



Joint media release by the Banking Association South Africa, Consumer Credit Association (CCA), Furniture Traders Association (FTA) and Micro Finance SA (MFSa).

The four associations representing members who provide in excess of 95% of the in excess of R850 billion private sector credit extended to consumers in the SA economy, today announced the signature of a Memorandum of Understanding committing the organisations to co-operate in assessing the viability of a possible industry driven set of voluntary arrangements which could in future give relief to over indebted consumers through an industry assisted voluntary debt mediation process.

This agreement is concluded in the spirit and context of the National Credit Act, which comes into full force and effect on 1 June 2007, and signals a next stage in the ongoing efforts of industry to establish the viability of such an initiative.

In the coming weeks the four industry associations will seek agreement on the rules, technological, institutional and financial arrangements and thoroughly evaluate the viability of such a scheme from a consumer as well as industry perspective. Should the viability be proven and provided Government introduces certain essential enabling law changes to the NCA, such an industry driven voluntary mediation process could offer consumers and credit providers a potentially better, less costly and less adversarial deal than the formal debt review and re-arrangement processes provided for in the Act. The major benefit to consumers is that unlike in the statutory process consumers will not be entirely "locked out" from access to credit.

Any such industry initiative (if eventually proven to be viable and implemented) will have two primary aims:

- On the one hand to provide over-indebted consumers with appropriate financial advice and if unavoidable, by agreement facilitate the possible restructuring of their debts to improve affordability; and
- On the other hand to ensure that such consumers can and will eventually fully recover from their over-indebtedness, fully repay their debts and remain viable and credit worthy borrowers in the credit market.

The in principle agreement between the associations to cooperate constitutes a landmark albeit at present largely symbolic first step in what may become the first instance where the diverse and fiercely competitive sectors of the credit industry have come together and agreed to cooperate in pursuing a common goal, in this instance in dealing with over-indebtedness in the interest of a healthy and vibrant credit market.

Says Cas Coovadia, MD of The Banking Association: 'This agreement is a first in the history of South Africa's credit industry and constitutes a major shift in thinking on the part of the industry. If the practical arrangements can be agreed, the implications could be significant for the way in which delinquency related to over-indebtedness will be dealt with in the market in future'. He though cautions that ' South Africa must learn from similar attempts elsewhere in the world and especially cases in other equally developed credit markets where (unintended) abuse of such measures by consumers occurred with resultant adverse impact on credit markets'.

Albert Elliot, Executive Director of the CCA echoes these sentiments and emphasises that 'the fundamental principle will remain that consumers who enter into credit agreements remain responsible to meet all the obligations flowing from these agreements, but that industry is rethinking the way it responds to especially temporary hardship on the part of consumers. Any ultimate set of arrangements that eventually may be agreed to by industry will have to differentiate clearly between consumers who have truly encountered unforeseen hardship and those who have knowingly (and sometimes habitually) encumbered themselves with too much debt'.

Dick Behrens, Executive Director of the FTA emphasises that' there is still a long road ahead before any final agreement can be reached or anything practical can be implemented and the complex institutional, technological and financial arrangements to make implementation possible still require substantial work, negotiation and (if found to be viable) final approval from all parties affected. This in principle agreement to cooperate in seeking solutions, however, is a major symbolic step forward, although there is always the chance that implementation ultimately proves too complex and or costly'

Hennie Ferreira, CEO of the MFSA also cautions that 'there is still along road ahead before the final arrangements can be considered for approval' but shares the view that 'the MoU constitutes a major step forward in industry on its own volition and without the intervention of or being compelled by Government or the authorities creating a new less adversarial and litigious way to deal especially with civil debt matters in cases of true temporary financial hardship'.

The credit industry will in the coming weeks be undertaking further detailed work to inform final decisions on the viability of the implementation of such a national initiative and will also continue discussion with the National Credit Regulator and Government (DTI) to procure their support for the essential, recognition in law and regulation that a voluntary consent scheme of this nature will require.

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