VIRTUAL NCR ONBOARDING

TechSprint

Improving resilience and compliance of small credit providers.

Briefing Session

22 August 2023 | 14h00 – 15h30

NCR National Credit Regulator

In partnership with the Government of Japan

IFC International Finance Corporation WORLD BANK GROUP

Creating Markets, Creating Opportunities

TECH BRIEFING SESSION: IMPROVING RESILIENCE AND COMPLIANCE OF SMALL CREDIT PROVIDERS
22 AUGUST 2023

- ***Welcome!*** *The meeting will start shortly.*
- ***Please update your name to include your full name and company name so that we can record your attendance.***
- *Keep cameras off.*
- *Place all devices on mute.*
- *Questions will only be taken during the Q&A section of the programme.*
- *If you have a question, type it into the chat or raise your hand and wait to be recognised.*
- *Introduce yourself before asking or writing your questions.*
- *The meeting will be recorded.*

TECH BRIEFING AGENDA

NCR Onboarding TechSprint Tech Briefing Program

Date: 22 August 2023

Venue: Virtual

Time: 14h00 – 15h30 SAST

2.00 - 2.05	Opening & Welcome Remarks	**Program Director: Mihlali Matibe, Legal Advisor (NCR)**
2.05 - 2.20	Introduction & Objectives - Current Landscape - Problem Statement	**Tshangwane Serakwane, Consultant (IFC)**
2.20 - 2.30	Role of the NCR	**Nthupang Magolego, Senior Legal Advisor (NCR)**
2.30 – 2.55	Participants Information & Next Steps	**Faith Kotsedi, ICT Manager (NCR)**
2.55 - 3.30	Question & Answer Session Close	**Program Director: Mihlali Matibe, Legal Advisor (NCR)**

CURRENT LANSCAPE
&
PROBLEM STATEMENT

Tshangwane Serakwane
Consultant, IFC

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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 a 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 over indebtedness, 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). 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.”

MOA(NCR,CBA,SACRRA)

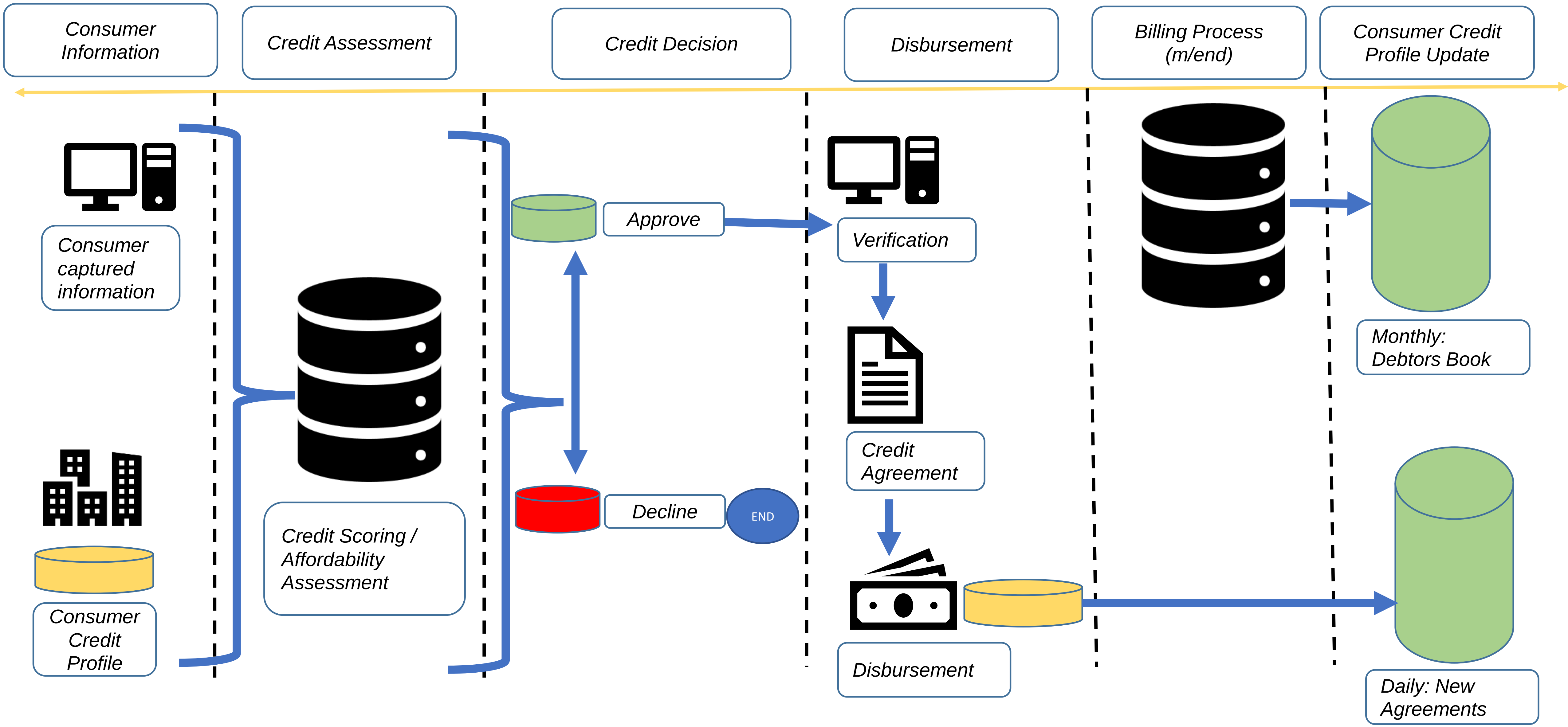
Credit Provider	*Credit Provider must submit credit information to the Credit Bureaus*
Data Format	*All credit providers must use a predefined data format when providing credit information to the credit bureaus*
Data Transmission Hub (DTH)	*A central Hub where Credit Providers submit files and Credit Bureaus collect files*
Credit Bureau	*Credit bureaus registered with the NCR receive credit information via the DTH – 6 hosting credit bureaus*

Small credit providers expected actions (if not using service provider):

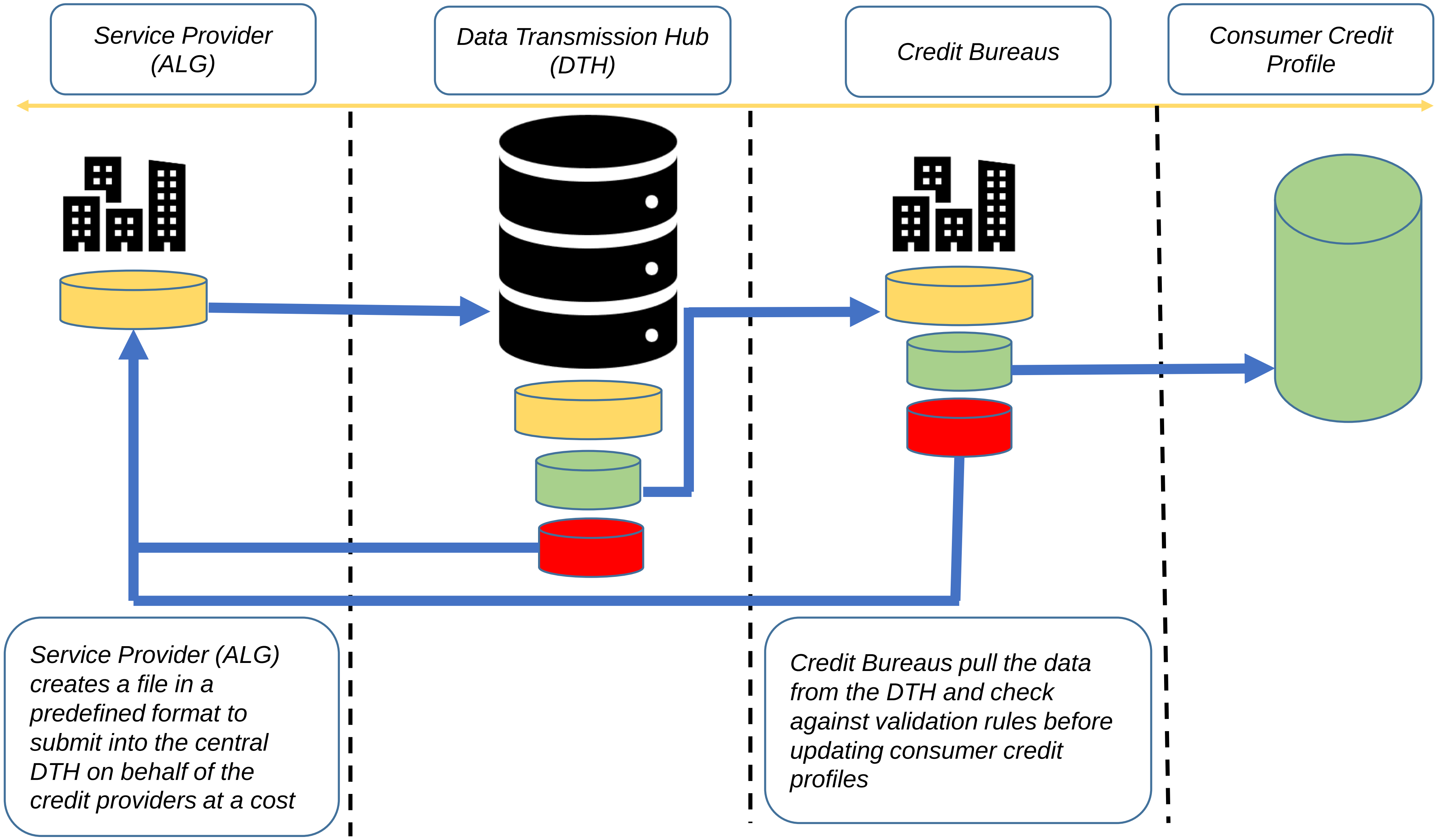
1. *Develop submission of data as per Data Format*
2. *Pay SACRRA once off Assessment Fee*
3. *Pay SACRRA Annual Fee (DTH maintenance/usage)*
4. *Receive/Correct data exception from credit bureaus*

NO Capacity and capability for small credit providers – outsource to service providers (ALG)

CURRENT LANDSCAPE: Current process (Small Credit Providers – f/end)



CURRENT LANDSCAPE: Current process (Small Credit Providers – B/end)



CURRENT LANDSCAPE: Current level of compliance

There are about **6600** credit providers registered with the NCR as at mid July 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 Onboarded	Other*	Onboarded %	
1	22	18	3	1	81.82%	
2	13	12	1	0	92.31%	
3	49	33	16	0	67.35%	
4	130	83	39	8	63.85%	
5	454	213	217	24	46.92%	**53.74%**
6	688	402	268	18	58.43%	
7	342	197	129	16	57.60%	
8	303	158	115	30	52.15%	
9	4617	1620	2968	29	35.09%	**39.95%**
TOTAL	6618	2736	3756	126		

Other* : No consumer data, unique products

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

- Category 1 to 5 : Onboarded +/- 54%
- Category 6 to 9 : Onboarded +/- 40%

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.

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 :

•**<u>Resilience</u>**: enable digital onboarding and credit extension by small credit providers to underserved markets;

•**<u>Compliance</u>**: ensure effective participation in information sharing, submission and regulatory reporting.

PROBLEM STATEMENT USE CASES

How can technology and innovation be used to promote <u>affordable</u> 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 <u>information sharing and regulatory compliance</u> 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?

End

ROLE OF THE NCR

Nthupang Magolego
Senior Legal Advisor, NCR

MANDATE OF THE NCR: MONITOR AND ENFORCE COMPLIANCE WITH NCA

- The National Credit Act, 34 of 2005 (NCA) makes provision for the control and regulation of all credit agreements, as well as the regulation of all institutions that provide consumer credit. Its purpose is to promote a responsible and accessible credit market and to protect consumers from abusive and unfair practices.
- The National Credit Regulator (NCR) was established under the NCA in order to perform the administrative functions of regulating the consumer credit industry in South Africa. It is tasked with, amongst others, promoting an efficient, effective, and accessible credit market.
- The NCR also aims to improve the regulatory environment and ensure the enforcement of the NCA.

MANDATE OF THE NCR: MONITOR AND ENFORCE COMPLIANCE WITH NCA

- In the execution of its mandate, the NCR has noted that small to medium credit providers do not have the capability and capacity (lack of digitisation) to comply with Regulation 19(13) of the NCA. Regulation 19(13) prescribes the manner and form in which credit providers registered with the NCR must submit credit information to hosting credit bureaus.

- Small credit providers play a critical role in credit allocation as they serve the base of the pyramid and the last mile.

- The NCA Regulations also outline regulatory returns that credit providers should submit and the frequency thereof.

- Accordingly, the NCR seeks a solution to this non-compliance problem.

HOW TO ACHIEVE A SOLUTION: PLATFORM FOR INNOVATION

- **Two facts:**
  - Non-compliance to Regulation 19(13) is not an NCR-only problem;
  - A solution that enables regulatory compliance will provide a much broader benefit to the credit industry.
- A platform is required to enable the co-creation of a solution and leverage off the IT and Credit Risk expertise in the country.

HOW TO ACHIEVE A SOLUTION: PLATFORM FOR INNOVATION

- **The proposed solution involves the following:**
  - Promoting digital transformation;
  - Development of a system that is: easy to access; easy to use; and promotes technological self-sufficiency.
- **Industry owned system:** Not built and maintained by the NCR i.e. built and owned by private companies.
- **Input of key industry stakeholders as experts and judges appointed by the NCR:**
  - Credit Providers Associations (i.e. BASA, MFSA, NCRFSA, etc);
  - Credit Bureaus Association (CBA);
  - South African Credit Risk Reporting Association (SACRRA) and other industry players;
  - Regulators (e.g. NCR).

BENEFITS OF THE TECHSPRINT & SHOWCASE : SUPPORT OF SMMEs AND FINANCIAL INCLUSION

- **All credit providers will benefit:**
  - Access to exposures and performance credit information for more accurate credit decision making – greater financial transparency and inclusion in the credit market;
  - A solution that enables the following all in one: credit bureau enquiries, credit assessment and affordability, credit bureau update and reporting to stakeholders;
  - Automated environment to submit regulatory returns to the NCR (streamlining, simplifying and centralising regulatory reporting requirements).
- Making compliance affordable for small to medium lenders (SMMEs).

End

TECHSPRINT & SHOWCASE PARTICIPATING TEAMS INFORMATION

Faith Kotsedi
ICT Manager, NCR

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SOLVING THE PROBLEM STATEMENT

TechSprint Approach

1. Tech companies and teams building a prototype solution within 3 to 4 days
2. Supported by Experts and Project team during the build process
3. A Demo day set aside for Prototype sulutions to be presented to the Judges
4. Judges selects winning team (s) based on predefined judging criteria
5. Winning team (s) supported by an Incubation program to take through the solution up to Go To Market stage

Showcase Approach

1. Provide a platform for Tech companies and teams with ready To Go Market solutions to present their solutions to the industry and potential end users
2. Tech companies and teams engage further with prospective end users (if interested) post the event

PROCESS LEADING TO PARTICIPATING

Stage 1

Tech Briefing Registration

TODAY
22 AUG 2023

Stage 2

TechSprint/Showcase Participation Application

a) Submit **Interest to Participate** Information

b) Vetted / Evaluation against pre-determined selection criteria

c) Proceed to Phase 3 if vetting / evaluation successful

Stage 3

TechSprint/Showcase Registration

a) TechSprint participants will attend a Bootcamp prior to the event

b) Showcase participants will attend a Run of the Show prior to the event

SELECTION CRITERIA

<table>
<tr><th></th><th>TechSprint</th><th>Showcase</th></tr>
<tr><td colspan="3">A selection criteria has been drawn up to ensure that there is broad participation of teams with a view to enable reform and innovation within the industry.</td></tr>
<tr><td>For the team to participate, they must comply with the following selection criteria:</td><td>1. Build the solution during the TechSprint week

2. Demonstrate the solution on the last day of the TechSprint

3. A Tech company or team of individuals

4. If selected a winner(s), be willing to go through an Incubation program for solution to be ready To Go To Market

TS_Selection Criteria_AppendixB</td><td>1. Ready To Go To Market solution

2. Submission of a brief Business Case addressing aspects of the Problem Statement
a) Team Overview
b) Solution Overview
c) How the solution addresses the Problem Statement including the Use Cases</td></tr>
<tr><td>Notification of outcome of selection criteria</td><td colspan="2">1. Notification will be sent when the evaluation is completed and a Team have qualified (note.: not all may receive the notification at the same time). The non-qualified teams will be notified after the finalization of the evaluation.

2. The qualified teams will be notified by EPF and added into curated Whatsapp group(s) for further communication.</td></tr>
</table>

EVENTS LOGISTICS

<table>
<tr><th></th><th>TechSprint</th><th>Showcase</th></tr>
<tr><td>Preparation</td><td>BootCamp

1. The purpose of the BootCamp is to
a) Recap Tech Briefing content and
b) Platform and Data Orientation
c) Provide TechSprint week logistics

2. The Bootcamp will be held virtually on the 10th October 2023 and the TechSprint week is currently earmarked for 16- 20 October 2023

3. The Bootcamp session will be for 2 hours.

4. The registration for the Bootcamp will open from 2 October 2023</td><td>Run of the Show

1. The purpose of the Run of the Show is to take the participating teams through the program of the Showcase in detail

2. The Run of the Show will be held virtually on the 12th October 2023 and the Showcase to be hosted on the 24 October 2023

3. The Run of the Show session will be 1,5 hours.

4. The registration for the Run of the Show will open from 2 October 2023</td></tr>
<tr><td>What is expected from the Participating Teams before the event:</td><td>1. Registered the Team (by name) on the Platform

2. Appointed a Team Coordinator

3. Received and tested login details to the platform</td><td>1. Registered the Team (by name) on the Platform

2. Appointed a presenter

3. Shared the Company Bio’s and brief solution overview</td></tr>
<tr><td>Structure</td><td>1. Quick high level recap of key elements of Tech Briefing
2. Overview of participants pack
3. Participants log into the Platform & are given a navigation of all features to be used during the sprint
4. Experts Introductions
5. Q & A session relating to the sprint week</td><td>1. Presentation of the Agenda and Order of participating teams showcases</td></tr>
</table>

EVENTS LOGISTICS

	TechSprint	Showcase
Preparations	1. The purpose of the TechSprint is for Tech companies and teams to build a prototype solution addressing the Problem Statement 2. The TechSprint will be held virtually for a period of 1 week 3. The dates for the TechSprint are **16 October -20 October- 2023** 4. The registration for the TechSprint will open from **2 October 20023**	1. The purpose of the Showcase is for Tech companies or team with solutions that are ready for Go to Market to present their solutions to the credit industry with the aim for small lenders to know solutions available for their use 2. The Showcase will be held virtually for 1,5 hours 3. The date for the Showcase is **24 October 2023** 4. The registration for the Showcase will opens from 2 October 2023
What is expected from the Participating Teams before the event:	1. Attendance of the Boot Camp 2. Studied the material shared after the Tech Briefing and Bootcamp 3. Signed the TechSprint Rules 4. Make necessary & adequate electricity & connectivity arrangements to enable uninterrupted participation throughout the sprint week.	1. Attendance of the Run of the Show 2. Studied the material shared during the Run of the Show
Structure	1. Day 1 : Opening Remarks, Key Note Speaker, Panel Discussion, Closing Remarks, Solution development kick off 2. Day 2 & 3 : Solution Development, Experts Consultations, Check in Session 3. Day 4 : Demo preparation, Demo rehearsal session 4. Day 5: Demo Day (Opening Remarks, Demos, Q&A, Key Note Speaker, Panel Discussion,, Judging, Results/Winners Announcement, Closing Remark) TS_Program_AppendixC	1. Opening Remarks 2. Presentation/Showcases 3. Q & A 4. Closing Remarks SC_Program_AppendixD

EVENT SUPPORT STRUCTURE(s)

	TechSprint	Showcase
Expert	1. Experts from different disciplines within the credit industry will be available throughout the TechSprint week to solution business requirements/problem statement where necessary 2. A roster indicating availability of each expert will be available on the platform and Teams will book Expert consultation slots on the platform	N/A
Project Team	1. The Project Team will Support the participating teams for any bottlenecks they may encounter throughout the sprint week. Daily interaction with Team coordinators to assess progress of development and provide necessary guidance to ensure readiness for Demo Prep session and Demo Day 2. Each Team will be assigned a Project Team member for support;	N/A
The Platform Service Provider:-	1. The team from the Platform Service Provider will be available throughout the sprint week for any platform related support, access to Synthetic Data, testing and setup for Demo purposes (important to note that the available data is not mandatory to be used); *2. Technical Support* – to assist with the technology and any other platform and data related issues;	N/A

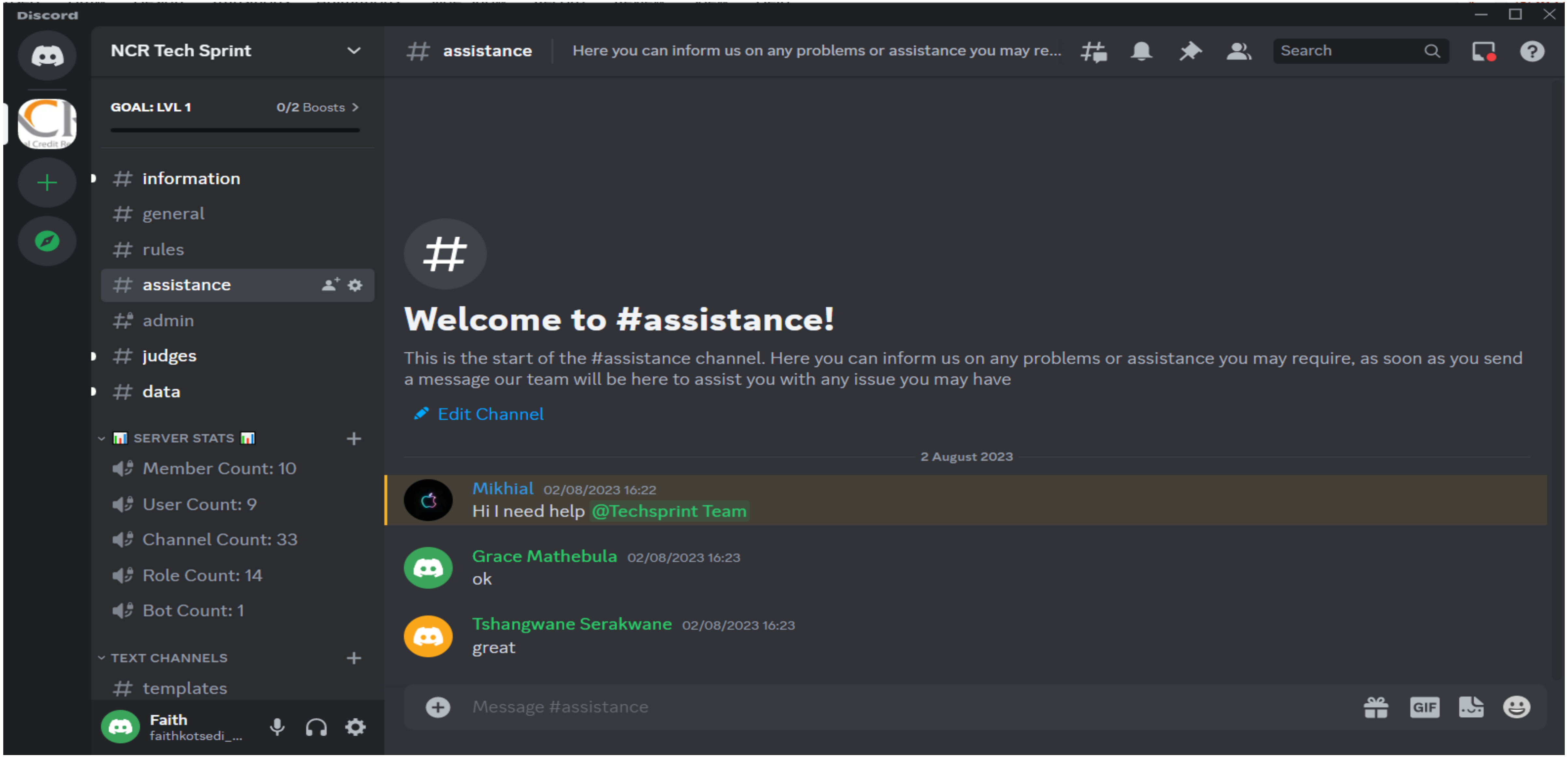
SOLUTION EVALUATION

	TechSprint	Showcase
Judges	1. A panel of Judges with experience from various disciplines will be assigned to evaluate the solution built by the Teams; 2. A panel of Judges will use a predetermined Judging criteria to determine the winning team/s. 3. The judges will only be introduced to the teams during the TechSprint; 4. Teams are not allowed to interact with any of the Judges (as this may disqualify them)	N/A
Judging Criteria	The judging criteria will focus amongst others the following: 1. Innovation 2. Implementation 3. Readiness 4. open source 5. Impact TS_Judging Criteria_AppendixE	N/A
Winner's Prize	1. The winner will be offered a 3 months incubation programme (TS_Incubation_Program_AppendixF) 2. A press release with focus on the winner will be published post the Tech Sprint.	N/A

PLATFORM & DATA

	TechSprint	Showcase
Platform	The platform will be integrated with the following services: 1. Registration platform 2. Meeting platform 3. Communication platform 4. Cloud – Google/Microsoft	The platform will be with the following services: 1. Registration platform 2. Meeting/Showcasing platform
Data	1. Synthetic data with +/- 5000 records will be provided 2. The data will be accessible within the platform for end to end solution development & testing 3. Contextual data will be placed on the platform for ease of reference (i.e., National credit Act, the Regulations, Guidelines , etc.)	N/A

PLATFORM SCREENSHOT



INTELLECTUAL PROPERTY (IP) OWNERSHIP & PROTECTION

	TechSprint	Showcase
Participants are expected to:	1. IP / source codes will be owned by the TechSprint / Hacker Team and will not be shared on public arena by NCR / IFC (The team will be expected to protect and do a copyright); 2. Teams are to ensure that no IP / Source Codes of other OEMs are used without their permissions (evidence of this approval might be required prior to the Sprint);	N/A

PARTICIPATING RULES

- All Teams are required to sign the Event Rules
- The Teams are expected to adhere to the time provided for all events and sessions within the event
- All Team members details must be provided to Project Team prior the events – to enable their Onboarding on the Platform –
  - TechSprint – on or before BootCamp
  - Showcase – on or before Run of the Show
- Teams must ensure that they have uninterruptible power supply and stable internet connectivity for the duration of the sessions
- Participating Rules_AppendixG

NEXT STEPS

- Interest Of Participation (IOP) submission – Opening date to submit IOP is from **30 Aug 2023 to 15 Sept 2023.**
  - Submission must indicate if interest is for TechSprint or Showcase
  - Teams / companies can only participate in the TechSprint or Showcase, not both. Teams that apply for both will be automatically disqualified
  - Submissions will be vetted against an event specific selection criteria
  - The qualified teams will be notified through the Team Leaders' provided email contacts – it is important that this information is correct and the 2nd member's may also be provided to ensure that at least two (2) people receive this notification;
  - All relevant information will be provided in the notification;
  - Notification will be sent as soon as the evaluation is completed and a Team have qualified (note.: not all will be receiving the notification at the same time). The non-qualified team will be notified after the finalization of the evaluation.

Q & A Session

CLOSE OF BRIEFING SESSION