

Techsprint: Leveraging technological innovation to improve the resilience and compliance of small credit providers

Stakeholders Roundtables Report

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BACKGROUND

- Small credit providers play a critical role in credit allocation as they serve the base of the pyramid and the last mile.
- Regulation 19(13) of the National Credit Act (NCA) prescribes the manner and form in which credit providers registered with the National Credit Regulator (NCR) must submit credit information to a credit bureau.
- The NCA Regulations also outline regulatory returns that credit providers should submit and the frequency thereof.
- Smaller credit providers do not have the capability and capacity to comply with Regulation 19(13).

RATIONALE

- Lack of digitisation of the small credit providers has systemic impact:
 - lack of credit visibility of the borrowers that they serve, impacting on their ability to get more credit at better terms;
 - potential for overindebtedness, as some of the borrowers access additional credit from other providers;
 - inadequate or incomplete data for regulatory and policy formulation;
 - heightens compliance risk and impacts on the ability of the sector to grow.
- COVID pandemic also disproportionately impacted these small lenders, exacerbating the challenge.
- Against the above background, the NCR through the support of the World Bank Group is working on a TechSprint to develop a solution to digitize small credit providers.
- The system has potential use with other stakeholders such as regulators and industry players. It is for this reason that roundtables were held with stakeholders to solicit their input to the Problem Statement.

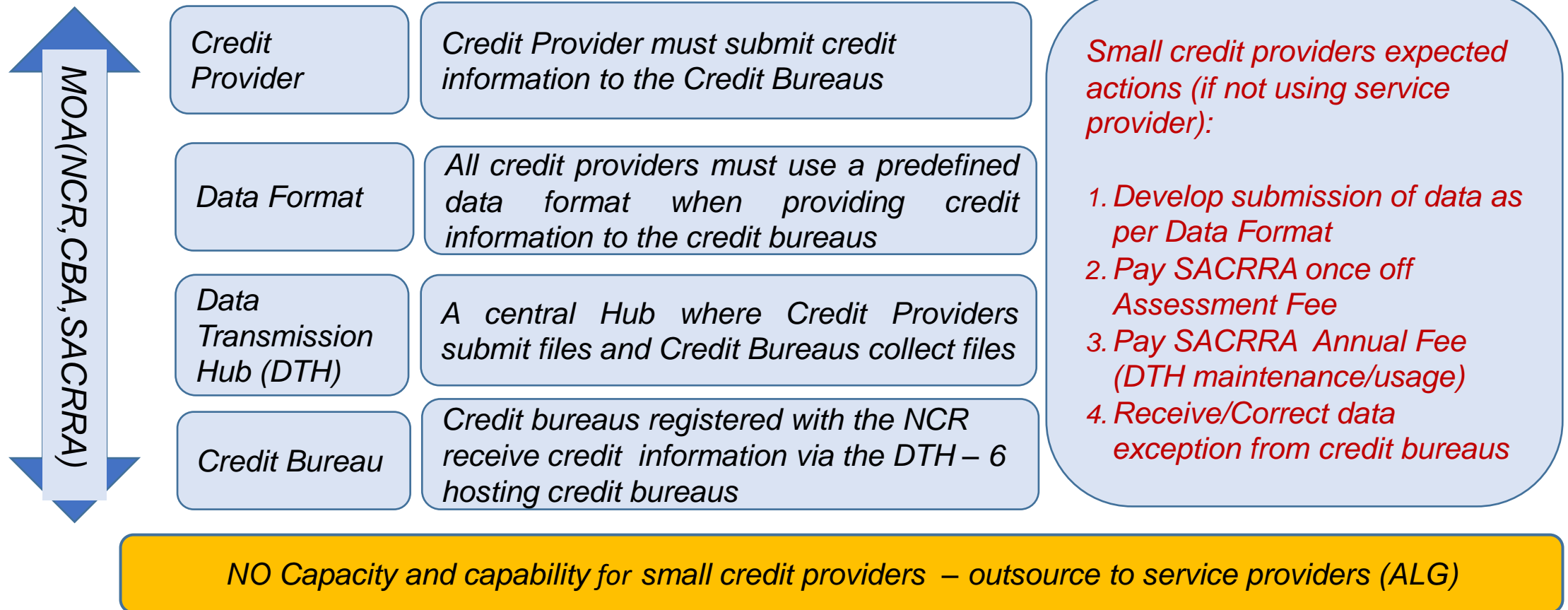
Current Landscape

CURRENT LANDSCAPE: Consumer Credit Information Sharing

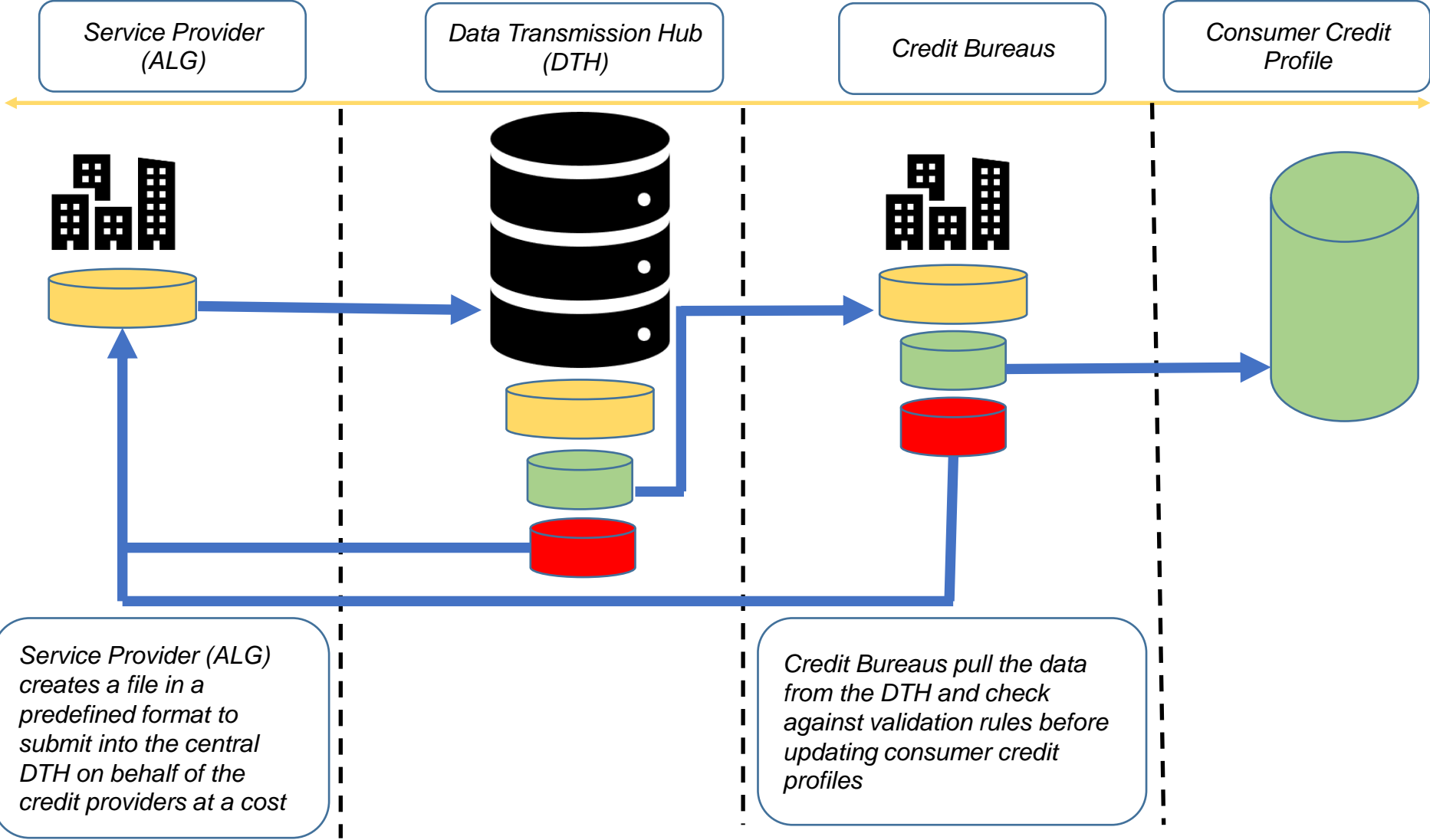
- Although South African Consumer Credit information sharing system is fully matured and sophisticated, it still does not include exposures from small lenders consistently or not at all.
- These exposures are mainly of consumers who are at the bottom of the pyramid and have not had credit activity in the past and are therefore still seen as credit inactive when enquiries are made against their names at the credit bureaus.
- The National Credit Act (Act) introduced Regulation 19(13) which its main purpose was to ensure that every registered credit provider submits credit bureau information in a uniform manner using the infrastructure that already exist within the industry.
- This infrastructure was to effect the rollout of Reg 19(13) through an MOA signed between National Credit Regulator (NCR), South African Credit Risk Reporting Association (SACRRA) & Credit Bureau Association (CBA).

CURRENT LANDSCAPE: Regulation 19(13) requirements

Regulation 19(13) states that: “Credit providers must submit credit information to the credit bureaus in the manner and form prescribed by the National Credit Regulator through conditions of registration and any guidelines that may be issued by the National Credit Regulator from time to time.”



CURRENT LANDSCAPE: Current process (Small Credit Providers)



CURRENT LANDSCAPE: Current level of compliance

There are about **9000** credit providers registered with the NCR as at mid Jan 2023.

The Act categorises credit providers by the size of the Total Principal Debt (TPD) of the debtors book.

There are 9 categories. Category 6 to 9 are referred to as small credit providers (i.e. Cat 6 R1m<=TPD <R5m & Cat 9 TPD < R250K).

NCR Category	Total	Onboarded	Not Assessed	Other *	Not Onboarded	Avg.	
1	20	15	4	1	20%		
2	15	11	1	3	7%		
3	54	37	15	2	28%		
4	120	78	29	13	24%		
5	442	233	147	62	33%	30%	
Small Credit Providers	6	757	439	199	119	26%	
	7	462	228	121	113	26%	
	8	363	190	124	49	34%	
	9	6836	2003	4516	317	66%	59%
Total	9069	3234	5156	679			

Other = Unique product, Not consumer data, Assessed*

Onboarded = submitting data to the credit bureaus (Reg 19 (13) compliant)

Onboarded means already submitting data to the hosting credit bureaus via the DTH.

- Category 1 to 5 : not Onboarded +/- 30%
- Category 6 to 9 : not Onboarded +/- 59%

CURRENT LANDSCAPE: NCR – understanding of non Compliance reasons

NCR is aware of Regulation 19(13) non compliance and understand the reasons to be:

- Lack of understanding of Regulation 19(13) by small credit providers.
- Lack of human resources, financial, technological capacity and capability to participate in credit information sharing ecosystems.
- Small credit providers therefore have to use services of service providers (ALG) to perform this function on their behalf at a cost. Some small credit providers don't fully understand the service offered by ALGs and they would drop and or not pay fees that are due, resulting in disrupted process.
- Despite the cost for Regulation 19(13) small credit providers find the cost of compliance in general unaffordable (e.g. application enquiry costs due to low volumes, NCR annual fees, credit information sharing fees/SACRRA fees, ALG/service providers solution costs).
- NCR has to date taken a very sympathetic approach to non compliance enforcement on this matter because they understand the plight of small business and consumers that normally use services of these small credit providers.

Stakeholders Roundtables Outcome

PURPOSE OF STAKEHOLDERS ROUNTABLE

The purpose of these roundtables are to ensure participation of relevant industry stakeholders, Solicit for input to the Problem Statement and to determine the following:

- Small Credit Providers perspective: i) Understand digitisation status and challenges; and ii) Perspective, challenges and compliance with Regulation 19(13).
- Large Credit Providers perspective: i) In their view, why do small lenders not comply with Regulation 19(13); and ii) How does the non compliance of small lenders impact the industry and consumers.
- Regulators perspective: i) Engage on which solution approach would be best suited to provide the platform for a diverse Tech companies participation; and ii) determine synergies in digitisation of small business initiative.
- Associations perspective: i) What and how can they contribute/participate to deliver an affordable solution; and ii) outline aspect of the Techsprint build approach where their input/participation will be required.

NCR sees this as an industry problem that requires industry participation to get to a solution

SMALL CREDIT PROVIDERS ROUNDTABLE OUTCOME

1. Two roundtables with same content were held for small credit providers.
 - a) Session 1 had 51 attendees and session 2 had 18 attendees.
2. Themes discussed with small credit providers and the respective outcomes are summarised below:
 - a) Resilience and Operational activity during crisis periods:
 - Both sessions had larger proportion of attendees who are digitised and were able to continue with their operations during the crisis of Covid hard lockdown, July 2021 and KZN floods. The small proportion of attendees who are still not digitised, were not able to be operational during crisis periods.
 - Sentiments from the attendees was that whilst some are on the path to digitisation, it is costly more so for credit providers based in peri urban and rural areas. In crisis periods they are unable to service their customers, who mostly are walk-in customers.
 - b) Compliance with Regulation 19(13):
 - Small credit providers are of the view that Regulation 19(13) is complex and very costly for a small credit provider. They do not have capacity and capability to perform this function inhouse and therefore outsource to service providers who offer this service. Compliance costs in general are costly and these service providers services also do not come cheap.
 - Regulation 19(13) is complex and difficult to understand. Workshops offered by National Credit Regulator (NCR) are helpful, but do not address the main course of non compliance.

Limitation: biased attendance towards digitised credit providers could have possibly been exacerbated by the engagement platform being virtual

SMALL CREDIT PROVIDERS ROUNDTABLE OUTCOME

c) Credit Information sharing:

- Small credit providers use credit information for compliance purposes, affordability assessment, but do not use other value add products such as scores be it inhouse or from credit bureaus.

d) Digital Solutions:

- Small credit providers suggested that the solution should consider i) simplifying the regulation; ii) be a simple but “one-stop-shop” end to end solution with functionality for Credit & affordability assessments, Credit Bureau enquiries, Credit Bureau updates, Regulatory reporting ; and iii) the solution must be cloud-based solution for easy access.
- The solution must be affordable with one fee cost structure across the entire value chain of its functionality.
- The solution must consider integration with existing Excel data for lenders with a handful of loans and possibility to also integrate with existing Credit Bureau Association processes for credit bureau update of fewer records (e.g. Manual amendments, Paid-up Judgements)

e) Problem Statement:

- Participants were comfortable that the Problem Statement in its current form has captured the core requirements

LARGE CREDIT PROVIDERS ROUNDTABLE OUTCOME

1. One roundtable was held for large credit providers. The session had 24 attendees.

2. Themes discussed with large credit providers and the respective outcomes are summarised below:
 - a) Challenges faced by small credit providers:
 - Large credit providers are of the view that small credit providers cannot afford Loan Management Systems. They also believe that small credit providers require training and education of how technology, systems and legislations affect their businesses

 - b) Compliance with Regulation 19(13):
 - Large credit providers are of the view that small credit providers lack knowledge on how to complete regulatory reporting requirements. They believe that streamlining, simplifying and centralising regulatory reporting requirements could make it easier on small credit providers.

 - c) Consumer lending impact:
 - Thin files consumers are perceived to be risky by large credit providers. Alternative data can be an option to assist with conducting credit assessments for thin file consumers.

LARGE CREDIT PROVIDERS ROUNDTABLE OUTCOME

- d) Possible monopolistic or anticompetitive consequences:
 - Centralizing a system would take business away from FinTech companies that are already offering solutions; and will take away from the competitive open market.

- e) Digital Solutions:
 - The solution must be user friendly and simple. It must also be a centralised regulatory reporting system to also assist with information synchronizing between credit bureaus.
 - Service providers must be encouraged to offer rental / subscription system options and leverage cloud-based technology to ease cost burdens and foster a shared ICT solution. Economies of scale for a solution will result in decreasing costs.
 - Small credit providers must be encouraged to be part of associations for support. Cross subsidization by industry stakeholders to assist with the system cost obligation may be considered.

- f) Problem Statement:
 - Participants were comfortable that the Problem Statement in its current form has captured the core requirements

REGULATORS ROUNDTABLE OUTCOME

1. One roundtable was held for regulators. The session had 9 attendees.

2. Themes discussed with the regulators and the respective outcomes are summarised below:
 - a) How can the project address some of the challenges faced by the regulators :
 - The regulators reinforced their support for the project, more so from a policy perspective. Regulators suggested that the solution be built to enable migration in stages depending on where the credit provider is at.

 - b) Possible risks from the project and how they can be mitigated against:
 - Service Providers must develop solutions that guard against the risk of sharing of competitive information through the platform. (e.g. price, customer spending). The Competition Commission has guidelines on what information can and cannot be shared.

 - c) Synergies between regulators to enable resilience of small businesses:
 - Regulators are discussing with the World Bank Group and Department of Small Business on how to support SMMEs, Microlenders to leverage on technology. The project will endeavor to align with those discussions.

REGULATORS ROUNDTABLE OUTCOME

- d) Techsprint vs. Showcase approach for this Problem Statement:
 - The approach decision depends on responses from the market and industry, scope of participants and existing solutions in the market. Regulators suggested prioritisation of Resilience versus Compliance as a possible consideration.

- e) If the solution conflicts with policy, any possibility of changing policy:
 - Regulators have different mandates, if there is a need to consider policy change, if it improves the process that can be considered. Proposals to change policy needs engagements at the right platforms. But changing policy is a very long process technology.

ASSOCIATIONS ROUNDTABLE OUTCOME

1. One roundtable was held for associations. The session had 12 attendees.

2. Themes discussed with large credit providers and the respective outcomes are summarised below:
 - a) How can associations assist small credit providers with regulatory compliance:
 - All associations should collaborate to better educate and train the small credit providers. Some go to an extent of doing face to face sessions to their members.
 - Associations expressed willingness to play a bigger role in this project and assist one another to get the small credit providers to be compliant, but indicated that visibility of the NCR is crucial
 - Associations are of the view that when small credit providers see the costs of compliance, they become reluctant.
 - Associations suggested that the introduction of solutions/systems and education for small credit providers may require legislation amendments. The Act in its current form, is one size fits all whilst a tiered regulation model might be much more practical. NCR mentioned that DTIC is looking into the Act amendments and these are some considerations that will be attended to, however the legislation amendments is a long term solution.

 - b) How can associations assist in making cost of compliance affordable:
 - Getting a solution that is focused on reduction of cost of submission of information could be viable. In principle, cost reduction can be discussed but rather focus on a mechanism that is free to submit information to the credit information sharing eco-system The cost of an enquiry is a different issue. An off line engagement will be held to look into the drivers of cost of compliance, submission of data and use of the DTH and support services that are available.

ASSOCIATIONS ROUNDTABLE OUTCOME

- c) Association views on capabilities of existing service providers:
 - Associations are of the view that the existing service providers solutions have the appropriate capability and are doing their best to offer competitive pricing. However administration relating to small credit providers data quality issues, service providers hoping and non payment increase administration by the service provider. Associations also believe that there are other solutions in the credit industry, that can be customised to accommodate the needs (i.e. functionality and cost) for small credit providers.

- d) Associations position of small credit providers submitting data directly to credit bureaus as opposed to via the Data transmission Hub (DTH):
 - Associations would need to engage with their members, determine implications and respond to the NCR in writing.

Problem Statement

PROBLEM STATEMENT

Problem Statement : How can we leverage on technological innovation to improve the **resilience** and **compliance** of small credit providers

Who: Small credit providers are lending institutions with **Total Principal Debt less than < R5 million**. Most of these credit providers tend to service the last mile/ base of pyramid but often lack the capacity and capability to withstand challenging times (i.e.. Pandemic, Recession) and comply with the regulations of the National Credit Act. Some credit providers are located in remote parts of South Africa with limited internet connectivity.

Examples are credit providers offering:

- Short Term Credit :
 - Loan less or equal to R8000 and loan term less or equal to 6 months.
- Developmental Credit:
 - Educational loan; small business loan; building or expansion of low-income housing loans, and farming equipment loans.

The Tech Sprint will focus on two key elements that are critical in business sustainability and compliance. The small credit providers must have technology to enable :

- **Resilience**: enable digital onboarding and credit extension by small credit providers to underserved markets;
- **Compliance**: ensure effective participation in information sharing, submission and regulatory reporting.

PROBLEM STATEMENT USE CASES

How can technology and innovation be used to promote affordable digitisation of small credit providers?

- How can small credit providers conduct digital credit extension including affordability assessments?
- How can we promote cost effective access and usage of credit reporting systems by small credit providers?
- How can we help small providers to improve their resilience and ability to withstand the impact of natural disasters and pandemics?
- How can we help small providers to reduce their operating costs and the interest rate that they charge?

How can technology and innovation enable information sharing and regulatory compliance by small credit providers?

- How can small providers sustainably submit data to the credit reporting industry?
- How do we enhance regulatory reporting and compliance with regulations?
- How do we ensure cost effective participation of small credit providers?

TechSprint Build Approach

TECHSPRINT BUILD APPROACH & PROCESS

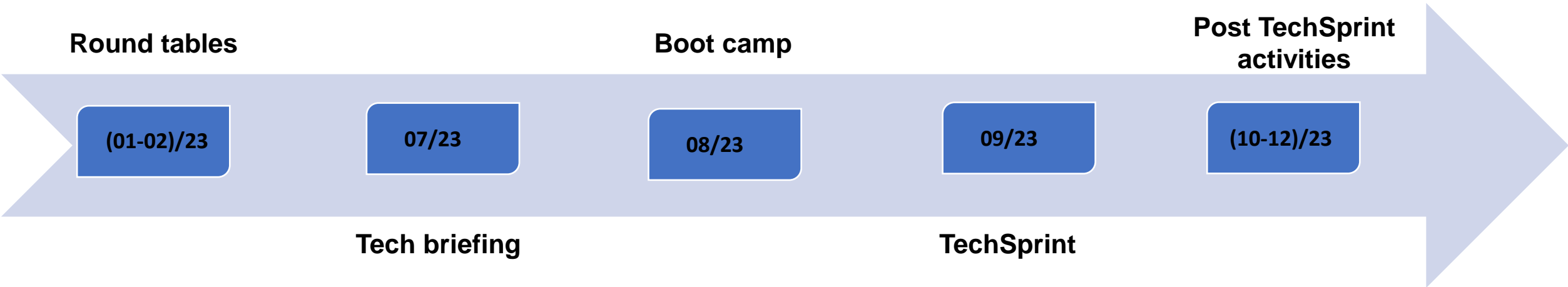
Proposed platform is a **TechSprint**



Governance Structure

Workstream	Responsibilities
Problem Statement Development	<ul style="list-style-type: none"> • Roundtable discussions/ stakeholder input • Synthesizing themes • Drafting/refining Problem Statements
Platforms & Data	<ul style="list-style-type: none"> • Platform and technology assets procurement • Data needs, sourcing and formatting
Hacker Management	<ul style="list-style-type: none"> • Recruitment/ sourcing of participants and experts • Communications • Team curation and hacker support
Planning & Logistics	<ul style="list-style-type: none"> • Overall project management • Planning and scheduling meetings • Event coordination • Boot Camp • Demo Day • Sourcing speakers, judges, observers. • Post Sprint activities
Communications	<ul style="list-style-type: none"> • Branding • Communication - Social media, Press • Media • Stakeholder engagement

TECHSPRINT BUILD MAJOR EVENTS



End