



The impact of the NCR on the economy and the credit market

Extract of selected slides



Feasibility (Pty) Ltd
Clarity & Strategy Through Economic Research

Agenda

1. Introduction and Background
2. Economic analysis – The role of consumer credit
3. Areas where impact could've been enhanced
4. Consumer outcomes
5. Discussion
6. Way forward



Introduction



Feasibility brought together a multi-disciplinary team with credit market, economic, data and legal expertise – to develop a proposal to the NCR’s RFP - and was appointed to conduct a study on the Macroeconomic impact of the NCA in November 2012.

One of our key differentiators was to explicitly look at the outcomes of the NCA on consumers

The method involved desktop analysis of prime sources of information and data; data analysis; a survey of the impact of the NCA and interviews with stakeholders.

Assessing the economic impact of the NCA



The research shows that, qualitatively, the impact of the NCA was moderately positive.

- The macro economy is a complex interplay of a myriad factors. NCA is part of this tapestry, but its impact can't be separately quantified with any confidence
- NCA performs as a built-in stabilizer. Much of the success attributed to the NCA in protecting the local economy from the excess of the sub-prime crisis arises from this counter-cyclical role
- Legislation typically affects changes on the margin
- Economic data on some of the building blocks of the macro picture are still not collected or monitored

Assessing the economic impact of the NCA



Assessment of the economic impact of the NCA and its role in affecting consumer or household credit arises primarily from:

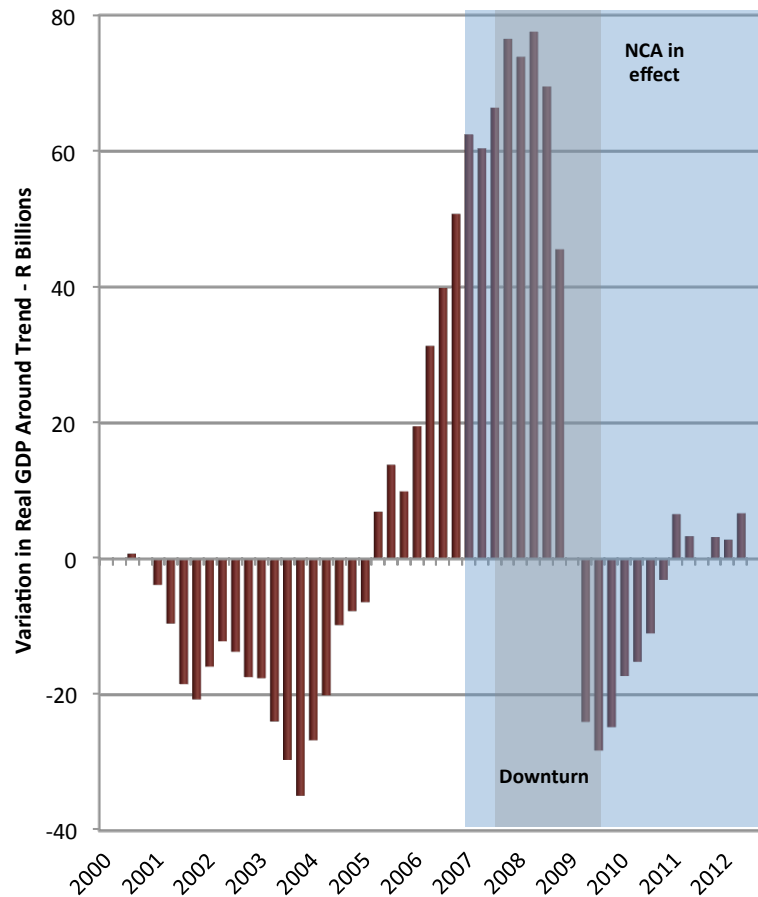
I. The economic impact of credit extension to households

- ✔ The uses of credit to improve future incomes
- ✔ Acquisition of housing
- ✔ The efficiency of capital
- ✔ The revenue and profits of suppliers to households using credit
- ✔ The direct, secondary and multiplier effect of household credit
- ✔ Opportunities in the credit market

II. Areas where impact was muted

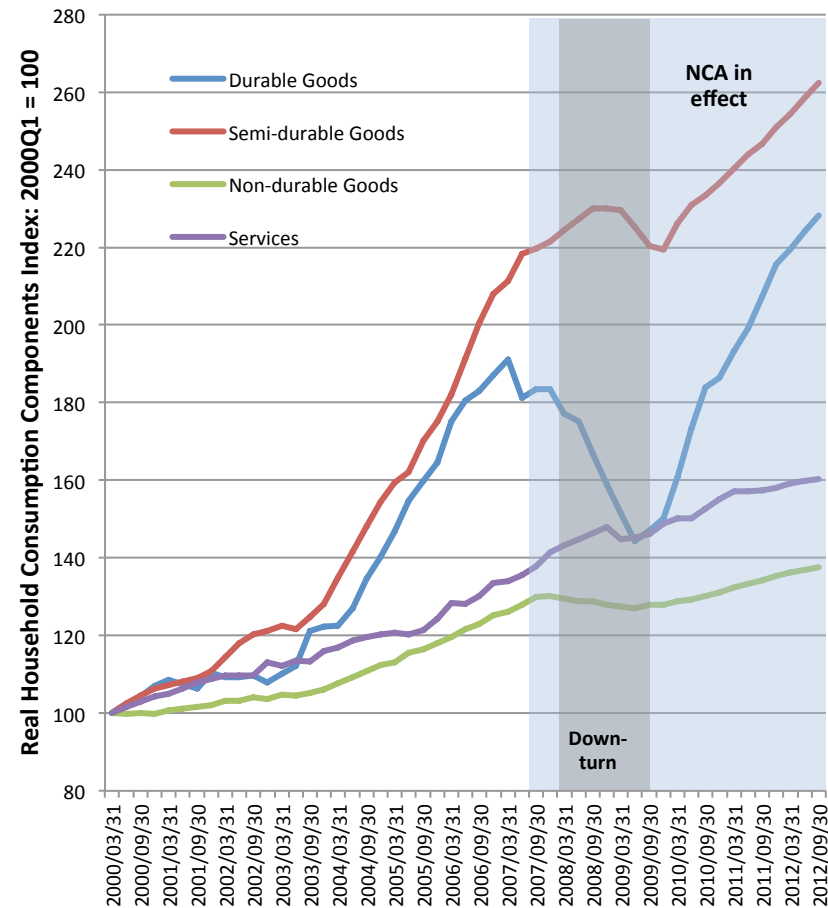
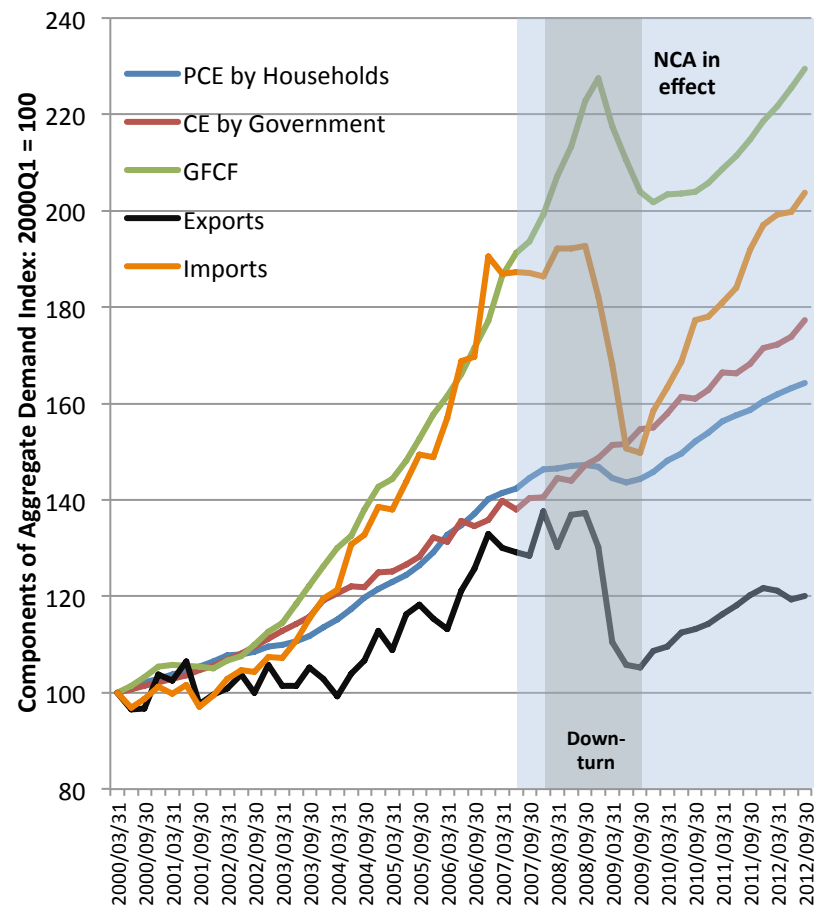
III. Consumer outcomes

I. The economic context of the NCA



- NCA has only really been in effect during a severe economic downturn, and a sluggish recovery – hence pressure on employment and incomes.
- Limited point of reference to judge its impact during the boom phase of an economic upswing, when interest rates are rising.
- The downturn – particularly when GEC occurred – had pronounced impact on macro variables. Trends in credit extension were generally in place before the NCA came into effect

I. Relative performance of the components of GDP under the NCA

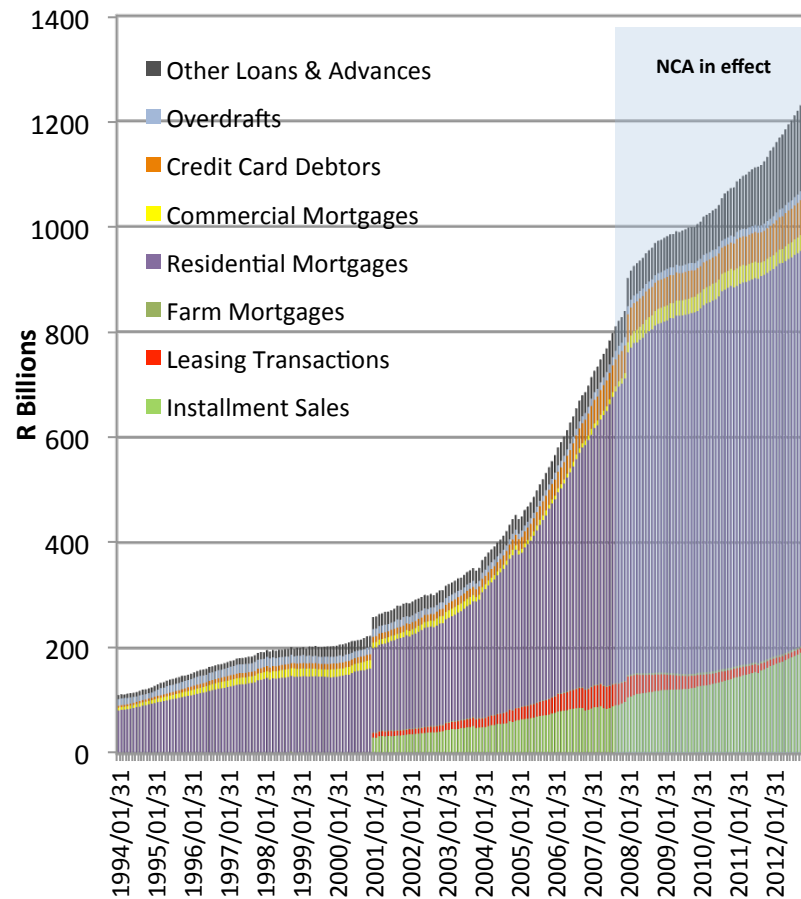


I. The economic impact of credit extension to households



1. Productive use of consumer credit to fund education and income earning activities results in higher future incomes
2. Increased stability and social cohesion arising from ability to acquire homes, which then provide security for future borrowing
3. Increased efficiency of capital as a result of money going where it earns the highest returns - benefits savers and financial intermediaries
4. Higher sales and profits for businesses servicing consumers – as long as net growth in credit extension is sustained
5. Direct, indirect and induced multiplier effects arising from the additional expenditure funded by credit. Can also unwind
6. The direct opportunities for business formation and employment in credit extension and related activities

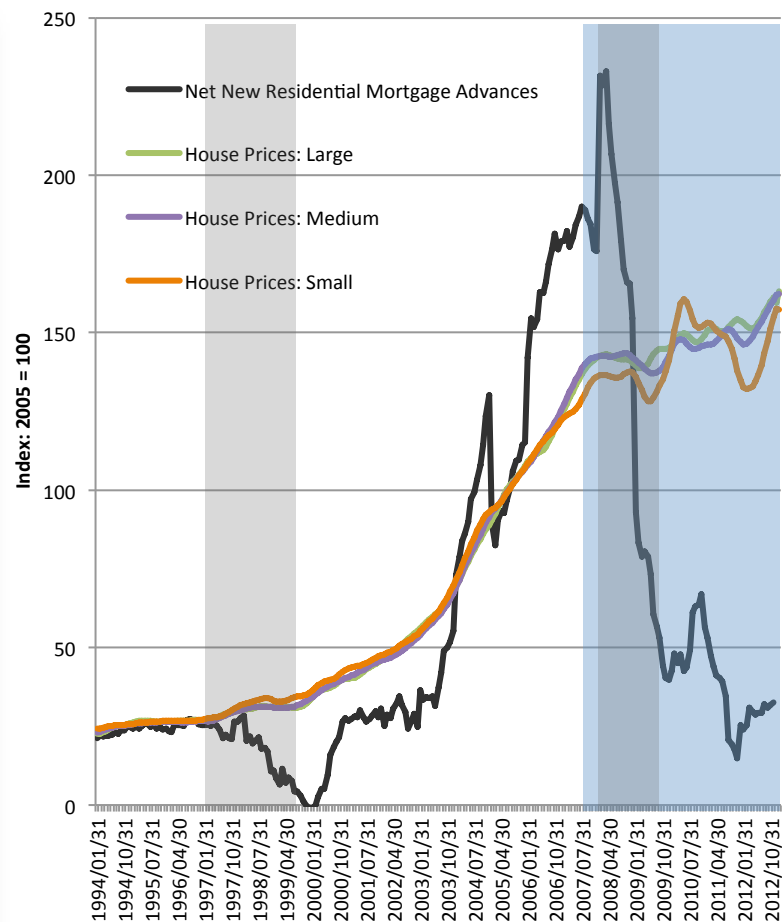
1. Use of credit to fund activities that increase future incomes



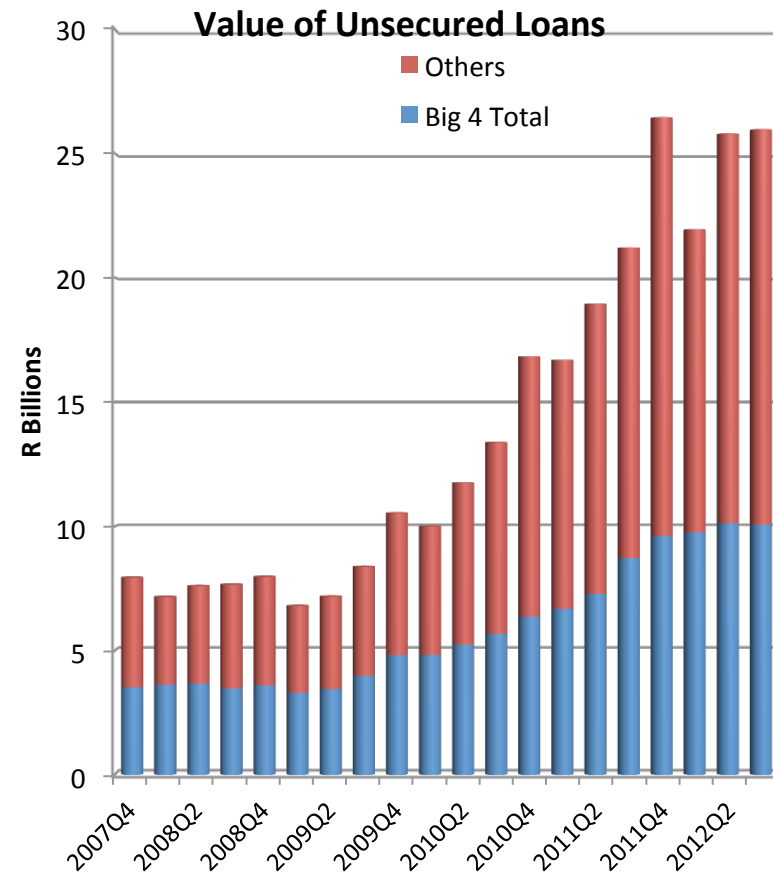
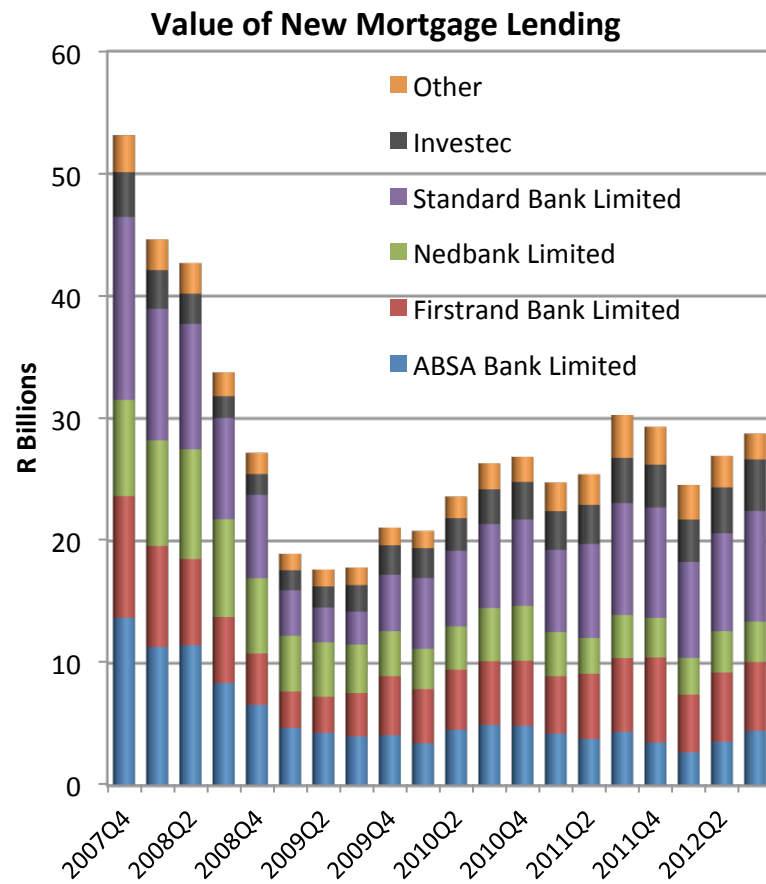
- NCA associated with unification and innovation
- Fungibility of credit
- Don't have good data on developmental credit (small, business, education, low income/incremental housing) trends. Anecdotally it has grown under NCA
- +/- 9% of unsecured lending used to fund business activities

2a. Impact of mortgage activity on home ownership

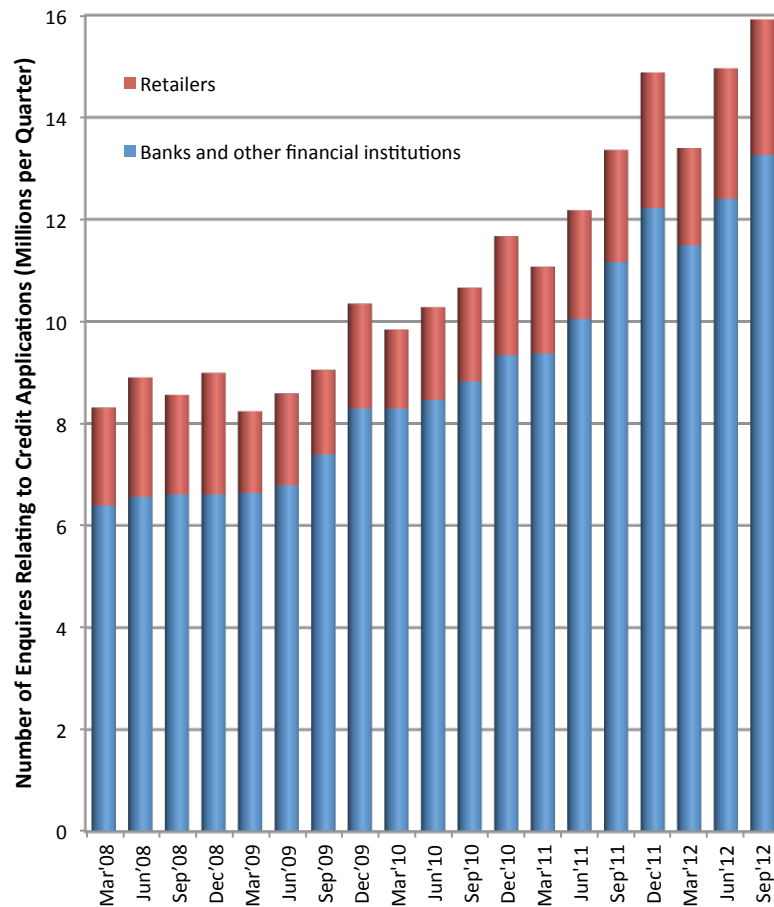
- Value of new mortgages advanced has slumped under the NCA – due to fall in property prices, employment declines, impact of bond originators and falling Repo rate on margins & cost of realising security of housing asset.
- Vacuum resulting from fall in mortgage activity has been partially filled by unsecured lending.



2b. Comparing developments in the mortgage market with unsecured lending

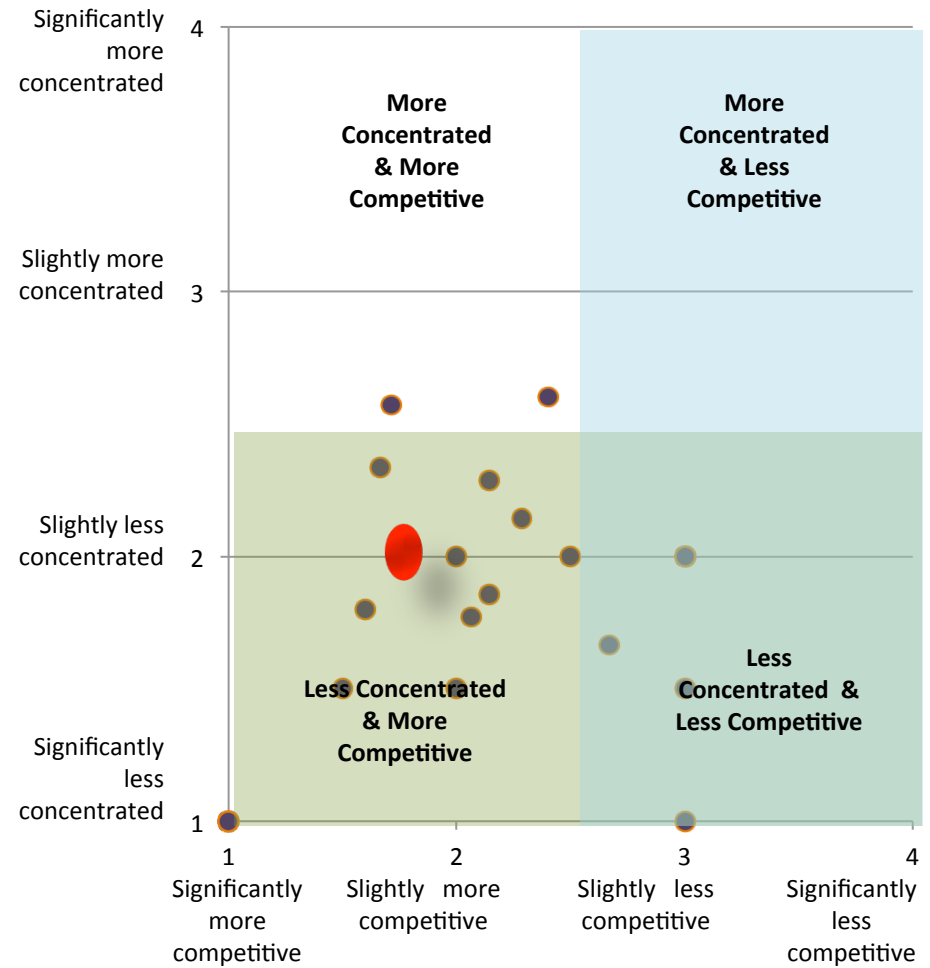
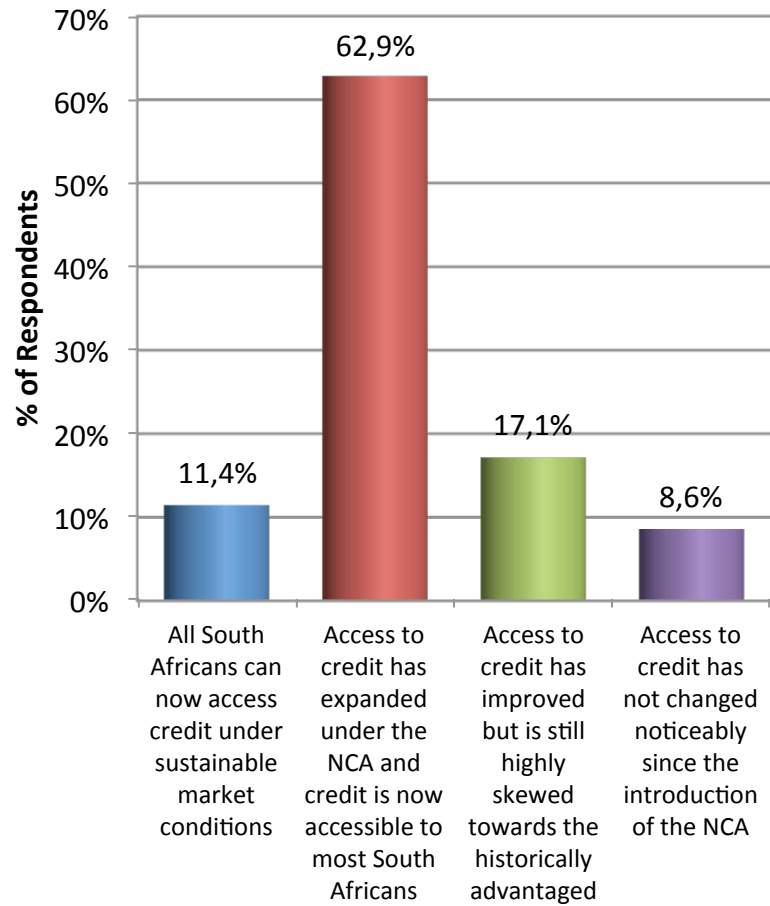


3a. Impact of improved efficiency of capital on the economy



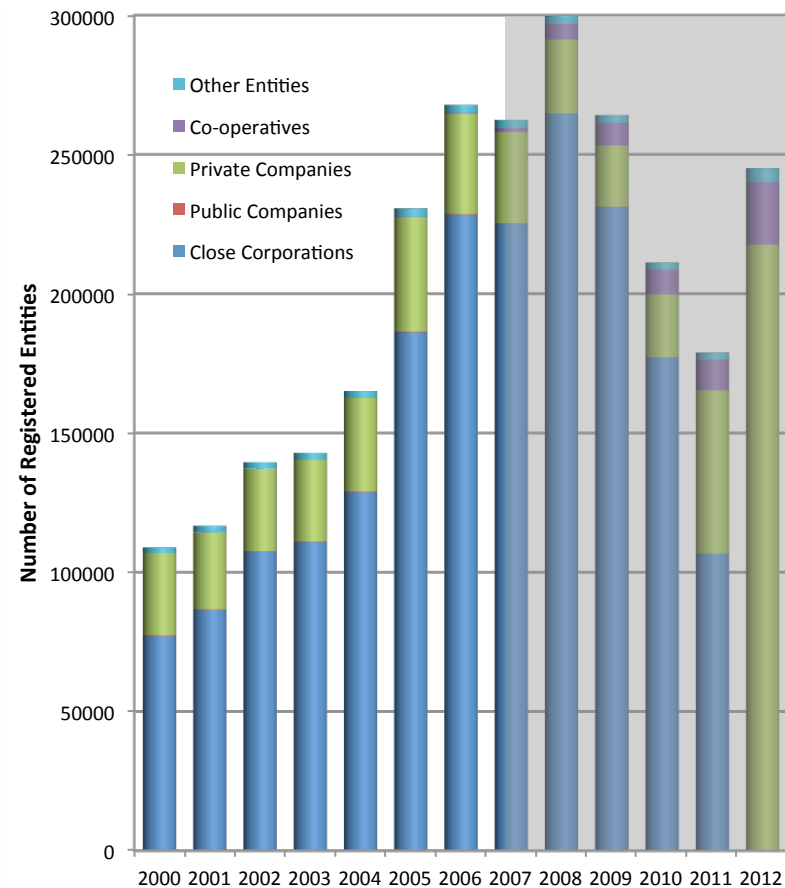
- Market (both providers and consumers) has access to much better information under the NCA
- Makes it possible to better assess risk, and to price accordingly – also impacts on access
- Improved indicators of competition in certain segments

3b. Improved efficiency of capital results in better access and more competition

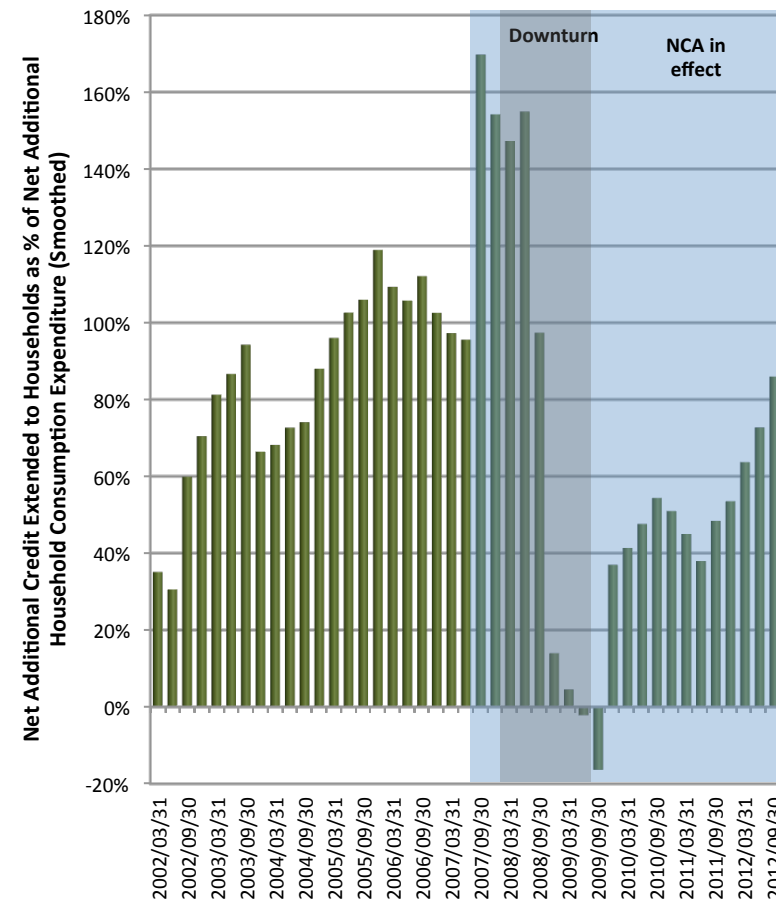
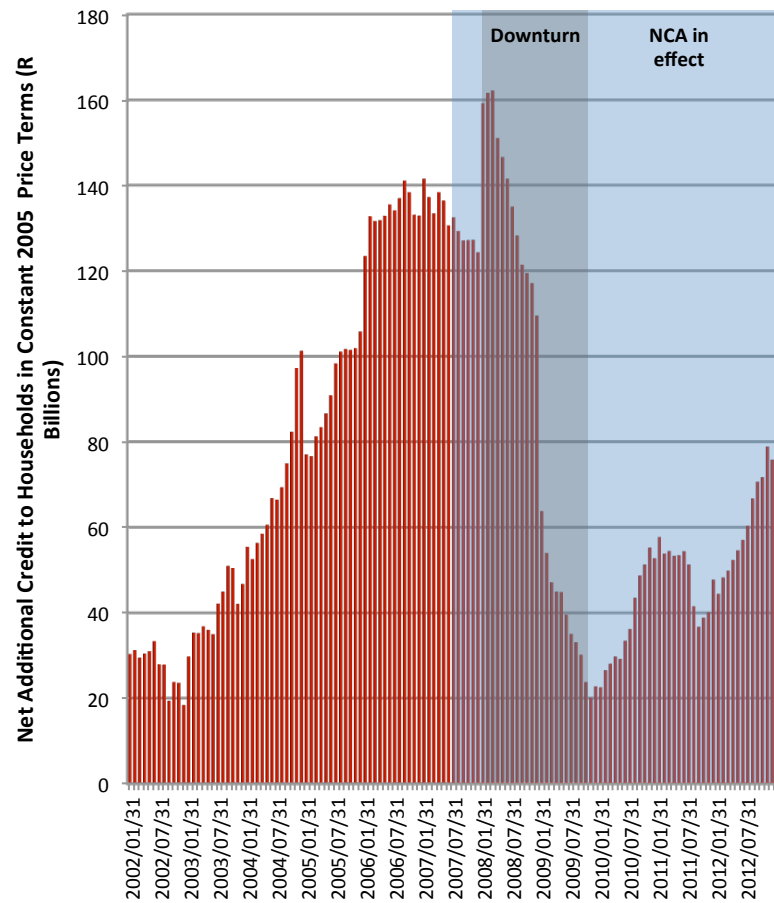


4. Revenue and profits for businesses supplying goods and services to consumers

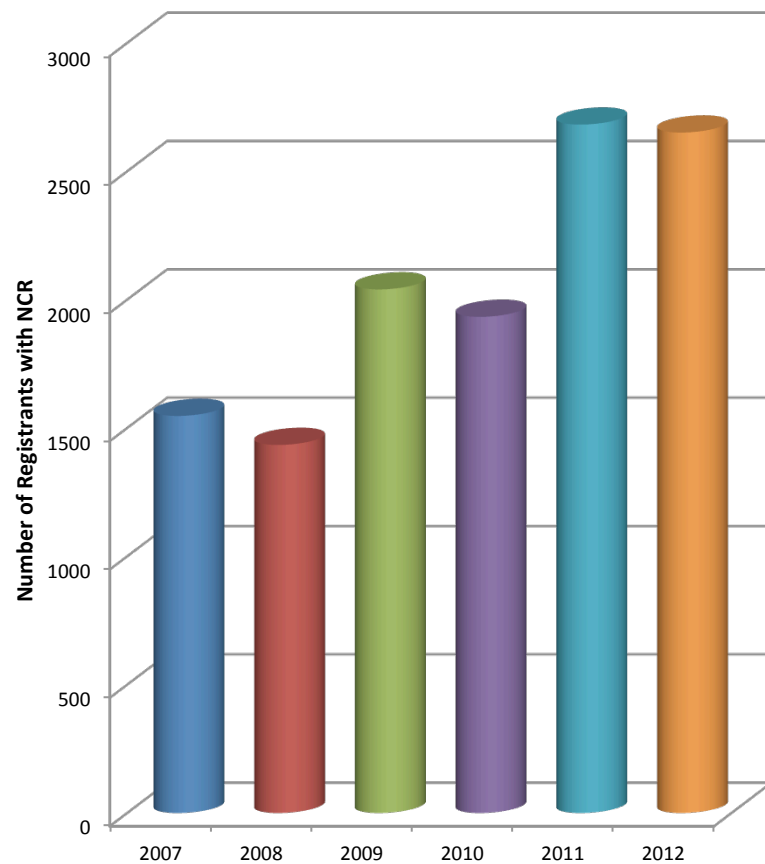
- Additional spending funded through credit results in higher sales and profits for businesses supplying goods and services to households
- Will persist as long as net additional credit is extended (preferably to new consumers, or those able to take on additional debt). Can also unwind.



5. Real value of credit extension under the NCA, and extent to which additional credit funds consumption spending



6. Direct impact on participants in credit market



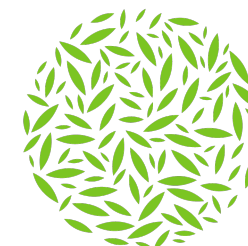
- NCA allowed for the formalisation and regularisation of all types of consumer credit provision.
- Grown the market for credit bureaux, debt collectors
- Created the market for debt counselling and Payment Distribution Agencies (PDAs)

II. Impact of the NCA: Areas of muted impact



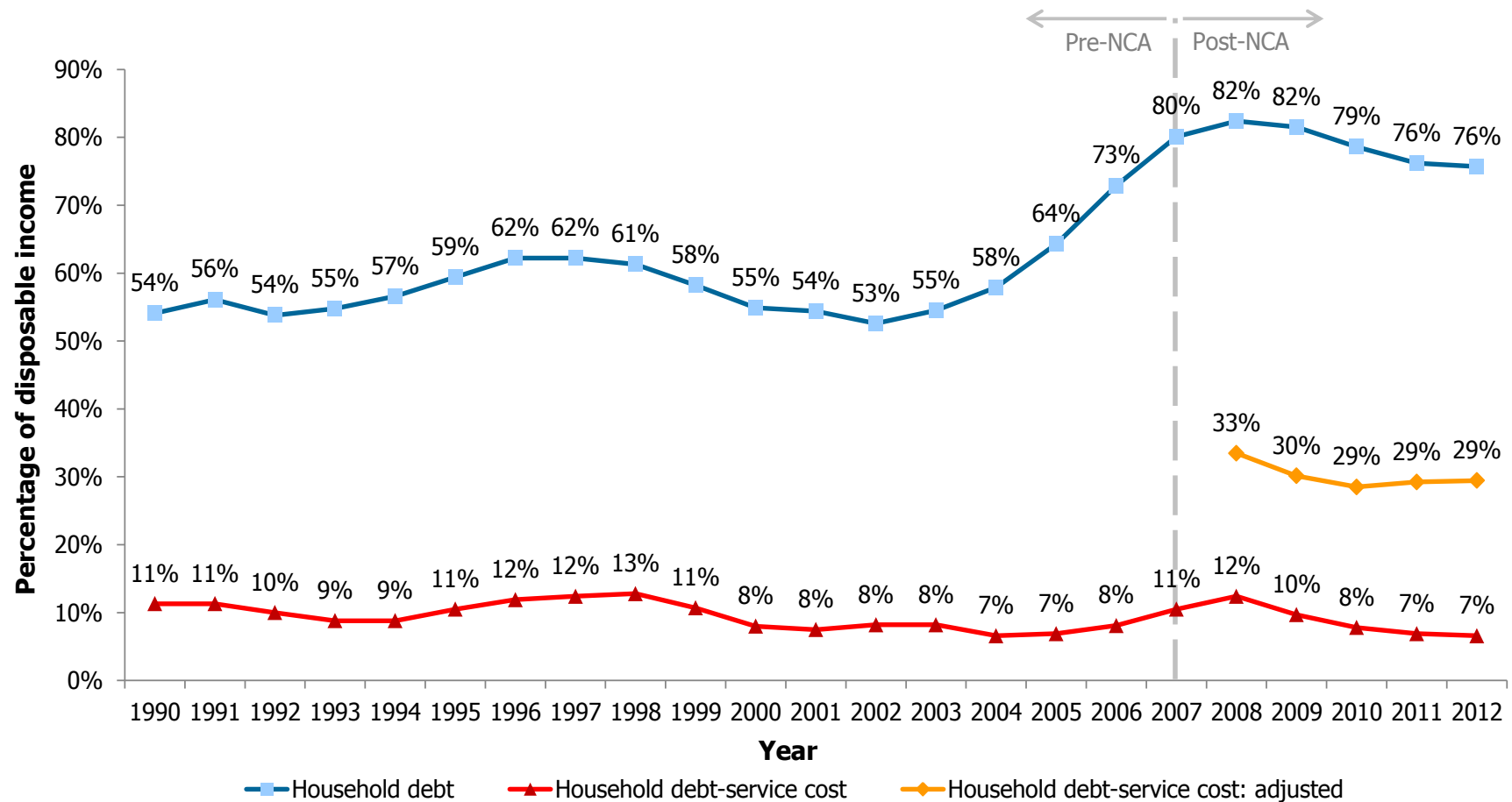
- Legislative weakness, low levels of compliance and weak enforcement or gaps in enforcement are all linked. These work together to undermine the impact of the NCA
- “Economics of crime” – Gary Becker -The benefits are the pay-off from the offence whilst the costs are primarily the product of the probability of being caught and the scale of the sanction to be expected in the event of being caught.

III. Impact of the NCA: Consumer outcomes



Macroeconomic indicators	Supply-side indicators	Household-based indicators
<ul style="list-style-type: none"> ■ Household debt to disposable income ratio ■ Debt servicing to disposable income ratio ■ Household total assets and liabilities ■ Household net wealth ■ Other ratios based on reported data (Eighty20 analysis) ■ Quantec 	<ul style="list-style-type: none"> ■ Summonses and judgements for debt ■ Debt counselling cases ■ Credit standing and arrears levels as reported by the NCR ■ TransUnion’s Consumer Credit Index ■ Other bureau based indicators (Eighty20 analysis) 	<ul style="list-style-type: none"> ■ Consumer financial vulnerability index ■ Consumer confidence index

Levels of household debt and debt servicing costs



Conclusion

- NCA perceived to have had generally positive impact on the economy:
 - 21% significantly positive
 - 53% slightly positive to neutral
 - 18% neutral to slightly negative
 - 8% significantly negative
- Policy objective with the most positive impact on economic performance is improvements in the quality of consumer credit data and better regulation of credit bureaux (97% positive to neutral response).

Perceptions of the impact of the NCA on the economy

#	Policy Intention / Objective	% of Respondents Perceiving the Impact on the economy to Have Been:			
		Significantly positive	Neutral to slightly positive	Slightly negative to neutral	Significantly negative
1	The development of a credit market that is accessible to all South Africans	19.2%	69.2%	7.7%	3.8%
2	Different credit products and credit providers are treated consistently under the NCA	3.0%	69.7%	15.2%	12.1%
3	Consumers use credit responsibly, avoid over-indebtedness and fulfil financial responsibilities	0.0%	20.6%	64.7%	14.7%
4	Credit providers are discouraged from granting credit recklessly	18.2%	60.6%	12.1%	9.1%
5	A more equitable credit market where the rights and responsibilities of consumers and credit providers are balanced	12.1%	69.7%	12.1%	6.1%
6	Correcting imbalances in negotiating power between consumers and credit providers through providing consumers with education about credit and consumer rights	17.6%	55.9%	26.5%	0.0%

Perceptions of the impact of the NCA on the economy (Continued)

#	Policy Intention / Objective	% of Respondents Perceiving the Impact on the economy to Have Been:			
		Significantly positive	Neutral to slightly positive	Slightly negative to neutral	Significantly negative
7	Correcting imbalances in negotiating power between consumers and credit providers by providing consumers with adequate disclosure of standardised information so that they are able to make informed choices	40.6%	46.9%	9.4%	3.1%
8	Providing consumers with protection from deception, and from unfair or fraudulent conduct by credit providers and credit bureaux	38.2%	47.1%	8.8%	5.9%
9	The quality of consumer credit information and reporting is improved and credit bureaux are better regulated	54.5%	42.4%	3.0%	0.0%
10	Address and prevent over-indebtedness of consumers and provide mechanisms to resolve over-indebtedness through consumers satisfying all financial obligations	3.1%	50.0%	25.0%	21.9%
11	Providing a consistent and accessible system of consensual dispute resolution to deal with disputes arising from credit agreements	28.1%	53.1%	12.5%	6.3%
12	Providing for a consistent and harmonised system of debt restructuring, enforcement and judgement that gives priority to the eventual satisfaction of all responsibilities by consumers under credit agreements.	18.2%	51.5%	15.2%	15.2%
AVERAGE PERCEPTION OF THE ECONOMIC IMPACT OF ALL NCA OBJECTIVES		21.07%	53.06%	17.68%	8.18%

Way forward to finalisation



- Not possible to come up with “a number” in terms of impact on GDP (i.e. NCA resulted in R100 billion additional GDP, 0.2% a year additional growth etc). However, still important to try to assess impact – from perspectives of what Act (and supporting institutions) does and what would happen if they were not there.
- Need to understand more clearly what we want, and what data we need (and is feasible) to get it. Implications for NCR data collection and management (registrations, developmental credit etc)
- Focus of research process has been on collecting available data and opinions. Need to distill key implications of “what it all means” further.
- Still need to unpack implications of access for consumer outcomes further. Also nuance assessment based on different consumer cohorts.