



Micro lending is here to stay

Published on Linked-In on 8 September 2016



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20 Million credit-active consumers in South Africa, and about 11 million with impaired credit records.

This means that more than half of credit-users/borrowers in South Africa have arrears, defaults, judgements, are under administration or debt review.

It excludes those who are over-committed or over-indebted. Consumers in this group are making debt repayments but have affordability issues and are cutting back on necessities.

This affects their ability to access more credit and has a negative impact on their job prospects. Employers regularly request permission to perform a credit check on prospective employees. This is particularly relevant for any job in the financial services industry or any job function which has access to company cash, payment, merchandise and debtor records.

The problem

A large part of the problem is education. Customers have little or no understanding of their financial obligations.

This is compounded by hidden costs like life insurance, retrenchment cover and administration fees. Borrowers only manage to service the interest attached to their loans and have difficulty getting out of the debt spiral.

Unscrupulous credit providers side-step regulations by forcing applicants to sign blank forms or documents they don't fully understand.

Law firms specialising in debt collection often aggravate the unsafe practices taking place in the industry. In their pursuit of emolument attachment orders debtors are confronted with

additional legal fees, collection costs, default interest, court and messenger fees. The legal process to recover amounts owing by defaulters is relentless.

Misunderstandings can lead to reckless borrowing. Discretionary spending becomes high, and the essentials get neglected.

Daily, consumers are approached by commission-hungry sales people who don't ensure that borrowers' affordability criteria are met. Cell-phone messaging, internet banners, in-store offers and letters in the post are ongoing.

The start of small loans

In 1992 an exemption was granted for small, short-term loans to be issued without the usual restrictions of the Usury Act. This was done to widen access to financial services to include South Africans who had been systematically excluded from the formal sector under Apartheid.

Banks were reluctant to lend to these customers who had a poor credit history and repayment track record. Pricing is determined based on consumers' risk.

Plus, banks are asset-based lenders which means that they are looking for the provision of tangible assets to be ceded to the bank in order to qualify for a loan.

The future of micro-lending

Here's a definition of microfinance: The provision of financial services such as loans to poor people who have been neglected by banks.

Three reasons why the short term lending industry is here to stay:

1. Most South Africans, irrespective of their socio-economic situation, require finance of some type.
2. Credit is necessary. Banks are unwilling to provide credit and have tightened their rules.
3. Earnings are not keeping pace with cost of living increases, particularly administered prices such as petrol, electricity, rates and taxes.

The industry relies on the successful adherence to the regulations of the National Credit Act. These must be administered, checked and enforced. An audit process must identify non-compliant operators who must be removed or suspended.

Only legitimate and compliant operators should be permitted to exist – those committed to responsible lending and avoiding customer over-indebtedness.

Next steps

As a consumer, the simplest port of call is the internet. Check the loan provider's website. Look for open and transparent information which can be easily verified: What kind of information is presented? What's the physical address? Profile of the management team? Can you view the terms and conditions of the loan agreement? Is there disclosure of the loan amounts and repayment terms?

A personal reference is always a reliable source. Ask your work colleagues and acquaintances. What have they experienced? Can they recommend any particular credit provider?

Next, make contact and gauge the quality of service you receive. Your call should be answered quickly. You should then be referred to the person suitably equipped to handle your enquiry. If you have a positive professional experience then it's likely that you're in the right place.

Micro-lending is here to stay.

Just find the right operator.