

# THE NCR CALLS FOR CAUTION IN THE GRANTING OF UNSECURED CREDIT

The National Credit Regulator (NCR), is aware of the concerns regarding the increase in the granting of unsecured credit by Credit Providers to consumers.

The following undesirable market practices have come to the NCR's attention:

- High risk consumers are denied secured credit products and then sold unsecured credit by the same credit provider. This results in the credit provider mitigating their risk because they need not concern themselves with the actual asset being purchased, and can often simultaneously secure a higher profit margin because of the higher maximum interest rate allowed in the NCA on unsecured credit than what is applicable to secured credit products. Even though there is no overt contravention of the law in this practice, the ethics of this approach are questionable.
- Consumers are offered repeat disbursements on personal loans to

which repeated initiation fees are levied. In essence the consumer is not being newly contracted at each disbursement point and should only pay one initiation fee. In addition this practice is accompanied by minimal affordability assessments and risk reviews. The net result is that consumers could secure levels of credit that exceed their wallets and also using a credit product that is more expensive than what it actually should be.

- Credit providers operating at the lower income market segment coerce consumers into handing over their ATM cards and pin codes. Although this is not a new practice, consumers at the lower end of the credit access continuum are increasingly vulnerable because of the challenge in pacing household and personal income with the ever rising cost of living.
- Overselling of and incorrect contracting for credit insurance, with

little real protection for consumers who take on these insurance offers in attempts to secure themselves and their families.

The NCR is cautioning credit providers to be discerning in their market practices and particularly to consider the following:

- business proficiency at all organisational levels – from senior management to the frontline staff,
- compliance with the conditions and requirements of the NCA,
- applying sound ethics,
- conducting thorough and continuous affordability and risk assessments from contract initiation to final settlement,
- not contracting consumers to the full extent of their incomes, leaving a safety buffer for the unexpected,
- restraint in offering higher loan values over longer terms to higher

risk consumers

- balancing of both the short- and long term benefits of business and credit strategies, with a view to sustainability and financial health of both the credit provider and the consumer,
- not taking advantage when consumers display insufficient discernment and prudence in their own financial and credit behaviours.

In accordance with the NCR's mandate to protect consumers, the manner in which unsecured lending is conducted is being investigated, to determine whether the market approach could, or is giving rise to the provision of reckless credit and over-indebtedness of the consumer as envisaged in the NCA. At the conclusion of this investigation relevant action will be taken.

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