



THE NATIONAL CREDIT REGULATOR

APRIL 2017

**TERMS OF REFERENCE
AN ACTUARY TO DO AN IMPACT
ASSESSMENT OF THE DEBT
COUNSELLING FEES**

RFQ NUMBER: NCR422/04/17

DUE DATE: 12 MAY 2017

TERMS OF REFERENCE
TO APPOINT AN ACTUARY TO DO AN
IMPACT ASSESSMENT OF THE DEBT COUNSELLING FEES

1. BACKGROUND

The National Credit Regulator (NCR) is statutorily mandated to regulate consumer credit in South Africa through enforcement of the National Credit Act (NCA) which came into effect in 2007. The NCA makes provision for the process of debt counselling which is facilitated by debt counsellors - who are duly registered by the NCR. Debt counselling is a debt relief measure available to over-indebted consumers which affords them an opportunity to remedy their financial difficulties and ultimately reach rehabilitation.

The NCA does not prescribe the tariff for fees charged by duly registered debt counsellors. In a bid to curb the potential exploitation of consumers, the first debt counselling fee guidelines were issued in 2007. These guidelines were reviewed by the NCR in 2010 and revised guidelines were implemented in August 2011. Since then, there has been no further review of these fee guidelines.

Debt counsellors fulfil an important and intricate statutory function aimed at assisting over-indebted consumers to reach a state of rehabilitation. Since the dawn of debt counselling, the credit industry has undergone significant growth. To date, the NCR has over 2100 registered debt counsellors, over 944 000 debt counselling applications have been loaded and an amount in excess of R32.5 billion has been collected and distributed to credit providers through debt counselling by the Payment Distribution Agents (PDAs).

The amount that a debt counsellor can charge is equivalent to the total disposable income of the consumer, which is determined after an assessment of income and expenses, has been conducted by the debt counsellor. This amount is, however, capped at a maximum of R6 000.00 (VAT excluded). The after-care fee which is charged on a monthly basis amounts to 5% of the disposable income and is capped at R400.00 (VAT excluded) for 24 months. Thereafter, the amount decreased to 3% for the remainder of the duration of the credit agreement.

In June 2016, the NCR appointed an external service provider to review the current debt counselling fees and to recommend a new fee structure aligned to the process. This first

phase of the review focused on numerous factors that influence the sustainability of the debt counselling practice in consideration of the various debt counselling business models. Upon completion of the review, the service provider recommended three (3) fee structures for consideration by the NCR.

The NCR considered the three (3) fee structures and devised a fee structure of its own. It was resolved to seek the services of an actuary with a view to conduct an impact assessment of the recommended fee structures. The intention of the assessment is to supplement the recommendations from the first phase – which are based largely on industry inputs and consultation – with a quantifiable and scientific rationale for the proposals when the NCR ultimately refers the fee structure proposals to the Minister of Trade and Industry to be prescribed through regulations.

2. PURPOSE OF THE PROJECT

In view of the above, we would like to recommend that we appoint an actuary to conduct an impact assessment based on below terms of reference:

- a. Assess the feasibility of the four (4) recommended fee structures and do a sensitivity analysis;
- b. Evaluate the impact of the four (4) recommended fee structures on the sustainability of a debt counselling practice and associated risks;
- c. Evaluate the impact on consumers under debt counselling;
- d. Recommend a single revised fee structure – in the form of draft guidelines - and highlight how and when the fees should be due and payable through each stage of the debt counselling process; and
- e. Produce and present a draft report on the findings and recommendations as well as draft proposed fee structure to the NCR management.
- f. Collate views from the presentation and draft a final fee structure to also be presented to the NCR management.

3. METHODOLOGY

- a. The service provider must gain insight into the debt counselling processes and must be familiarised with all current challenges facing the debt counselling industry. Amongst others, the service provider must review the following:

- i. Relevant sections of the NCA and National Credit Amendment Act;
- ii. Debt counselling fee guidelines;
- iii. Proposal for review of debt counselling fees received from DCASA;
- iv. The final report produced by the external service provider on the review of the debt counselling fees; and
- v. The 4 (four) recommended fee structures.

b. Engage the relevant industry participants to gain more insight.

4. **DELIVERABLES**

The following are deliverables of the project:

- a. A comprehensive report detailing the findings and analysis of the impact assessment of the 4 (four) fee structures;
- b. Recommend a single revised fee structure – in the form of draft guidelines - to be considered by the NCR; and
- c. Presentation to the NCR on the final product within six (6) weeks of signature.

5. **SPECIFIC CRITERIA AND EXPERIENCE**

When assessing submitted proposals, the NCR will take into consideration, amongst others, the service provider’s experience in actuarial services and knowledge of the debt counseling industry. Please also note that the service provider must be independent and may not be affiliated with a **Credit Provider, Debt Counsellor or PDA**.

6. **FUNCTIONALITY EVALUATION CRITERIA**

DESCRIPTION	WEIGHTS
Proposals should make clear the <u>relevant</u> skills, experience and capacity of the participant in respect of this particular TOR	40
Proposals must contain the details of the proposed approach to be adopted in order to deliver the service in accordance with the TOR	40
Proposals should clearly indicate whether or not bid participants have the internal capacity to meet the requirements of the TOR	20

Bid participants are required to score a minimum of 70% on functionality to qualify to be evaluated in the next level (i.e. BBBEE and price). Bid participants that do not score the minimum of 70% on functionality will be disqualified and not be evaluated in the next level (i.e. BBBEE and price).

7. ADDITIONAL INFORMATION

- a. Brief company profile, as relevant to the above mentioned terms of reference.
- b. Experience in the relevant areas.
- c. Clientele.
- d. A proposal including methodology
- e. Confirmation that the proposed team members will in fact be available to undertake this exercise at the appropriate time and meet the necessary deadlines.
- f. The percentage of the work if any that will be outsourced to third parties;
- g. The proposal should contain a work plan, showing tasks, timelines etc.
- h. Contact details of at least three references from amongst recent clients with whom similar work has been conducted in the past 12 Months.
- i. Certificate of incorporation / legal status:-
 - i. Company registration documents
 - ii. Certified copy of directors identity documents
 - iii. Certified BBBEE certificate
- j. Bidders must also submit a proof of registration on the central database system. (National Treasury system)