, Parliament may not have had sight of all the unintended consequences of the Bill. The study suggests that the proposed solution may not be the most appropriate to achieve the laudable goals of helping vulnerable consumers, in fact it is likely that the proposed solution will ultimately harm the wider group of lower income earners.
- The relatively small size of the problem raises questions about the disruptive and discriminatory impact of the proposed solution. Without in any way denigrating the lived misery of vulnerable consumers caught in debt trap; in light of the relatively small size of challenge in national terms, the study suggests that legitimate questions must be raised whether the impact of the Bill is proportionate.
- This includes a new legal and administrative system, disruption to credit markets, differentiation in law between richer and poorer people; long term discrimination of poorer people; impact on the welfare of 11,7m consumers; and the costs, both public and private, that must be incurred to operationalise the system.
- This is especially questionable if there is already a system in place that may require only relative tweaking at lower cost to achieve the same positive outcome for lower income consumers without many of the negative impacts.

Main Findings

The biggest negative impacts of the Bill are on:

- The study finds that while it is not credible that credit providers will stop lending to this market (it accounts for 54% of total credit consumers), the report does believe it is credible that formal credit providers will adjust lending patterns to the perception of higher risk created by the debt intervention system, compounded by low levels of trust in the capacity of the Regulator to undertake the process efficiently and fairly.

- Credit providers will increase the cost of capital for this group and once this is at maximum regulated levels, will tighten lending criteria and affordability assessments, as well as redirecting some capital allocation to other consumer segments.

Impact on debt counsellors

- The debt counsellor industry loses a small amount of revenue and a likely 36 jobs:
  - Debt counsellors stand to lose a customer base which is equivalent to the number of consumers in the target group who are presently in debt review. This is 13,941 consumers.
  - This represents a calculated loss of revenue of about R5,2m across the industry and a worse case job loss of 72 jobs and likely loss of 36 jobs.

A summary comparison of debt review and debt intervention mechanism

	Under debt review		Under debt intervention
Target income group	All income groups		Available to consumers with average gross income per month for six months preceding the application for debt intervention of less than R7 500; aggregate unsecured debts of R50,000 or less, who is over-indebted
Primary processing body	Private debt counsellors		National Credit Regulator
Adjudicative authority	NCT and Magistrates' Courts		National Consumer Tribunal
Cost	Application fee Administration fee	R 50 R 300	Free for the consumer, paid for by the taxpayer.
	Restructuring fee (maximum) After care fee (maximum)	R 8000 R 450	
	NCT Submission fee Total (maximum)	R 500 R 10 800	
	Attorney fee (applicable where a credit provider does not accept the repayment plan.)	To be agreed, to be aligned with the consumer's disposable income.	
Accessibility	Debt counsellors are present in communities country wide.		NCR office in Midrand or online application, possibly regional offices.
Suspension of debt	A court may suspend a reckless credit agreement (ss 83 and 84 of the NCA).		Where a consumer cannot clear their debt within 5 years, the NCT may suspend the credit agreement/s for 12 months, which can be extended for a maximum of 24 months (amended ss 87A).
Extinguishment of debt	Not possible		If, on expiry of the 24 month period of suspension, a debt intervention applicant is still unable to clear their debt, the NCT may extinguish their debt (amended ss 87A).

Sources: 1. NCR, *The Debt counselling fee guidelines, 2018*; 2. NCAB

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Impact on credit providers

- The impact on formal credit providers is relatively contained in the short term, constituting only R3,9 billion (0,8%) of the existing credit book.
- The first-round losses to banks, retailers, micro-lenders, and other credit providers are relatively contained in relation to the wider credit markets.
- There are also second round loses for retailers in the form of lost sales of R1.9bn. To be sure, these are large absolute numbers and will disproportionately impact credit providers who have aligned business models to lower-income consumers. However, in relative context they represent only a small proportion of the total ≤R7,500; ≤ R50,000 consumer book; and even a smaller proportion of the total credit market. Thus losses to formal credit providers in general are relatively contained.
- On the available evidence, it is unlikely that the introduction of the debt intervention measure will have a significant impact on the banking system stability because the scale of impact in relation to the credit book is minimal.

Impact on credit providers: Implementation

- The study recognises that credit providers will need to develop systems internally that enable them to comply and to run the DI process in parallel to the debt review process.
- The credit providers will need to add to or employ new teams to process and manage DI.
- To credit providers, this system is likened to the debt review process.
- Some credit providers noted that a period of 18 and 24 months will be required for implementation.
- The fundamental driver of timing will be readiness of the NCR and the NCT.
- The timing and readiness of the NCR and the NCT will assist the impacted stakeholders.

Impact on consumers

- An unintended consequence of the Bill will be the effective splitting of the credit market into two risk profiles at the R7,500 income point. Credit providers will introduce an implicit and possibly explicit distinction in future credit risk assessments. Consumers who are potentially part of the target group will be viewed differently to those who are not. The credit market will be effectively split at the R7,500 income point into lower risk above, and higher risk below. This is particularly worrisome for financial inclusion.
- The net result of the Bill is that formal credit extended to consumers in the ≤R7 500; ≤ R50 000 income segment will fall by R12,8 billion (17,9%).
- This is not unique to the introduction of the debt intervention measure, as there has been a downward trend since 2007. From 2007 to 2018 unsecured credit provided to consumers with a monthly income of ≤R7 500 fell by a Compound Annual Growth Rate (CAGR) of -3,7%.
- Of the R12,8 billion, it is estimated that 60% (R7,7 billion) will be taken up by the informal credit market (Mashonisas).
- Given that much of the credit used by this group is consumptive and non-discretionary, the study does not expect the demand for credit to diminish. Consumers accessing unregulated credit will be left in a more vulnerable position. This will have the result of pushing more lower-income consumer demand from regulated markets to unregulated markets where they have no legal or regulatory recourse, and where levels of abuse are higher.

Impact on NCR and NCT

- The study estimates that 102 161 consumer applications will be made per annum, whereas the NCR estimates that 26 410 applications will be made.
- In terms of the cost for implementation of debt intervention, the study estimates that it will cost the state a total amount of R407 million per annum, which is R376 million for the NCR and R31 million for the NCT per annum.
- This drops slightly in Year 2, as systems are fixed costs, and then continues in perpetuity. The Year 1 estimate is 275% more than the NCR's and NCT's initial estimates. The study raises a concern that the public price tag raises questions about the cost effectiveness of the approach, especially as the public sector is replacing an existing private system to undertake the same function.
- The extra claim on the fiscus will need to be weighed against a budget deficit and tax shortfall, as well as the aspiration in government to bring down the public sector wage bill.
- The NCR and NCT estimated the budget requirements to a total of R148 million per annum, that is R127 million/ year for the NCR and R21 million/ year for NCT.
- Thus the study cost estimates are 196% more than the NCR estimates and 48% more than the NCT estimates.

Impact on the NCR

- The Bill will lead to an erosion of the status of the regulator as the NCR leaves the regulatory pedestal to become a service provider.
- It is also not clear how the debt intervention activities of the NCR will be overseen, and to whom the NCR will be accountable in that area of work.

Debt extinguishment

- ***Debt extinguishment should still be introduced into credit law through the debt review process.*** It is a matter of constitutionality and equity that laws for the relief of chronic over-indebtedness be universally accessible. Without universal access, the societal risk is that less powerful citizens can become shackled to debt in perpetuity. There will be occasions when, due to a change in the circumstances of the debtor or poor financial management, the prospect of repayment is virtually zero. In these cases, most credit providers have systems of write off already in place informally. It would be appropriate on both pragmatic and ethical grounds for the law to recognise an extinguishment of debt in these cases.
- ***The introduction of debt extinguishment into South African law is not a radical proposal:*** A similar process is already available in insolvency law, in which debt obligations can be extinguished in a process of rehabilitation. However, personal sequestration is not appropriate for small estates. Moreover, a *de facto* system of debt extinguishment is already practiced in the form of write off where repayment seems impossible. ***Thus, the debt review system could provide a second tier of debt extinguishment for the low-income consumers, by essentially formalising the informal process of write off***.
- ***Introducing debt extinguishment into the credit law, applicable to all consumers equally is less exclusionary:*** It is not the introduction of debt extinguishment *per se* that drives financial exclusion in the Bill. It is driven primarily by the establishment of a two tier system –one for the rich and one for the poor and the ***delineation of a separate process that identifies and isolates poorer consumers.***
- The driver of risk for the private sector is not only the introduction of debt extinguishment –it is that DI decisions over debt extinguishment are driven by the State, by officials in whose capacity and impartiality the private sector has little trust or confidence, and who will be essentially unregulated.
- ***The study recommends that, it would be less exclusionary if debt extinguishment were introduced into the credit law for access by all consumers in legislated circumstances thus preserving the constitutional principle of all being equal under the law.*** This would not visibly differentiate lower income consumers from other consumers, in an obviously separate system. The Bill creates an unintended signal to credit markets that qualifying lower-income consumers should be treated in a separate system. This is the driver of exclusion.

Funding DI

- ***The study suggests that credit providers should be responsible for the subsidy the debt review procedures for lower-income consumers on a case-by-case basis.*** There are four options of subsidy:
- ***Option 1: State subsidy:*** The state could subsidise debt counsellors to take on lower-income consumers by paying a portion of debt counsellor fees.
- ***Option 2: Consumer-funded by levy:*** A small industry-wide levy could be raised on every credit transaction (e.g. R1 per transaction) to be paid by the consumer, collected by the credit provider and sent to a central subsidy fund. This would spread the cost of funding the debt intervention system across the credit active population, and would amount to a cross-subsidy by consumers earning more than R7,500 a month to those earning less than R7,500.
- ***Option 3: Credit provider-funded by levy:*** A small industry-wide levy could be raised on every credit transaction (e.g. R1 per transaction) to be paid and collected by the credit provider on every credit agreement to a central subsidy fund.
- ***Option 4: Credit provider-funded on a case-by-case basis when in debt review:*** The NCA could be amended to make it an offence for a debt counsellor to turn away a consumer on the basis of cost or affordability. Instead, a debt counsellor would be obliged to take on the debtor. The debt counsellor would notify the credit providers that a sub-economic application for debt review had been made. The creditors would be offered the opportunity to proceed by subsidising the fees of the debt counsellor in proportion to their share of the debt, or where this is not attractive, by agreeing to waive their portion of the debt.
- ***In the view of Genesis Analytics, the most attractive option would be Option 4: funded by credit providers on a case by case basis.*** Firstly, this approach creates no extra cost for the State. Second, the result will either be fully funded for all low-income debt interventions, alternatively the write off of debt creditors do not want to pursue which would improve the prospects of some repayment.
  - It would have the intended effect of drawing credit providers into taking some responsibility for solutions for over-indebtedness.
  - Asking creditors to share part of the cost of unwinding over-indebtedness or to waive their debt, would bring closer a missing nexus between credit providers, the problem of over-indebtedness, and solutions to over-indebtedness.
  - Finally, it would allow for formalisation of the process of debt write off that is already applied by all credit providers privately, but in a coordinated, formalised process.

Lessons from the UK

- The study analysed the similar system of debt relief order in the UK.

Case study: Overview of the debt intervention measures adopted in the United Kingdom

Note: Conversion is based on the ZAR/GBP exchange rate as on 13 March 2019 of R18.76/GBP

The United Kingdom introduced a similar mechanisms to DI. This case study was of interest to parliament, and the Portfolio Committee on Trade and Industry (PCT&I) undertook a study visit to the United Kingdom in April 2018.

- The debt relief order (DRO) system came to effect in April 2009. DROs are a form of insolvency application handled administratively rather than in court.
- The DRO alleviates debt for consumers who are financially excluded from other debt relief remedies, have low levels of liabilities, no assets over and above a nominal amount and no surplus income with which to come to an arrangement with their creditors.
- DROs are a cheaper option than bankruptcy proceedings. The order is made by officers of the insolvency court (Official Receivers, not the court) who are appointed by the Secretary of State working in partnership with the professional debt advice sector (approved intermediaries who are authorised by a competent authority as being able to advise and assist individuals with the completion and submission of a DRO application.
- To apply for a DRO, the applicant must satisfy strict **eligibility criteria**, namely
  1. Debts of no more than £20 000 (R375,224);
  2. Less than £1 000 (R18,761)) in assets or savings;
  3. Less than £50 (R938) a month spare income after paying off household bills;
  4. Has lived or worked in England and Wales within the last three years; and
  5. Must not have been subjected to a DRO within the last six years.
- Debts that are **eligible for DRO** include: (i) credit cards, overdrafts, loans; (ii) rent, utilities, telephone, council tax; (iii) benefit overpayments and social fund loans; (iv) hire purchase or conditional sale agreements; and (v) 'buy now-pay later' agreements. Only debts declared at the time of the application can be covered by the DRO.
- **Debts not eligible** and that creditors may still pursue their collection include: (i) child maintenance, or anything owed under family proceedings; (ii) student loans, budgeting and crisis loans from the Social Fund; (iii) debts secured against an asset; (iv) fines for drug offences; (v) damages or fines a court has ordered against the debtor; (vi) unpaid TV licence fees; and (vii) any debts incurred after the DRO is granted.
- Applicants can only apply for a DRO with the assistance of an 'approved intermediary'.
- The debtor pays the Official Receiver's administrative cost fee of £90 (R1,689).This fee also includes the cost of the intermediary and allows the Official Receiver to process the DRO, without involving the court.
- A DRO lasts for 12 months, during which time creditors cannot take debt recovery action against the debtor without court permission.
- After 12 months if the debtor's circumstances has not improved, the debts included in the DRO is **written off.**
- Successful applicants of DROs are obliged to repay their creditors should their financial circumstances improve, they are not allowed to give away or sell their assets to qualify for a DRO, and their credit ratings are affected, and there are civil and criminal penalties if the system is abused. Moreover, the debtor is subject to the restrictions while under DRO:
  - The debtor cannot obtain credit of £500 (R9,381) or more without disclosing to the lender that they are subject to a DRO;
  - The debtor cannot carry on a business (directly or indirectly) in a name that is different from the name under which they were granted a DRO, without telling all those with whom the debtor does business the name under which they were given a DRO;
  - The debtor cannot be involved (directly or indirectly) with the promotion, management or formation of a limited company, and may not act as a company director, without the court's permission; and
  - The debtor cannot apply for a DRO again for six years.
- The debtor's details are published on the insolvency service's individual insolvency register.
- A DRO entry remains on a debtor's credit reference file for **six years** from the date of the order even if the 'moratorium' period for their DRO has ended, and they have told the credit reference agencies (this will make it harder for the debtor to obtain credit in the future even after six years).
- After six years, the credit reference agencies will automatically remove the DRO entry from their credit reference file. It is the debtor's responsibility to have details of the DRO removed from their credit file if their record is not updated.

Source: 1. Parliamentary Monitoring Group, *Report of the Portfolio Committee on Trade and Industry on its study visit to the United Kingdom*, 2018 | 2. GOV.UK, *Guidance Getting a Debt Relief Order.* 2018| 3. Step Change, *How will a DRO affect me*| 4. Insolvency Practitioners Association (IPA), *Guide to debt relief orders*

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Lessons from the UK

- The study analysed the similar system of debt relief order in the UK.

Summary of key findings that could be adopted from the UK to enhance debt intervention in South Africa

Address Moral Hazard	The Bill should address the moral hazard concern associated with debt waivers **by introducing strict safeguards and conditions such as a clear qualification criterion or administrative fees.** The Bill seeks to address the cost barriers that reinforce exclusion from the current debt review system by making the DI process free of access to all those willing to apply. Emphasis should therefore be placed on the criterion for those who can access the debt relief. **The definition of over-indebtedness adopted should be nuanced enough to prevent the potential for free-riding. Consider a small fee to discourage chancers.**
Consequences for altering documents	To ensure efficiency within the DI programme, debtors who deliberately alter their finances to meet the eligibility criteria should face grave consequences. **Strict enforcement** is central to managing the expectations and incentives of consumers. Ensuring the institutional capacity of the NCT, NCR and local enforcement is sufficient to effectively enforce the Bill, **plus willingness to use the criminal sanctions provided by the Bill in prosecutions**
Address potential future irresponsible borrowing	To ensure that consumers that received debt relief do not revert back to a position of over-indebtedness, policy should limit the incentive for irresponsible borrowing. **Debtors should go through a probationary period of rehabilitation** where their borrowing patterns are restricted long enough to induce prudential borrowing behaviour. An example of this would be that consumers who have benefited from debt relief should appear on a credit bureaux file for a substantial period of time.
Policy should seek to prevent predatory lending practices	South Africa needs to address predatory lending extensively and decisively. This can be done through the **interest rate caps** and **better inspecting of and enforcement against unregistered credit providers**. **Consumer groups** that investigate and prosecute illegal money lenders could be established and funded to prevent such predatory lending practices.
Curb future over-indebtedness	Debt intervention policy should address the systemic origins of over-indebtedness. Research suggests that over-indebtedness is largely attributed to a negative external financial shock to consumers. A savings fund that is operated through credit unions can establish a healthy relationship with the financial sector and aid with reintegrating extremely over-indebted consumers into the formal financial system.. This kind of mechanisms is both preventative and rehabilitative.

Conclusions

- The study concludes that the proposed Bill, will result in a socio-economic impact that is net negative for the South African society and the economy while attempting to achieve some debt relief for a group of vulnerable citizens.
- The study also finds that it is unlikely that the DI will have a significant economic impact at a macro economy level. The scale of the impact is seemingly too small to impact the national economy.
- It finds there may be some counterbalancing positive effects because the vulnerability of over-indebted consumers can constrain the economy and cause social instability.
- The main drivers of negative impact are extra fiscal stress and the long-term effects of bi-furcating the credit market at the R7 500 income point.

Recommendations

- The study proposes two options, the first being that Parliament reconsiders the passing of the Bill in its current form.
- As part of the first option, the study recommends that Parliament should introduce debt intervention but within the bounds of the current debt review system with mechanisms for a subsidy for low-income consumers.

Recommendations

- The second option, is that if the Bill were to go ahead in its current form, the study recommends the following mitigating factors :-

  - Debt intervention must be responsibly communicated. In addition to communicating about the measure, consideration be given to a strained sovereign credit rating climate, DI must be clearly communicated to credit rating agencies.
    - Communicating to the public will mitigate unwarranted, opportunistic entry into the DI process.

  - Enforcement of the law on unregistered illegal credit providers, reckless lending and false testimony by consumers.
    - The NCR should prosecute a number of high profile cases of reckless lending, as well as cases of falsification by debtors, to establish clear warnings to both sides of the market and to establish legal precedent for future cases.

Recommendations

- Define over-indebtedness as 3+ months in arrears on at least one unsecured credit agreement with negative disposable income.
- Provide for oversight and accountability by the NCR in the administration of debt intervention.
- Address the moral hazard by advising consumers only to access debt extinguishment as a last resort and that there are personal consequences of extinguishment.
- Retain the exclusion of developmental finance as this will assist shift some formal sector credit extension away from consumptive credit towards productive credit.

Other Recommendations

- However, debt extinguishment through the debt review system should carry material consequences for the debtor . As with insolvency orders, a debt extinguishment order should bear material consequences for the debtor so that the process is not abused. The consequences of debt extinguishment should not be dissimilar to the consequences of personal sequestration. This is important to retain equal treatment of all persons under the law.
  - Consequences should include mandatory financial literacy training as proposed in the Bill, which can be administered and certified by the NCR, as well as an exclusion from formal credit markets during the process and for two years after rehabilitation.
  - Moreover, creditors should be allowed to pursue secured assets under debt review as under insolvency law, with the exception of primary residence.
- Retain the criminal sanctions introduced by the Bill in the NCA and direct part of the saved public funding to strengthen the capacity of the inspectorate of the NCR .
- A portion of the R407m no longer needed by the NCR and NCT under the standalone debt intervention system should be directed instead to improve the inspectorate and prosecutorial capacity of the NCR.
- The mandatory credit life insurance provisions in the Bill should be introduced to the NCA. The insurance market already services credit providers with credit life products. Consultations with insurers indicate that there is an ability to scale the number of products and to service a larger pool. A larger pool would bring down the cost of insurance.
- However, for lower income consumers the study recommend that insurance should be mandatory for purchase by the credit provider rather than the consumer (effectively a form of credit default insurance rather than credit life insurance), in order to minimise the consumers' hidden costs and to maximise the chances that the insurance is exercised.
- Understand better why lower income consumers do not use debt review: The study respectfully recommend that Parliament or **the dti** commission further research into why consumers in the target group do not use the debt review system. Without this understanding, there is a risk that harm will be done to the economy in an attempt to fix the wrong challenge.

the dti observations

- The negative impact on the credit providers and the target group is envisaged to be in the long term. Therefore, the implementation of the mitigating measures may address this envisaged impact.
- The anticipated impact is based on the assumption that credit providers will increase the cost of credit and limit the extension of credit to every consumer earning R7 500 or less with a total credit of R50 000 or less, forcing these consumers into the informal market, which may or may not materialise.

the dti observations

- The Bill provides for the Minister of Trade and Industry to review the debt intervention measure after three years of implementation.
- This is one of the measures put in place to ensure that some of the unintended consequences identified in the study are mitigated against.
- The proposed research on why consumers at this target range do not uptake debt review will be considered.
- The enforcement proposals in the study are noted for further action.
- The communication as well as education and awareness of the Act will be taken into serious consideration.
- The definition of over-indebtedness to be considered in the next amendments process.
- The industry levy should be explored further for implementation.
- There were no significant policy issues for consideration to improve the current Act that emanated from the study.
- The impact will be reviewed and there is scope provided in the amendment Act to amend the debt amount and the income level should the need arise.

Thank you