

New rules system helps standardise and speed up debt review proposal process

For Immediate Release

August 2011

A new system which standardises the way debt counsellors assess applications and draw up proposals for over-indebted consumers will help speed up the debt review process and keep debt review cases out of court.

The Debt Counselling Rules System (DCRS) aims to address concerns of inconsistency in the way debt review proposals are determined and improve the solve rate of proposals through consent agreements.

The system is the outcome of a recommendation by the National Credit Regulator's (NCR) Task Team which was set up to investigate bottle necks in the debt review process. The Task Team found that, inconsistencies in the programmes used by debt counsellors to formulate debt review proposals was undermining the effectiveness of the process. In order for the system to work, debt counselling system vendors have had to incorporate the DCRS rules into their systems in order to be able to produce standardized outputs and documentation as a requirement of the DCRS.

"The Debt Counselling Rules System is the outcome of a year of hard work where each rule was agreed upon by different players in the credit industry," says Ismail Kharwa, Acting Debt Counselling Manager at the National Credit Regulator.

Under the National Credit Act (NCA) over-indebted consumers can use a debt counsellor to make an application to restructure their repayments to their creditors. If accepted by credit providers, then the consumer's most valuable assets will be protected from repossession.

"But in order for this to work, creditors need to trust that the consumer will be able to make some kind of monthly repayments on their debt, even at reduced rates," says Kharwa. "In the past, there was no standardisation in the way proposals were drawn up and cases would often end up in court with obvious negative consequences for both consumers and creditors providers."

The Debt Counselling Rules System was developed by the Banking Association of South Africa (BASA) and it is currently managed by the National Debt Mediation Association (NDMA). A legal entity known as

the Central Rules Engine (CRE) has been established to govern the DCRS with a board consisting of credit providers, debt counsellors and software vendors. The system has been endorsed by the Debt Counsellors Association of South Africa (DCASA), Payment Distribution Association of South Africa (PDASA) and the Credit Technology Association (CTA), which represent the software vendors.

The rules in the system relate to different formulas that debt counsellors enter into the system to see whether a consumer can be rehabilitated. “For example, if all administration fees are waived, or if the interest rate on the loan is reduced or the term of the loan extended, will the consumer be able to pay back their debt within the five years that they have to be rehabilitated?” explains NDMA CEO, Magauta Mphahlele. “The system helps determine whether the consumer can be rehabilitated in terms of the Task Team Rules.”

Debt counsellors can choose to log onto the system and submit the affordability assessment and restructure proposal to the DCRS which verifies whether the proposal solves under the rules or not.

The benefit of the system is that each proposal entered is given a reference number, which the debt counsellor can then include in the final proposal sent out to creditors. Lenders can then log onto the system and check that the proposal submitted to them is the one that the debt counsellor submitted to the Central Rules System.

“If the proposal has been approved through the DCRS, it’s far more likely to be accepted by lenders,” says Mphahlele.

Although there is no obligation for debt counsellors to use the system nor for credit providers to accept debt review proposals that have been approved through the DCRS, Mr. David Lewis, Debt Review Advisory Committee chairperson, says it will make it much simpler for credit providers to assess applications. It is through the subscription to the Codes of Conduct by all stakeholders that will require both debt counsellors and credit providers to use the DCRS in order to ensure compliance with these rules.

“It’s in the interests of all parties involved to stay out of court and to recover as much of the debt as possible,” says Lewis.

Debt counsellors believe the new system will enable them to provide more clarity to consumers about whether their debt review proposals are likely to be accepted and prevent already over-indebted consumers from incurring unnecessary fees and legal costs.

"If proposals are readily accepted, consumers can start making their restructured repayments sooner and begin the process of rehabilitating their finances more speedily," says Paul Slot, DCASA spokesperson.

The system has been audited and tested by a firm of independent auditors appointed by NDMA and will monitor its deliverables on a monthly basis.

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