

Feasibility (Pty) Ltd

Clarity & Strategy Through Economic Research

Dr. Penelope Hawkins



***The case for
CHANGE ...***

***The South African
consumer credit market
[pre the NCA]***



Consumer credit symposium
Connecticut,
November 2009

Presentation overview

Consumer credit landscape

Features of the banking landscape

The imperative for change

Spectrum of financial provision

Outcomes of existing landscape



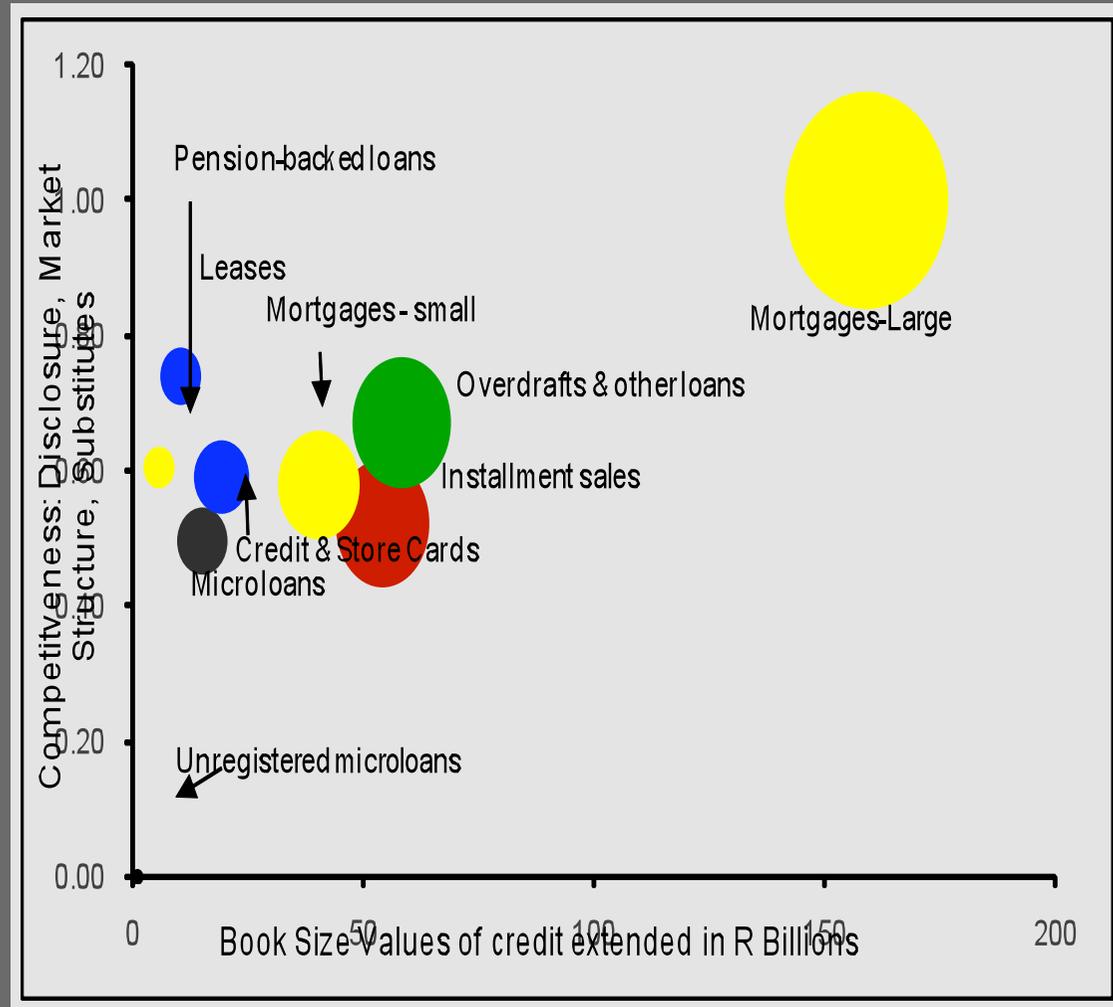
Consumer credit landscape

Legislative & Regulatory background

- Usury Act (1968) applicable to transactions up to R500 000. Usury cap imposed
- Credit Agreements Act (1980). Movable goods, term >6 months. Deposit stipulated.
- Usury Act Exemption Notice (1992). Micro loans less than R10 000 with a duration < 36 months

SA consumer credit market: Advances

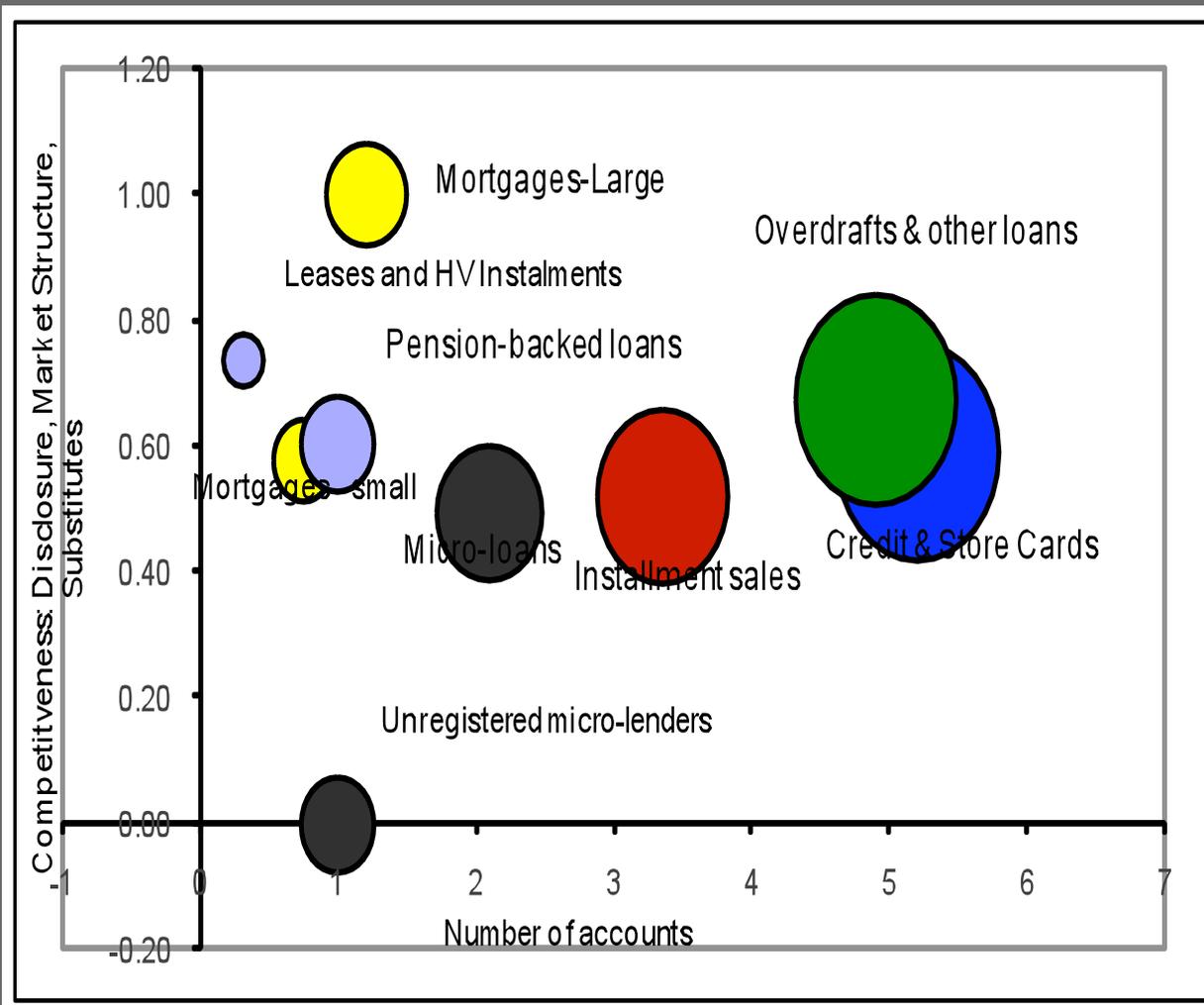
Estimate outstanding balances As at Sept 2002	R million
Mortgages	198,822
Overdrafts & other loans	71,769
Leases	10,409
Installment sales	53,999
Credit & Store Cards	19,059
Micro-loans (non-bank)	7,307
Unregistered micro-loans	900
	362,265



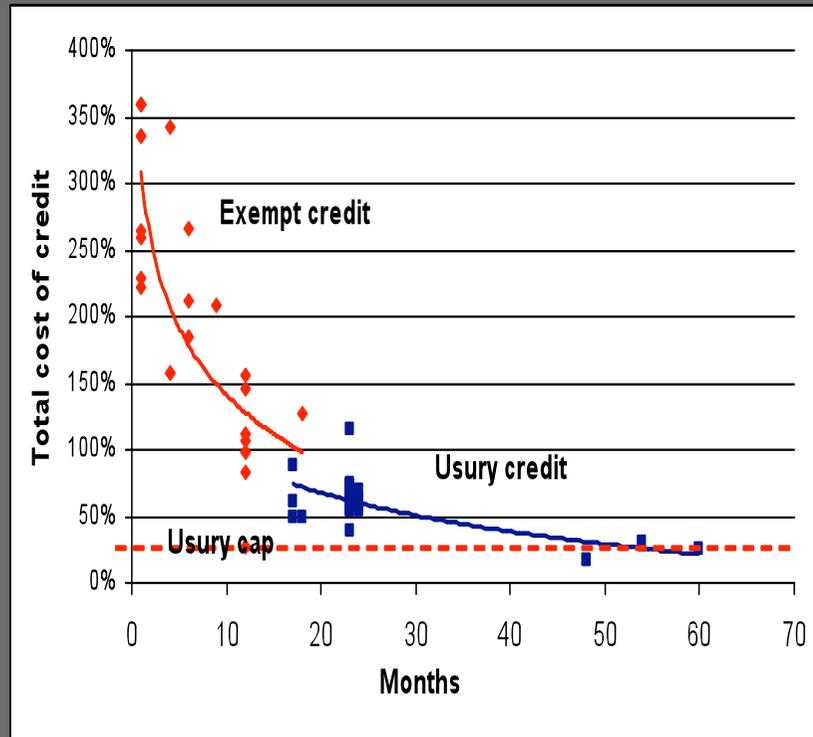
Sources: SARB, MFRC,
Trade bodies, providers

SA consumer credit market: Number of accounts

Estimated number of accounts As at Sept 2002	Millions
Mortgages > R100 000	1.2
Mortgages < R100 000	0.75
Overdrafts & other loans	5
Leases	0
Installment sales	3
Credit & Store Cards	5
Microloans	2
Unregistered microloans	1
	19.8



Segmented market



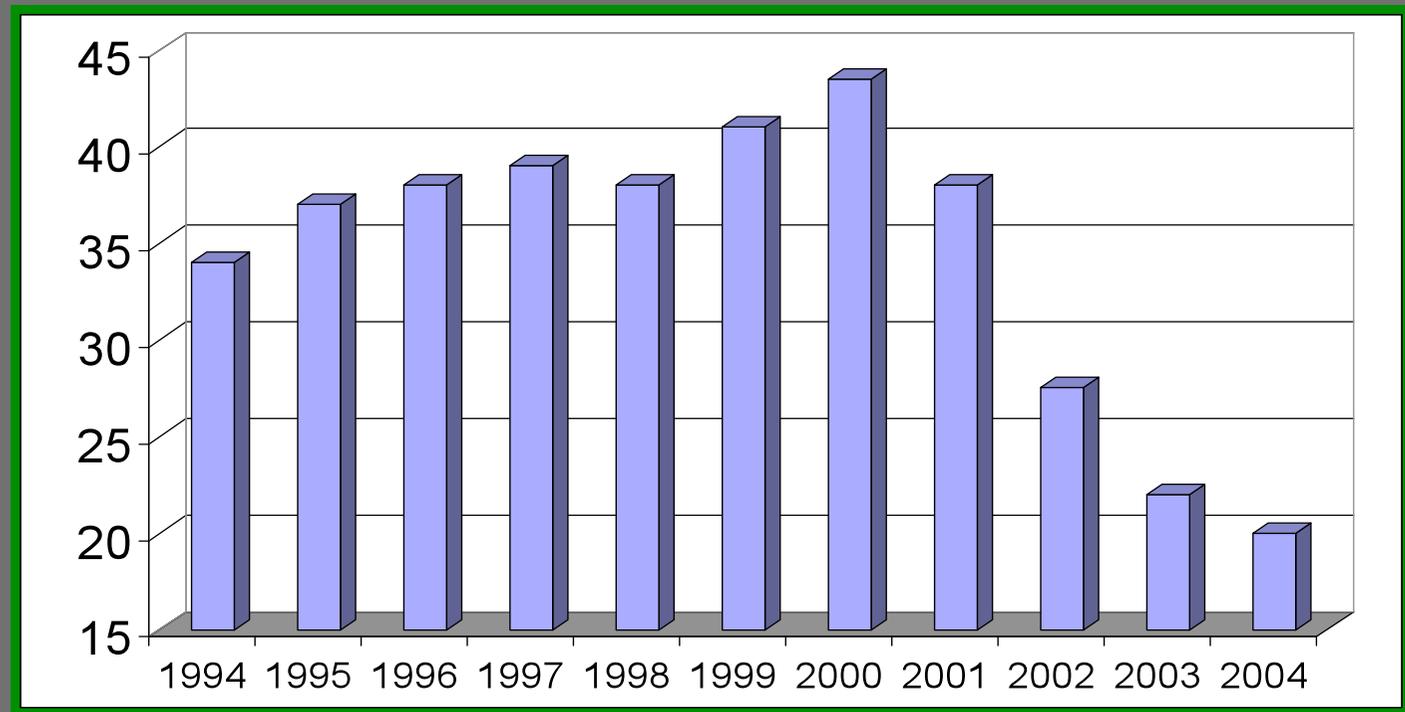
Source: FEASibility, 2003; MFRC, 2004

- Segmented market
- High rates in exempt market, but also high variability
- Exempt market main source of formal credit for LSM4-6 (6m or 25% of pop)
- Usury credit above cap – esp. short term – other fees such as admin, club, credit life



Features of the banking landscape

Number of South African Registered Banks



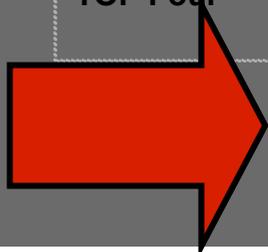
(Source: Bank Supervision Department)

Concentration: Market Share in Four Product Categories

Market share by Product Category (%)

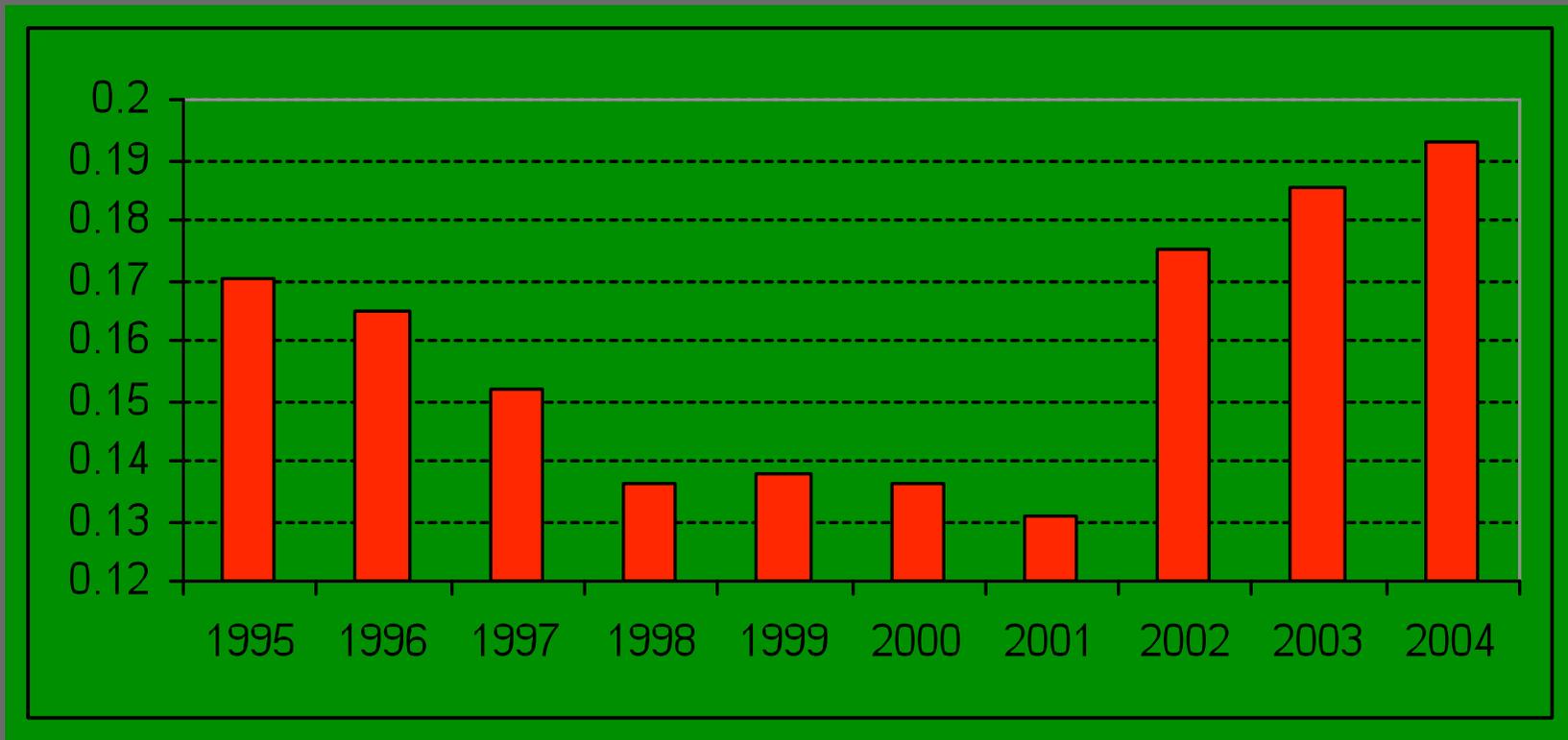
Reporting year	Credit Card		Mortgage Loans		Instalment finance		Overdraft & other loans	
	2001/2	2002/3	2001/2	2002/3	2001/2	2002/3	2001/2	2002/3
ABSA	23	25	31	32	25	25	20	21
SBIC	21	26	19	21	21	22	17	17
FirstRand	22	23	15	16	29	29	17	16
Nedcor/BOE	30	22	25	24	13	13	23	24
Other	5	5	10	8	12	11	23	21
TOTAL	100	100	100	100	100	100	100	100
TOP Four	95	95	90	92	88	90	77	79

25% =
threshold
for scale
monopoly



Lack of contestability: ability to reap profits / excess margins

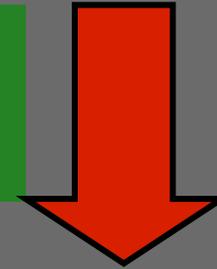
HHI by end of 2004



(Source: Banking Supervision Department derived figures)

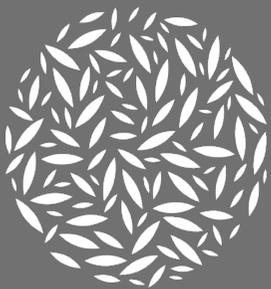


Profitability



Profitability	Profitability of segment in the last year (ranked by those active in the segment)		
	Moderate (10-20%)	High (20-30%)	Extreme(30%+)
Retail banking		60%	20%
Corporate banking	50%	25%	6%
Merchant banking	47%	24%	6%
Private banking	18%	18%	27%
Treasury	31%	19%	19%
Internet banking	43%		
Credit cards	50%		17%
Asset management & unit trusts	29%	14%	14%
Life insurance	17%	33%	
Micro-lending		25%	
Stock brokerage	42%	8%	8%

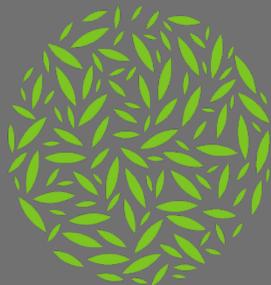
Source: PWC Banking Survey

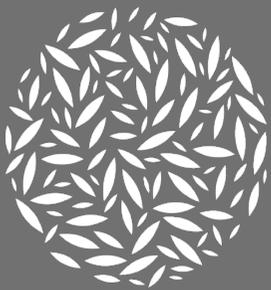


Profitability

Returns on retail and mass market segments, 2002

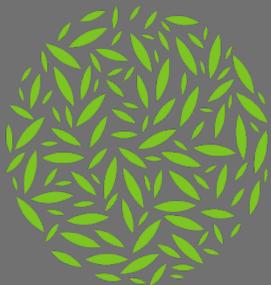
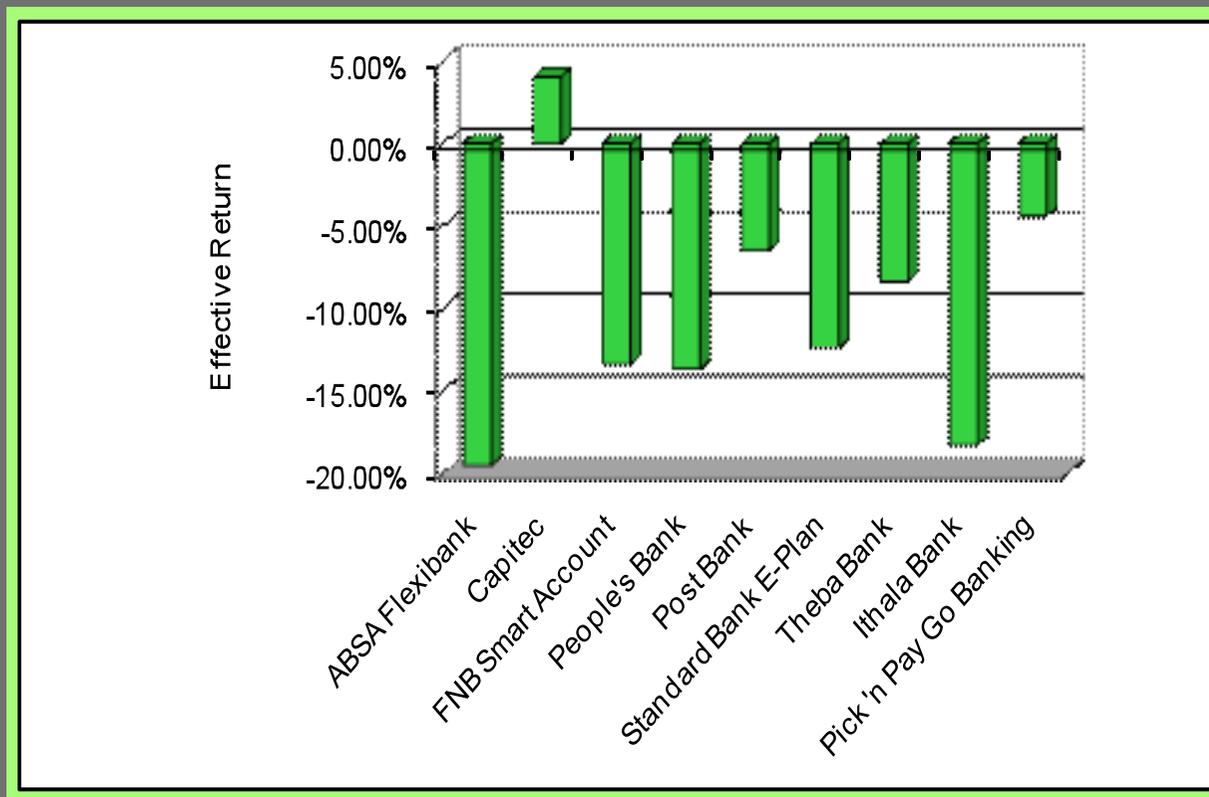
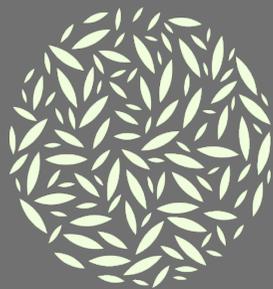
Bank segment	ABSA Retail	ABSA Flexibank	Nedcor Retail	Nedcor Peoples
Return on Average Equity	46.6%	151.8%	8% (11.1%)	11% (26.9%)
Cost-to-income ratio	83.4%	65.2%	76.6%	51.1%





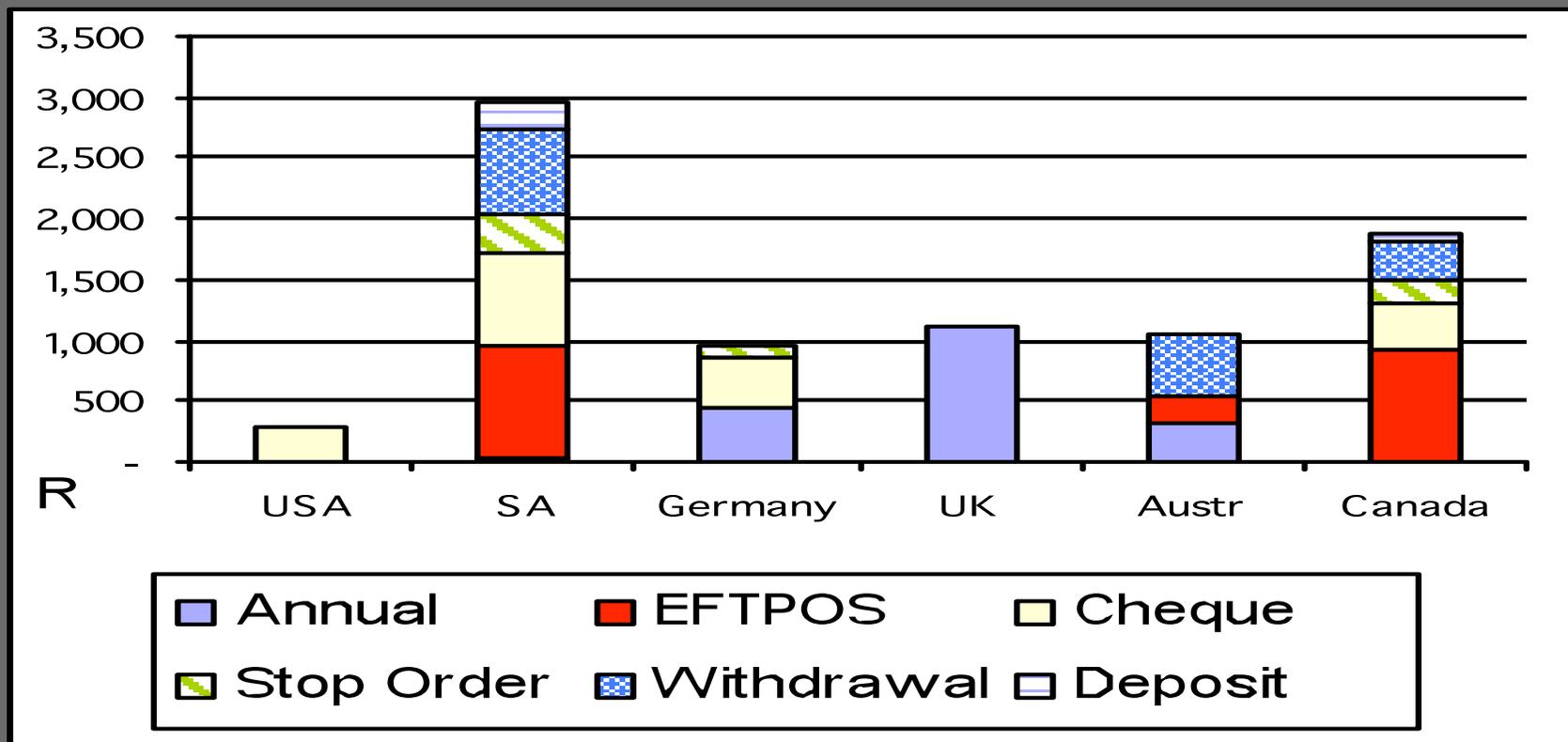
Incidence of Costs

Returns on entry level savings accounts

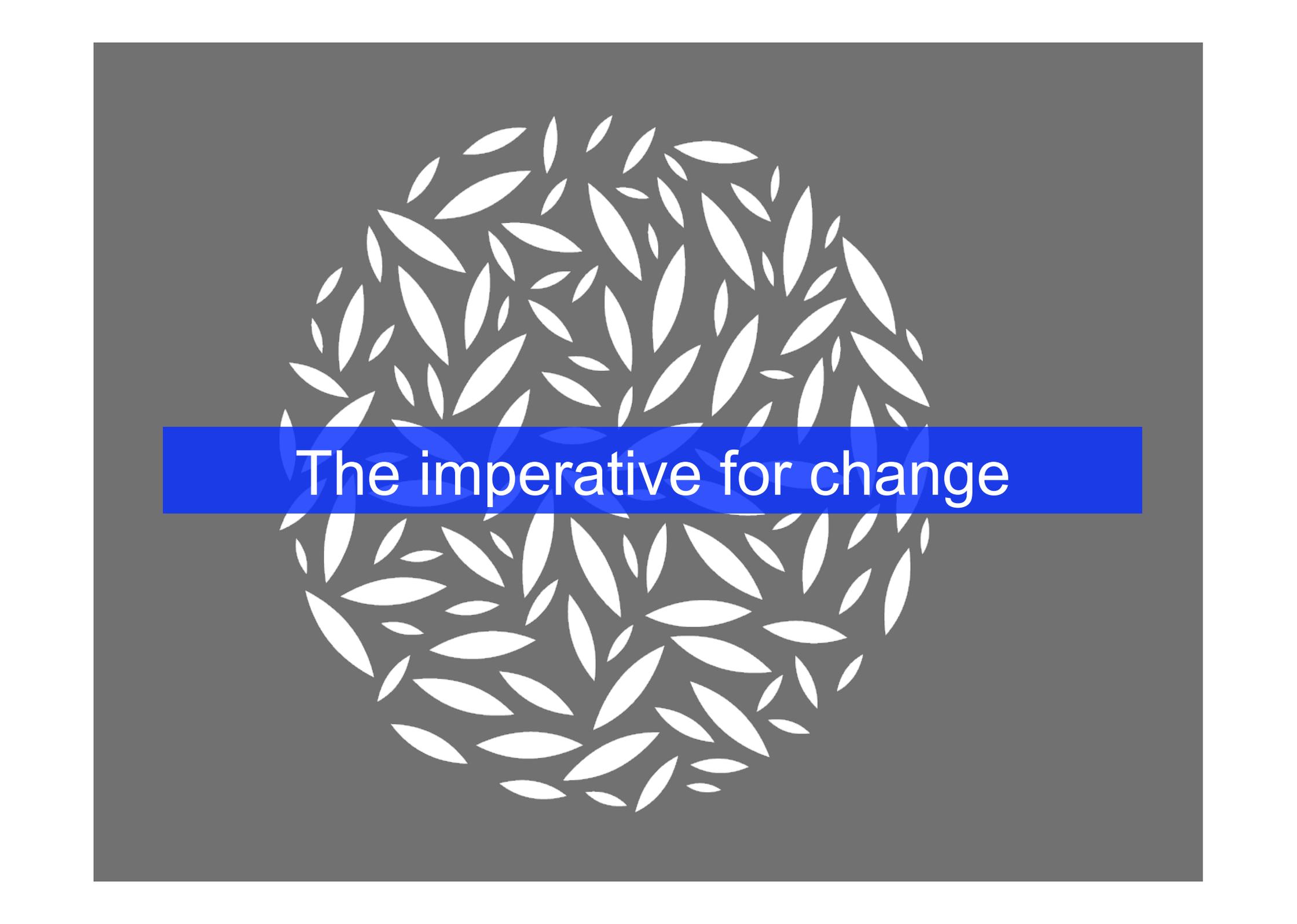


Comparative Fees

Current accounts:
Comparative fees for annual bundle of services



Source: Local and International banks' websites



The imperative for change

The imperative for change

Economic & social outcomes arising from:

Segmented credit market

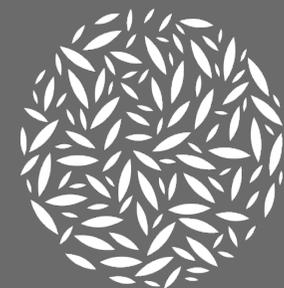
Opportunities for arbitrage

Gaps in credit provision

Weak disclosure and distress borrowing

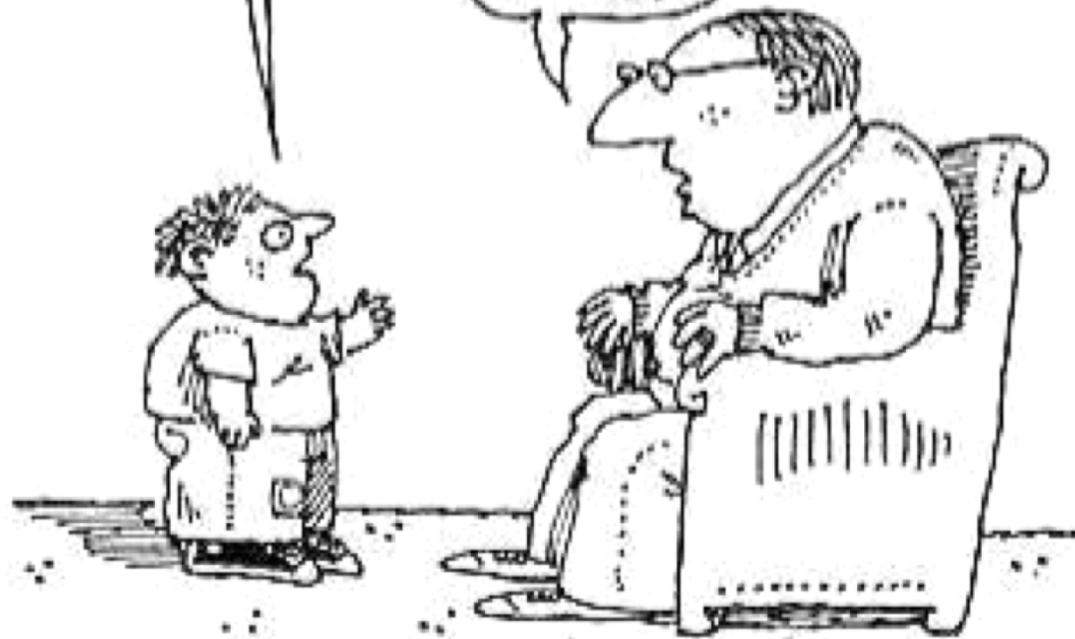
Complacency in terms of pricing for risk

Weak price competition in certain segments



WHAT IS CREDIT?

CREDIT IS A WONDERFUL GIMMICK THAT LETS YOU START AT THE BOTTOM AND DIG YOURSELF INTO A HOLE!



WOLFGANG WILHELM

Cost of installment sales vs micro loans:

Inst. Sale 10,000 To R25000
48.7%
49.2%
58.2%
53.9%
69.3%
62.5%

Instalment Sales R2,000 – R9,000
72.3%
72.8%
87.7%
66.8%
65.8%
75.0%
54.6%
70.1%
62.5%
115.7%
54.0%
38.2%
61.5%
57.1%
61.3%

Micro loans R1000 -R5000 Term 12 months	
Bank 5	83%
Bank 1	98%
Bank 2	112%
Bank 4	147%
NBML1	155%
NBML2	209%

Total Cost of Credit	
Term micro loans	134%
Instalment sales < R10 000	68%
Instalment sales > R10 000	57%

Price affected by bank charges & other "add-on's"

Table 4.10 Credit Card example- early repayment

A single transaction of R1000.00 paid over 8 months

Month	Balance outstanding	Interest accrued	Minimum payment	Consumer's repayment
1	R 1,105.00	R 22.10	R 81.15	R 181.15
2	R 945.95	R 18.92	R 69.47	R 169.47
3	R 795.40	R 15.91	R 58.41	R 158.41
4	R 652.89	R 13.06	R 47.95	R 147.95
5	R 518.00	R 10.36	R 38.04	R 138.04
6	R 390.32	R 7.81	R 28.67	R 128.67
7	R 269.46	R 5.39	R 19.79	R 119.79
8	R 155.06	R 3.10	R 11.39	R 158.16

Finance charges **R 96.64** **R 1,201.64**

Annual card fee (Payable upfront)
Transactions fee
Lost card protection (Payable upfront)

Fees R 65.00 R 2.40 R 40.00 **R 2.40**

Total repayment **R 1,204.04**

Cost of credit (excluding capital) **R 204.04**

If this was repaid as for other unsecured loans, the monthly repayment would be

R 150.51

for which the Average Percentage rate

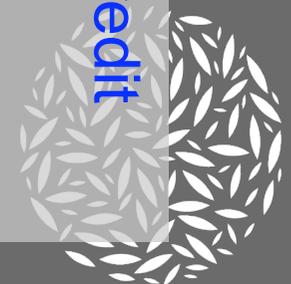
4.32% Per month

51.86% per year

The high rate is a consequence of the full admin fee being distributed over only 8 months

— early repayment 53%

Fees as % of Credit card credit



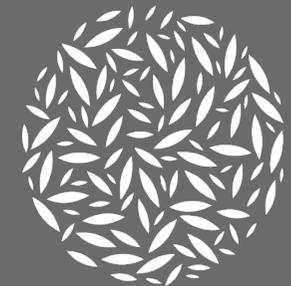
Price affected by Credit Life Insurance & other "add-on's"

Table 4.8 Instalment Sales: Retailer Quotation

FURNITURE RETAILER QUOTE				
	Value	As a % of inclusive price	Contribution to APR	What would the APR be without this item?
Price (incl.VAT)	R 2,069.98	89.46%	47.27%	
Delivery Fee	R 240.00			
Stamp Duty	R 4.00			
Inclusive Price	R 2,313.98	100.00%	52.84%	
Insurance	R 885.78	38.28%	20.23%	43.16%
Contract Fee	R 36.00			
Less deposit	-R 320.00			
Principal debt	R 2,915.76	126.01%	66.58%	
Finance charge (35%)	R 1,176.64	50.85%	26.87%	33.38%
Club Fee	R 286.80	12.39%	6.55%	62.07%
Account Balance	R 4,379.20	189.25%	100.00%	
Annual Percentage rate based on 24 instalments			72.28% per annum	
23 instalments of R 185.00				
1 instalment of R 163.40				

Source: Actual quote from retailer

Credit life insurance 43% of finance charges





Spectrum of financial provision

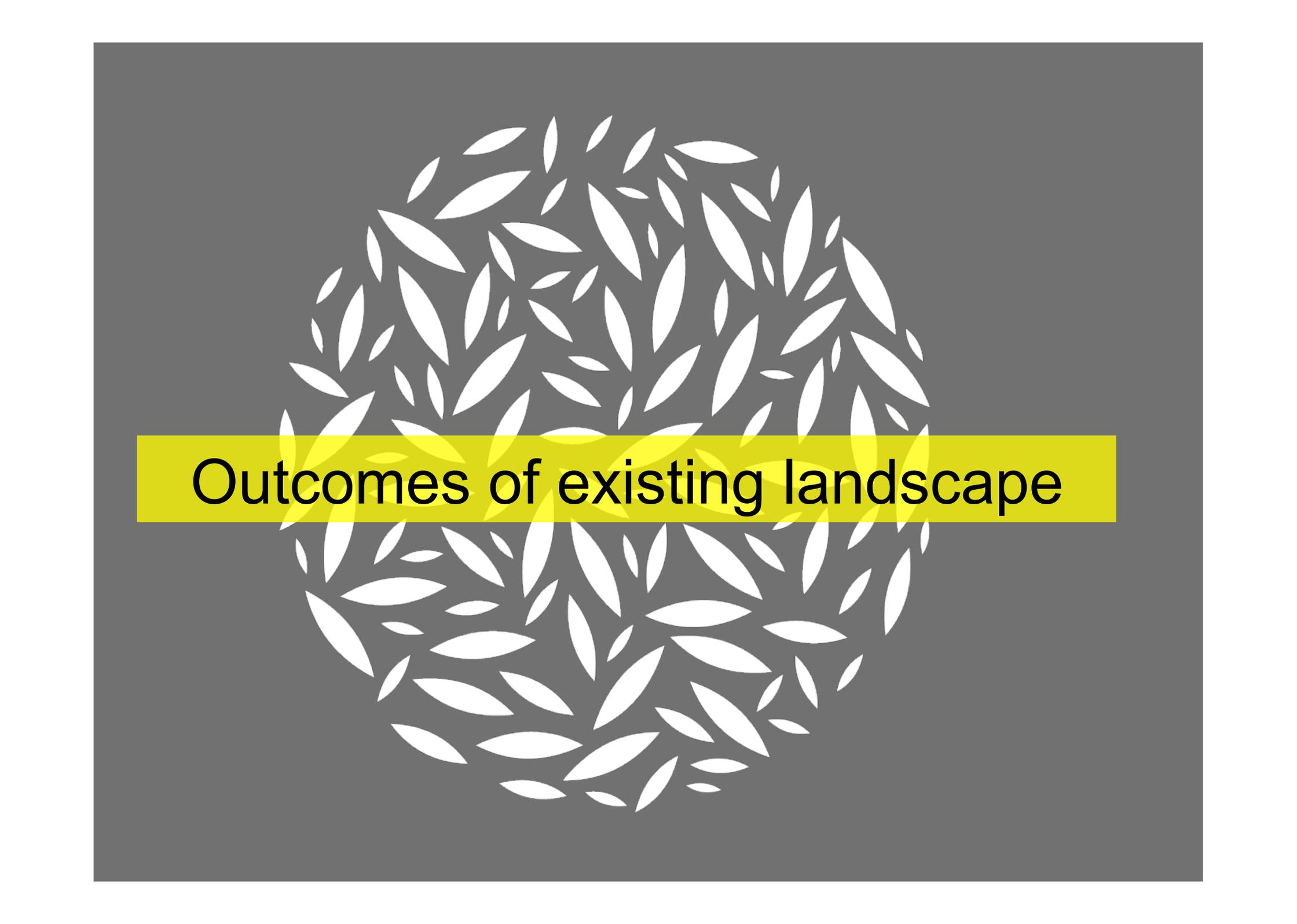
Spectrum of financial provision



Income	R0-R1,500	R1,501-R3,000	R3,001-R10,000	R20,000
	LSM 1-3	LSM 4-5	LSM 6-9	LSM 10
Band	Over excluded	Fringe	Included	Super Included
Share of population	55,3%	25,2%	15,9%	3.60%
Micro lending	Mashonisa/ Informal Microlending Cash Loans only if formally employed	Short and Long Term Non-bank	Access to banking products: Overdrafts, Credit Cards, Longer Term Credit	Preferential rates for all financial products 'Private banking'
Retail Credit	Access to low-end furniture and clothing credit for LSM3	Formal retail furniture and clothing stores	Store Cards, Private Label Credit Cards, Leases	
Mortgages/ housing finance	Upper part of group: RHLF RFIs	Govt Subsidy, NHFC RFIs Pension-backed loans	Access bond from Banks, also SA Home Loans	

SA consumer credit market

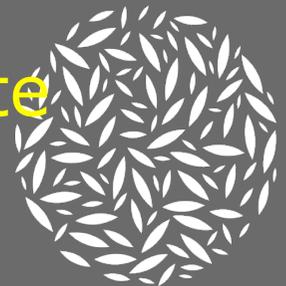
Interest paid as a proportion of volume of credit extended					
	LSM2-3	LSM4-5	LSM6-7	LSM8-10	TOTAL
Price of Credit R billions	5.97	13.81	22.88	52.94	95.58
Volume of Credit extended R billions	3.40	18.04	79.12	261.64	362.20
Average price of credit (Price as % of Volume)	175%	77%	29%	20%	26%



Outcomes of existing landscape

Factors contributing to high costs - from lenders perspective

- ✓ Poor access to information and poor information-sharing undermines credit risk assessment
- ✓ Difficulties associated with accessing the payments mechanism; unreliability of the debit order collection mechanism, payment system preferences
- ✓ Difficulties in accessing funds by non-bank and smaller players
- ✓ Unequal playing fields caused by disparate consumer credit legislation



Factors undermining market forces - from the consumer perspective

Weak disclosure to consumers, which impairs their ability to evaluate comparative rates

Bundled and tied products undermine ability of unsophisticated consumer groups to assess costs and to switch

Inability of individuals to review personal credit records, and difficulties of redress

Factors undermining market forces - from the consumer perspective

Limited choice and substitutability for some income groups

Fragile economic circumstances worsens uncertainty associated with repayment. In the absence of appropriate savings products – this locks households into distress borrowing and worsens bad debt

Thank You

DR PENELOPE HAWKINS MANAGING DIRECTOR

083 327 1059 research@feasibility.co.za

CLARITY & STRATEGY THROUGH ECONOMIC RESEARCH