



South African Reserve Bank

Media Statement

Wednesday, 07 March 2018

The South African Reserve Bank (SARB) in collaboration with National Treasury has published a consultation paper on payroll deductions to solicit comment on the most appropriate regulatory option for addressing the abuse of payroll by collectors, such as financial product or service providers. The consultation paper focuses on addressing issues relating to discretionary or voluntary payroll deductions covering all employees in South Africa from both the public and private sectors. Examples of discretionary or voluntary payroll deduction include repayments of home, car or other types of personal loans, deductions for savings products or insurance premiums.

The number of entities that extend credit, and offer products and services to deduct debt repayments, insurance premiums and payments towards savings products from payroll (a service commonly referred as payroll deduction) has increased in recent years. These services are usually offered with prior agreement between employers and employees and, in certain instances, are requested or initiated by financial institutions, including financial intermediaries. At their best, payroll deduction services can lower the credit risk to financial product or services providers making the collections and therefore increase access by employees to a broader range of financial services. However, payroll deductions can also promote preferential collections and information asymmetries, and there are also unscrupulous operators who abuse the payroll deduction services system, leaving employees with very little to take home.

This work is part of a broader set of reforms aimed at cleaning up/improving the entire debt-collection system to increase confidence in the payment system, and to ensure that payments are collected from employees' salaries and/or consumers' bank accounts and paid over to collectors or product/service providers in a manner that is safe, efficient and

that affords the necessary protections to the consumers and/or employees, the collections system and the payment system as a whole. These reforms have to be undertaken carefully so that they do not discourage employer-employee benefit schemes as well as arrangements that will make access to credit, insurance or savings products more difficult, or expensive. This requires balancing the protection of employees from abuse with making it easier to collect debts, premiums and deductions for savings products via the payroll and avoiding deliberate by-passing and undermining of the formal national payment system collection methods. That is why, for example, all options explored in the discussion paper propose the setting of a threshold for payroll deductions as a way of guaranteeing that each employee is still left with a decent amount of money after the payroll deductions.

In the end, the National Treasury and SARB's objective is to ensure that the payroll deduction system:

- Treats employees fairly and protects them from abuse;
- Remains a safe and efficient means of collection;
- Is transparent;
- Does not promote undue preference;
- Prevents financial crime (e.g. fraud in the payroll deduction system); and
- Promotes access to financial services.

In addition, the payroll deduction system should be underpinned by principles that seek to:

- protect employees from predatory or unfair lending and/or selling practices;
- afford employees the benefit of access to finance at reasonable rates.

Contact details and deadline for comments

Comments on this discussion paper should be emailed to: npsdirectives@resbank.co.za.

An industry workshop has been planned for 28th March 2018. The closing date for comments is 30 April 2018.

Issued by:

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