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**RUDO**  
Research & Training

**DRAFT REPORT:  
IMPACT ASSESSMENT 2009**

**PREPARED FOR: NCR**

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## **1. Background and Objectives**

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The NCR, as the new credit regulator has a mandate to promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers. Consumer education is the cornerstone of consumer protection. The NCR, like its predecessor the MFRC, has adopted a multi-pronged strategy towards their communications drive that includes:

- An education component, and
- An awareness creation component

The education campaign is implemented through capacity building workshops with various stakeholders i.e., industry stakeholder, non-governmental organization, trade unions, government departments, parliamentary constituency offices, and employers. Awareness creation is accomplished through media especially print. Research is being commissioned to evaluate the effectiveness of the awareness campaigns as well as the performance of the NCR in terms of implementing the Act.

In order to accomplish the above main objectives, the following sub-objectives need to be investigated:

- To measure awareness levels on the NCA with reference but not limited to:
  - Disclosure
  - Initiation fees
  - Interest
  - Pre-agreements
  - Redress
  - Reckless Lending and Over-Indebtedness
  - Debt Counseling
- To measure awareness levels of the NCR amongst consumers
- To establish the stakeholders' general perception of the NCA
- Establish the NCA has achieved its intended purpose thus far
- Establish perceptions regarding the general awareness of the Act
- Make recommendations on areas that need improvement

## **2. The Methodology**

The methodology of this study comprised of a combination of qualitative and quantitative research methodologies, although the main methodology of the study was mainly qualitative. Information was collected through secondary research in the form of literature reviews, focus group discussions, telephonic and face-to-face interviews as well as written submissions. To make the information more reliable and easy to track, the questionnaires were designed to include quantitative questions.

## The Research Process

The research methodology was implemented in 5 phases that is:

1. Meetings with the Project Team to clarify the objectives and scope of the study
2. Literature reviews
3. Stakeholders interviews
4. Focus groups
5. Analysis and reporting

**Literature review** was conducted in the form of:

- Published reports from institutions like FinMark Trust, Finscope, Wits University and other institutions who have conducted studies on the NCA and consumer credit matters.
- Internationally and local reviews to amongst other things investigate benchmarks for consumer literacy levels and financial literacy trends/behaviors so as to provide the primary results with some context and robustness of the analysis.
- NCR data and internal reports like the Credit Bureau Monitor and monthly website statistics in terms of debt counseling; complaints and general financial trends.
- The consumer education statistics regarding the number of workshops and people who have attended; this also to provide the results with a context.
  - Media analysis: Undertaking a comparative analysis of different media, the topics and the type of coverage received (positive or negative)

## Stakeholder Interviews

Primary research consisted of in- depth interviews with **industry stakeholders** and other role players. The purpose was to gather inputs/views from the stakeholders in terms of the impact of NCR's education workshops. The main aim being to establish whether the education workshops are effective, to identify areas of weakness, strengths and gather recommendations. The stakeholders who participated in the study included primary stakeholders including, credit providers, retailers, Trade Unions, Consumer Representatives, Debt Counselors and Parliamentarians.

Data was collected through questionnaires which consisted of both quantitative questions as well as qualitative probes. This questionnaire enabled quantification of the results, but also allowed interviewers to have a robust discussion with stakeholders, revealing their thoughts and experiences regarding the on-going implementation of the NCA.

**A total of 27 stakeholders** were interviewed as follows:

Category	Organization	Total
Lenders/Banks	<ul style="list-style-type: none"> <li>▪ FNB</li> <li>▪ Absa</li> <li>▪ Standard Bank</li> <li>▪ KreditForm</li> </ul>	4
Retailers	<ul style="list-style-type: none"> <li>▪ Edcon</li> <li>▪ Woolworths</li> </ul>	2
NGOs	<ul style="list-style-type: none"> <li>▪ Black Sash</li> <li>▪ Free State Advice Office</li> <li>▪ West Rand Justice Center</li> </ul>	3
Provincial Consumer Desks	<ul style="list-style-type: none"> <li>▪ Gauteng Consumer Desk</li> <li>▪ Western Cape Consumer Desk</li> <li>▪ KZN Consumer Desk</li> </ul>	3
Trade Unions	<ul style="list-style-type: none"> <li>▪ NUMSA</li> <li>▪ NACTU</li> <li>▪ Cosatu</li> </ul>	3
Debt Counselors	<ul style="list-style-type: none"> <li>▪ Individual Debt Counselors</li> </ul>	3
Stakeholders	<ul style="list-style-type: none"> <li>▪ Department of Trade and Industry</li> <li>▪ Department of Justice</li> <li>▪ Banking Association</li> <li>▪ Banking Ombudsman</li> <li>▪ SALGA</li> </ul>	5
Legal Experts	<ul style="list-style-type: none"> <li>▪ Individual Legal Experts</li> </ul>	4
<b>Total</b>		<b>27</b>

## Focus Groups

**Focus group discussions** were conducted to gather information **from consumers** with regards to their awareness levels of the NCR and NCA, as well as their information and communication needs. Focus groups enabled researchers to interact closely with consumers, to get a deeper understanding of their thoughts and feelings. **The questionnaire:** This is an annual impact assessment tool, and it is critical that the questionnaire is replicable every year. It was therefore recommended that 75% of the questions to the consumers be standard and be repeated annually, and that the other 25% be questions relating to specific goals of the NCR for that particular year. The questionnaire for the 2009 Impact Assessment consisted of:

- That the standard questions based on the NCA variables, i.e., :
  - Disclosure; Initiation fees; Interest; Pre-agreements; Redress; Reckless Lending and Over-Indebtedness and Debt Counseling.
- Communication needs and media preference

**The Sample** - to ensure consistency in the sampling, focus groups were conducted in the same provinces as in the 2008 assessment, and the same recruitment was utilized. This was done to ensure consistency in the demographics of the sample to make tracking of the results valid and easy to track. It was in this light that a total of nine (9)

focus groups were conducted in Gauteng, KZN and the Western Cape. Respondents for the focus groups were recruited amongst economically active South Africans, working either part-time or full time using the following criteria:

- Respondents had to be active banking clients
- Respondents must have taken a loan since 1<sup>st</sup> June 2007
- Groups were stratified according to income level, and respondents were grouped into 3 different groups, that is:
  - Low-income groups - monthly gross income of R4 999 and less
  - Middle income groups - monthly gross income between R5 000 and R14 999
  - High income groups – monthly gross income of R15 000 and above

### **Analysis and the Report**

This report is based on the actual respondents' verbatims, and the interpretation has been done according to the different categories of the sample, that is, Consumers, Credit Providers/Lenders, Retailers, NGOs and Consumer Desks as well as Industry Stakeholders.

### **Timing**

The project commenced in February 2009. Fieldwork commenced from – 16 April 2009. The draft report was submitted on 12 May 2009.

## 2. Overview of the Results

Sample	Achievement	Challenges
Consumers	<ul style="list-style-type: none"> <li>Increased awareness levels of the NCR and NCA from the 2008 survey</li> <li>Improved knowledge of two credit terms, that is interest and total costs of credit</li> </ul>	<ul style="list-style-type: none"> <li>Low awareness levels of the NCR and NCA still recorded for low income respondents</li> <li>Lack of knowledge regarding credit terminology, especially information consumer need to know when entering into credit agreements</li> <li>Limited knowledge of debt counseling as an alternative for over-indebted consumers</li> <li>Limited knowledge of redress and complaints mechanisms for clients not happy with their credit agreements</li> </ul>
Credit Providers/Lenders	<ul style="list-style-type: none"> <li>NCR regarded as supportive with regards to Compliance and Reporting</li> <li>Creditors satisfied with how the NCR provided feedback on their reports</li> <li>NCR staff regarded as helpful and responsive</li> </ul>	<ul style="list-style-type: none"> <li>Debt Counseling highlighted as an area with challenges in terms of the process, the distribution and collection methods, the capacity of practitioners as well as the court process</li> <li>NCR interpretation of Developmental Credit issues perceived to be in contradiction with the NCA.</li> </ul>
Primary Stakeholders	<ul style="list-style-type: none"> <li>Ability of NCR to increase awareness levels of the NCR and NCA amongst the general public</li> <li>Ability to handle big volumes of enquiries from consumers</li> <li>Ability to implement the Act within a restrictive legislative framework</li> </ul>	<ul style="list-style-type: none"> <li>Limited consumer awareness on the specific role of the NCA and debt counseling</li> <li>Debt Counseling with specific reference to a flawed process and systems.</li> <li>Inability to enforce 'interbred credit agreements'</li> </ul>
NGOs and Consumer Desks	<ul style="list-style-type: none"> <li>NCR regarded as supportive with regards to capacity building workshops</li> <li>Consumer Desks and NGO'S satisfied with the relationship and partnerships created with the NCR</li> </ul>	<ul style="list-style-type: none"> <li>Not enough information provided for rural areas</li> <li>Limited information and updates provided to intermediaries regarding debt counseling</li> </ul>
<p><b>Recommendations - Three areas</b></p> <ol style="list-style-type: none"> <li><b>Debt Counseling:</b> Streamlining the debt counseling process, systems and control mechanisms</li> <li><b>Enforcement:</b> <ul style="list-style-type: none"> <li>Creating partnerships with other regulators to deal with 'interbred credit agreements.'</li> <li>Creating synergies with other legislations to improve compliance</li> </ul> </li> <li><b>Awareness Creation</b> <ul style="list-style-type: none"> <li>Segmentation of the credit market to ensure targeted and tailored communication for different sections of the market</li> <li>Refining awareness messages with specific attention to debt counseling and credit terminology that consumers need know when entering into credit agreements as well as where to complain and seek redress and complaints mechanisms for consumers not satisfied with their credit agreements.</li> </ul> </li> </ol>		

#### **4. The executive summary**

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This report is based on the results of the Impact Assessment of 2009. This year's survey was conducted against the backdrop of the 2008 assessment, which was utilized as the baseline study. The main aim of the 2009 survey was to track the changes in performance of the NCR in terms of:

- The effectiveness of the media campaigns for awareness creation and
- The effectiveness of the educational campaign on the implementation of the NCA and general consumer education

The methodology of the study is still the same as the 2008 survey. This included a combination of qualitative and quantitative data collection in the form of focus groups for consumers as well as submissions and interviews for creditors, consumer desks and industry stakeholders. A total of nine focus groups were conducted in Gauteng, Western Cape and KZN amongst consumers. The recruitment of the 2008 survey was again utilized for the 2009, where the split according to income levels, that is low; middle and high income levels. A total of 6 creditors and 20 stakeholders participated in the 2009 assessment.

To ensure robustness of the results, literature review was also conducted to compare and validate the primary research information. The literature review consisted of internet searches as well as secondary analysis of research reports.

#### **Contextual Analysis**

The NCR has two-pronged strategy towards its communication drive that includes:

- An education campaign, and
- An awareness creation component

The education campaign comprises of workshops and information sessions with creditors and intermediaries, whilst awareness creation is mainly through the print and electronic media. The aim of the survey is to assess the impact of these two communication vehicles from April 2008 until February 2009. The focus of the workshops was on the on-going implementation of the Act whilst the awareness creation was based on major media campaigns. Below is the detail of the activities the NCR undertook in terms of its communication:

- A total of 407 workshops were conducted in the past 10 months
- A total of 33 682 people participated during the workshops
- 60 TV interviews were conducted
- 216 radio interviews
- There were 109 106 website visits

A summary of the results is detailed in the pages below.



## Consumer Groups

The results indicate that:

- The **awareness levels of the NCR** have improved from 51% in 2008 to 65% in 2009. As with the 2008 results, middle and high income groups recorded the highest awareness levels as opposed to low income groups, who still recorded low awareness levels
- The role of the NCR was well articulated by the middle and high income respondents, with low income respondents indicating lack of knowledge regarding the NCR's mandate
- The results indicate that radio was mainly responsible for the awareness and information dissemination regarding the NCR. Communication from banks and retailers also contributed to awareness creation.
- The **awareness of the NCA** also improved from 54% in 2008 to 69% in 2009. The same trend is also observed here, with middle and high income respondents recording high awareness levels.
- The legislation was primarily associated with 'curbing over-indebtedness and reckless lending'. As with the 2008 results, only a few respondents indicated understanding of the consumer protection qualities of the legislation.
- Knowledge of credit terminology with specific reference to interest and the total cost of credit have improved from the 2008 survey.
- Respondents still reported a limited knowledge and understanding of initiation fees, service fees and quotations.
- Most respondents, especially from low-income groups, still did not know what to do or where to go when they have a compliant or when they experience problems with their credit agreements.
- The trend of not reading quotations and contracts was still evident in this year's survey, with clients indicating a preference of verbal disclosure.
- As with the 2008 results, the 2009 results indicate that respondents are still not aware of their right to receive quotations as well as the benefit of receiving quotations.
- The results also indicate low awareness levels of debt counseling and in many cases debt counseling was confused with debt administration and debt mediation.

### In Conclusion:

- There is a general improvement of awareness levels regarding the NCR and the NCA since the 2008 survey, although awareness levels amongst the low-income consumers are still low.
- The knowledge of credit terminology still limited to interest and total cost of credit, and few respondents are aware of their consumer rights when entering into credit agreements.
- It is therefore recommended that awareness be increased to include:
  - Consumer rights, especially when consumers enter into credit agreements
  - Credit terminology used when clients apply and contract with creditors
  - Debt Counseling as an alternative for over-indebted consumers and those struggling with their debt payments
  - Information on redress and complaints mechanisms for consumers who are not satisfied with their credit agreements

- It is further recommended that the NCR segment the consumer credit market, to ensure that targeted information is delivered to specific segments of the market. The analyses indicate that different income groups have different information needs, and that the 'one size fit all' approach will slow the penetration of consumer information.

## Industry Stakeholders

Generally, stakeholders were satisfied with the manner in which the NCR was doing with the on-going implementation of the Act. The improvements however, seemed to be qualitative, and the NCR's performance in this regards was summarised by most stakeholders as 'fairly good'. The NCR was commended for:

- Increasing awareness levels of the NCR and the NCA amongst the general public
- Effectively handling big volumes of enquiries and complaints from consumers, as well as providing guidance to lenders
- Their ability to implement the Act whilst operating within a 'restrictive legislative framework
- The ability to deal with over-indebtedness by ensuring caution on lenders when granting credit and putting responsibility on consumers in terms of applying and servicing their credit

The following concerns were raised regarding the on-going implementation of the Act included:

- Debt Counselling was selected as an area that needs improvement. The process was perceived as flawed, and the court system was referred to as ill-equipped to effectively deal with debt review matters.
- Training and accreditation of debt counsellors was still perceived as inadequate resulting in poor quality debt counsellors into the industry
- Continuing abuse by credit providers in terms of reckless credit provision with little or no consequences
- Inability to enforce 'interbred credit transactions' where different legislations apply to different sections of a transaction, exposing clients to further abuse by creditors.
- Limited awareness of the role of the NCR and NCA , as well debt counselling for over-indebted clients

It was recommended that the NCR focus on three major areas to improve implementation that is debt counselling; enforcement and targeted awareness creation as follows:

- Streamline debt counselling with regards to the process, the systems and control measures.
- Dealing with legislative amendments to unblock barriers in the courts and legal process of debt review
- Improving enforcement by creating synergies with other regulators and legislations so as to deal with 'interbred transactions' and thereby improve compliance

- Taking a targeted approach to awareness creation by segmenting the market and creating awareness specific to debt counselling

**In conclusion:** Stakeholders had a balanced evaluation of the NCR's performance; expressing satisfaction with how the NCR was implementing the Act, at the same time appreciating their challenges and legislative limitations. This comment summarizes the general sentiment from this group *'NCR is doing a tough job with little resources and they are also doing a very good job. But I think that its time that they should regenerate, reinvent and think new. They should not be complacent or else they are going to lose their reputation that they have already built. I think that the billboard on the highway is good, keep it.'*(DTI)

### **Creditors/Lenders**

Creditors were requested to rate the performance of the NCR on two levels that is the support the NCR provided creditors on the implementation of the Act and capacity building/information sharing for creditors. A total of seven variables were assessed with regard to implementation of the Act that is:

- Disclosure requirements
- Marketing practices
- Compliance and reporting
- Over-indebtedness
- Consumer Credit Information
- Consumer Rights and
- Debt Counselling

The results of the 2009 creditor's survey indicate that:

- Creditors regard the NCR as supportive in terms of Compliance and Reporting issues, as they were provided with specific and detailed guidance on completing the statistical returns.
- On the other variables with the exception of debt counselling, creditors indicated that they had internal capacity to interpret and implement the Act and therefore needed minimal assistance and support from the NCR.
- The workshops and information sessions conducted by the NCR were referred to as valuable, with creditors indicating that they were able to utilize the information provided.
- The NCR staff was generally perceived as helpful and accessible.

However, creditors highlighted several concerns:

- Debt Counselling was regarded as an area with many challenges with reference to:
  - Its process, which was referred to as flawed and cumbersome
  - The capacity of debt counsellors
  - The length and the quality of training
  - The collection and distribution systems as payments were always late, or sometimes not made
  - The court process was regarded as inconsistent and frustrating
  - Inconsistent interpretation of the Act by magistrates

- Creditors complained that in certain instances, the NCR's interpretations contradicted the Act, specifically on issues relating to developmental credit

### **NGOs and Consumer Desks - Intermediaries**

This section of the impact assessment evaluated the impact of the education and capacity building initiatives utilized by the NCR to disseminate information to the Consumer Desks and the NGOs. For this group of stakeholders, the NCR utilizes workshops to disseminate information and for capacity building purposes. For the past 24 months the main focus of the NCR has been the implementation of the NCA. The main focus of the capacity building workshops therefore has been around the Act and its implementation. The impact assessment therefore concentrated on how successful the NCR has been in communicating and capacitating these intermediaries on the Act and its implications, and whether their education strategy was successful in this regard.

#### **Sample**

A total of three consumer desks and two NGOs participated in the study, they are:

- Consumer Desk KZN
- Consumer Desk Western Cape
- Consumer Desk Gauteng
- FRESKA
- NGO Black Sash

Data was collected through a combination of telephone interviews and written submissions. The results collected from these intermediaries indicate that:

- Generally NCR was successful in providing relevant and valuable information in their workshops. This information was of immediate use to the stakeholders as they utilize it for both their workshops and assisting consumers walking into their offices.
- NCR achieved in capacitating Intermediaries through their training /information session. Again information from NCR was used to strengthen intermediaries training workshops
- NCR presenters were appreciated for their knowledge of the topics presented and their professionalism. Intermediaries seemed to like the participatory presentation methods that the presenters utilized.
- The NCR was successful in sustaining the relationships that already exist with intermediaries and were regarded as supportive and available to provide guidance and respond to concerns.

Though the NCR was evaluated positively by intermediaries, several challenges were highlighted which include:

- Limited information provided on development within the debt counseling industry, which results in intermediaries being unable to respond to consumers enquiries and complaints.
- Not enough information provided for to rural areas
- Lack of NCA and NCR coverage on regional radio station which minimizes reach
- Length of workshops and information sessions regarded as too short resulting in rushed presentations
- NCR providing limited supply of training material to intermediaries, which impacts negatively on intermediaries workshops