

Formal credit a double-edged sword for consumers



By [Brett van Aswegen](#)

9 Jan 2023

Given the high rate of inflation in our country and a dramatic rise in the cost of living, financially constrained consumers are utilising short-term credit to help them overcome unexpected financial hurdles.



Source: Supplied. Wonga chief executive officer, Brett van Aswegen.

However, one of the biggest challenges people face with interest-rate hikes is an increase in the servicing cost of their existing debt. This puts pressure on their affordability when applying for new credit products.

For short-term online loan providers, this means that while they'll see more applications for credit, their application decline rate is increasing due to more customers not being able to afford their loan repayment.

Looking into the new year, the credit industry trends that we are likely to see are that, in addition to consumer affordability constraints, we expect to see downward pressure on access to credit due to pricing regulations not keeping pace with inflation.

Regulated fees remain capped

The regulated fees covered in the National Credit Act are set by the Minister of Trade and Industry and have not been amended in South Africa in over eight years - since 2015.

More and more, financial institutions are facing a dilemma due to the cap on fees. While lending businesses are faced with inflationary adjustments across their supply chain, they cannot recoup these additional costs from customers, and the only real alternative is for a lender to take on less risk when making credit decisions. This means many of the previously creditworthy customers are now excluded from participating in the formal financial economy.

Looking forward over the next 12 months, I don't foresee the Minister adjusting the pricing caps so close to an election year, as this may prove to be unpopular. The unintended consequence is that financial exclusion is on the rise. This is not conducive to stimulating growth in an already struggling economy.



SA's consumer appetite for credit remains high

12 Dec 2022



Another unintended consequence of not adjusting the fees caps, is that consumers who were previously creditworthy, are forced to turn to unregulated informal lenders where the cost of credit can be as high as 50% per month with no protection for the consumer.

In light of changes that I would like to see happen in the current credit-industry landscape, I would like to see the revision of the pricing regulation.

More than 50% of South Africans do not have access to formal credit. The current regulations are having the opposite effect of what is desired.

They are leading to a two-tier system in our country: a regulated formal market and a large informal market, which goes unregulated and untaxed.

Responsible lenders cannot access the consumers pushed towards the informal market because they cannot price appropriately.

“ More than 50% of South Africans do not have access to formal credit. The current regulations are having the opposite effect of what is desired. ”

I would also like to see more consumers making more informed decisions and managing their money better.

South Africa has a well-developed and regulated formal financial sector, but it continues to be plagued by low levels of financial literacy, which drive poor financial decisions.

Financial literacy is all about understanding basic financial pillars such as budgeting, saving, borrowing and investing. We see a strong correlation between financial literacy and credit worthiness.

ABOUT BRETT VAN ASWEGAN

Brett van Aswegen is an experienced executive with more than 25 years involvement in the African retail credit and financial services industries. He joined Wonga as chief executive officer in 2015 as part of a strategic turnaround of the business and led a management buyout of the company in 2019. Among his career highlights, he led the automation of credit decisioning at the Lewis group and built AFB's retail-card operation in Kenya from inception.

■ #BizTrends2023: Formal credit a double-edged sword for consumers - 9 Jan 2023

[View my profile and articles...](#)

For more, visit: <https://www.bizcommunity.com>