EDITORIAL: The unintended consequences of the debt relief bill – Financial Mail 22 August 2019

You could forgive someone for mistakenly thinking they'd stepped into a world where a creeping form of populist-based radical economic transformation (RET) was indeed taking root, despite the ANC's constant pledges of economic rationality and appeals for foreign investment.

The past few weeks have brought plenty of private sector angst: if it wasn't the prospect of National Health Insurance (NHI) damaging private health care, it was talk of the government prescribing that part of your pension could be used to bail out state companies. This week, it was the turn of the banks to sweat, as President Cyril Ramaphosa signed the debt relief bill.

Like NHI, the goals of the debt relief bill are noble: relieve the pressure on the country's poor by giving the National Credit Regulator (NCR) the power to write off unsecured loans worth less than R50,000. To qualify for this relief, you have to be earning less than R7,500 a month.

But, as the late Steve Jobs, the founder of Apple, memorably warned: "There are unintended consequences to everything."

However, it's not a sentiment that, one imagines, is inscribed on the walls in parliament. Otherwise, MPs might have asked what the unintended consequences would be of allowing R20bn in debt, taken out by 9.4-million South Africans, to vanish from the financial system.

So, what is inevitable? First, it will become impossible for millions of low-income South Africans to access debt. And, when they can, the interest will be exorbitant, as banks mitigate the risk of not being able to collect on that loan.
No surprise that Capitec, the biggest lender to that market, proudly proclaimed it had "managed its exposure" such that people who earn less than R7,500 now constitute less than 5% of its clients.

But do you think those people have stopped borrowing? Or have they simply gone somewhere else — like to the informal mashonisa who cares little about rules, and subscribes to the baseball bat theory of debt collection.

As Cas Coovadia, the MD of the Banking Association puts it: "Surely we don't want to force people into informal lending."

And what of the moral hazard?

As Coovadia says in an interview with Moneyweb: "If you begin to send out messages that you can borrow money and, if you are not managing your finances properly, you can have your loan expunged, that begins to create serious problems in the credit market."

Nor, says Coovadia, is there a need for this law. He says SA's lenders have been negotiating with the NCR about a "debt restructuring" mechanism to address the problem of low-income South Africans stuck in a debt trap. "To use legislation to intervene in the market in this way, when market mechanisms are actually working to do what the bill intends to do … is problematic," he says.

There are similarities here with NHI. There, the government already has an existing system that offers health care, for free, to all. The problem is, because that system is managed terribly, the quality of care it offers is unreliable at best, atrocious at worst. People die needlessly in our hospitals because the government has run it into the ground. Which is why you won’t find politicians queuing at Charlotte Maxeke or Chris Hani Baragwanath hospitals.

But rather than fix what doesn’t work, and implementing the rules we already have, the government seems intent on shifting the risk to the private sector. It may not be RET as former president Jacob Zuma wanted it, but it’s still a populist measure to plug a leaking dam. And the effect is ruinous.