Letter

# Unaffordable loans are a scandal in South Africa

From Naeem Badat, Johannesburg, South Africa

YESTERDAY

Further to Nicholas Megaw's report "After PPI, what could be the next big consumer scandal?" (August 31): South African consumers need to be saved from themselves Why would you borrow money at 50 per cent to hopefully earn a 15 per cent return? That is exactly what 7.8m South Africans do. Except they don't know it.

Frequent any unsecured lender in South Africa and the picture is the same. Enticing visuals of holidays involving idyllic crystal waters invite primarily the young and low-income earners to unsuspecting financial ruin. Within 20 minutes, a consumer has multiple times his salary deposited into his account through the proceeds of a loan that can cost as much as 225 per cent annualised. The great irony is that these loans are typically funded by the borrowers themselves. Institutional investors entrusted with investing consumers pension savings funnel money to the lenders which then finds its way back to the consumer in the form of an expensive loan.

Allured by easy access to cash, these consumers are the perfect prey for greedy lenders who compete on the largest loan size and not customer value. The result is 13.5m outstanding loans at up to 225 per cent annualised — the proceeds of which have long since been spent on frivolous consumption. Considering that the South African assessed tax base is only 4.8m people, it is clear to see that there is a serious problem.

The country is grappling with one of the highest rates of inequality in the world, haunted by a past oppressive regime. A sinister industry has mushroomed under the guise of financial inclusion, now accounting for 25 per cent of retail credit, with 40 per cent of consumers late on their repayments.

With 85 per cent of public employees being saddled with unaffordable loans, antagonistic wage negotiations are routine, paralysing a government that is teetering on the brink of "junk" status. The human cost is worse. On August 16 2012, 34 mine workers, the vast majority of whom were loan consumers, were gunned down during a wage dispute.

Asset managers should reconsider funding these businesses. If policy cannot fix the problem, responsible investing should. Consumers lack the sophistication to understand the round-tripping of their pension money. Doing nothing is a policy stance. A clear statement to these businesses: "For the sake of our country, our children, and indeed even your company, change the way you operate or we will not fund you."

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