More credit regulations on the way

The South African Reserve Bank might not yet be worried about the rapid increase in unsecured credit extension in South Africa, but the National Credit Regulator (NCR) is officially worried.

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Not rated yet.

In April, the South African Reserve Bank stated in its Financial Stability Review that at the current levels, unsecured lending still does not constitute a bubble.

NCR CEO Nomsa Motshegare told CitiBusiness that the regulator, which aims to protect the consumer, is worried about the effect the increase in unsecured lending has had on consumers.

“Unsecured credit in itself is not necessarily bad, but the way it has been extended and (the) level of increase is worrisome,” said Motshegare.

Data from the NCR shows that unsecured credit extension has been growing on a year-on-year basis at 31%. The NCR has conducted a study on the trends in unsecured lending and this has been presented to parliament and the Department of Trade and Industry. The study will be made public in the next couple of days, Motshegare told CitiBusiness.

The NCR is not comfortable with the approach being used by the credit providers - this includes the bigger transactional banks in South Africa which have recently started to target this market aggressively, due to higher returns on equity from unsecured lending.

“The way in which consumers are enticed to take out unsecured lending is worrying. The ethics is questionable, especially where you have cases where a certain high risk customer is denied secured lending and then the same institution offers that customer the money through unsecured, pricier, credit,” Motshegare said, referencing a complaint that the NCR is currently investigating.

She said consumers are also being offered repeat disbursements, also in the banking environment, where repeat initiation fees are then levied.

According to Motshegare, it has become clear that some credit providers find loopholes in the NCA regulations or bend the rules and in the regulator's testing of the Act these have come to the fore.

"It is one thing to write the Act, but then when you implement it you find weaknesses. We are working on certain provisions in the Act to amend them and our senior legal advisor has been drafting a suggestion to this effect," she said.

Changes in legislation take time, but Motshegare believes that some of these changes will already be visible in the next financial year.

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