

Debt counselling: Task Team delivers Interim Report

For Immediate Release

April 2010

In December 2009 the National Credit Regulator established a Task Team on debt counselling to provide solutions to the bottlenecks in the debt review process. The Task Team has had engagements with all the different stakeholders, from main stream banks and retailers through to debt counsellors. While the team found that debt counselling played an important role in assisting consumers during the financial crisis, it highlighted a number of challenges which affect the efficient functioning of the system. The Task Team developed a number of proposals which it believes could make a significant improvement in resolving the backlogs.

Based on the NCR's statistics as at end of March 2010, 1,642 debt counsellors were registered with the NCR and over 160,000 consumers have applied for debt counselling. The monthly payments to creditors by people under debt counselling exceed R160 million. This increased significantly over the past months, from only R11 million in June 2008.

Gabriel Davel, CEO of the NCR, warned that one of the biggest dangers is that consumers could use debt counselling as an excuse for not meeting their payment obligations. "Such behaviour is creating significant risk to mortgage banks in particular and could promote a culture of non-payment, even amongst high income consumers," he says.

Through its consultations with different stakeholders, the Task Team identified a number of problems and obstacles, including:

- *delays in the finalisation of debt counselling hearings in the Magistrates Courts, mostly as a result of uncertainty on the interpretation of the relevant sections of the National Credit Act;*
- *delays and non-compliance by debt counsellors;*
- *delays by credit providers, often caused by weaknesses in the policies and procedures for dealing with debt counsellors; and*
- *problems related to the receipt and distribution of payments by consumers.*

The Task Team is chaired by Adv Neville Melville, the previous Banking Ombud. The Task Team found that debt counselling has assisted consumers to deal with the negative impact of the financial crisis and the resultant job losses and negative impact on incomes. It may also have helped to curtail repossessions and in preventing a decline in the housing market. It notes that a recent survey found that more than 79% of consumers were happy with the outcome of the debt counselling process.

“This is an encouraging sign,” says Melville. “We urge all the affected parties to contribute to establishing an effective debt review process, in order to deal with the impact of the financial crisis in a responsible manner, while protecting consumers and minimising any negative impact on the financial sector.”

The proposals of the Task Team affect both credit providers and debt counsellors, highlighting different areas where each of the parties can make improvements. Some of these areas are:

- *For credit providers, improvements in their policies and procedures; greater co-operation between different business units in restructuring debt; improved administration to ensure that credit providers do not delay the conclusion of cases;*
- *For debt counsellors, greater consistency in performing affordability assessments; introducing standards to ensure that realistic debt restructuring proposals are developed; and improving communication with both consumers and credit providers.*

The Task Team noted that many of the problems relate to differences in the interpretation on the Act. This has a huge impact on the implementation of debt counselling and there is an urgent need to effect the necessary amendments to the Act.

Note to Editors

The Debt Counselling Task Team was set up to:

- *Identify the primary causes for the current backlogs and delays in finalising debt restructuring, as envisaged by the relevant sections of the National Credit Act;*
- *Propose common standards and procedures which would facilitate the processing and finalisation of applications for debt counselling;*
- *Establish mechanisms through which credit providers, debt counsellors and payment distribution agents can engage on operational and procedural problems in relation to the implementation of debt restructuring proposals;*
- *Establish mechanisms through which disputes in relation to specific cases can be resolved;*
- *Provide regular information through circulars or similar mechanisms to credit providers and debt counsellors on any standard procedures or documentation; and*
- *Assist and advise the NCR with the objective of implementing an effective debt counselling process, as intended by the National Credit Act.*

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