Institute of Policy Studies

IPS Conference on Moneylending

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On 29 May 2015, the Institute of Policy Studies (IPS) held a conference where a final set of recommendations on the regulation of moneylending in Singapore — prepared by the Advisory Committee on Moneylending — was presented and discussed. The event ended with a dialogue session with Minister for Foreign Affairs and Minister for Law K Shanmugam, who engaged members of the audience on the Committee's recommendations and other issues relating to moneylending.

Sitting on the discussion panel that preceded the Minister's dialogue session were Mr Manu Bhaskaran, Chairman of the Advisory Committee on Moneylending and IPS Adjunct Senior Research Fellow; Mr Peter Tan, Vice President of the Moneylender's Association of Singapore; Dr Walter Theseira, Committee Member of the Advisory Committee on Moneylending and Assistant Professor at the Nanyang Technological University; Dr Ong Qiyan, Research Fellow at the Social Service Centre in the National University of Singapore (NUS); and Mrs Jodi Gardner, Researcher at the Centre for Banking and Finance Law in NUS.

Mr Bhaskaran went through the Committee's final set of recommendations in his opening speech. He highlighted the approach taken by the Committee for the study which encompassed striking a balance between: allowing reasonable access to credit and adequate borrower protection; achieving an appropriate level of regulation and protection; relying on evidence-based and data-driven analysis as far as data availability allowed; and ensuring that the recommendations are as fair and balanced as possible.

Proposed Borrowing Restrictions

Of the 15 recommendations, the two on borrowing restrictions attracted the most discussion. It is crucial to set the right level of control that strikes a balance between access to credit and borrowing protection, said Mr Bhaskaran. Under the proposed borrowing cost controls, interest and late interest were each capped at 4% per month. An upfront administrative fee of not more than 10% of the loan principal and a late fee of not more than $60 per month were allowed. Total borrowing costs would be capped at 100% of the loan principal. The Committee also proposed an aggregated unsecured borrowing cap of $3,000 for borrowers earning less than $20,000 a year, and an aggregate unsecured borrowing cap of six times the monthly salary for all other borrowers. The intention of these controls was to help borrowers manage their debt and avoid being caught in a debt spiral.

Dr Theseira highlighted that under the recommended borrowing cost limits, a loan amount of $1,000 repaid on time over a three-month period would incur borrowing costs similar to the current median borrowing costs. Hence, most moneylending businesses should remain commercially viable. The total borrowing cost cap would raise borrower protection.

Mr Tan, however, cautioned against comparing moneylenders to banks especially for borrowing costs, adding that banks had a wider range of capital options. For example, banks could use their deposits for loan purposes whereas moneylenders had to lend out of their own pockets. In addition, many borrowers from moneylenders were not credit-worthy, and as a result the default rate for the moneylending industry was much higher than that of the banking industry. The high premium charged by moneylenders reflected these additional risks they were taking on.

Importance of Borrower Credit Information

Dr Ong said that moneylenders play an important role in society, providing people a way to tide over difficult financial situations. This exchange was mutually beneficial, but only if money was lent to responsible borrowers with the intention and ability to repay their debts, and if borrowers were not excessively penalised. She added that many low-income households may not have their full financial situation captured by traditional credit reports. This was because a number of them go into arrears. Low-income households with substantial arrears are likely to lack the ability to repay their debts. Moreover, some of them, being emboldened by the protection they received from the law, may even have no intention to repay. Hence, it was important to provide moneylenders with sufficient information to identify such vulnerable or irresponsible individuals. The committee's recommendation to flag-out casino-excluded borrowers in the moneylenders' credit bureau would be useful in this regard.

The importance of an effective moneylender credit bureau was again highlighted when one participant asked for the borrowing cap of 100% of the loan principal to be increased, stating that the amount was insufficient to cover the costs moneylenders incur from recovering small defaulted loans. Mrs Gardner said that a credit bureau that captures loan defaults could mitigate this problem. A borrower that defaulted on his loan would not have access to future credit, which could be an effective deterrence against borrowers defaulting on their loans intentionally.

Local Research on Moneylending

One of the recommendations by the Committee was to improve the collection of moneylending data. The data collected will improve understanding of the industry so that more effective policies could be formulated.

The relationship between licensed moneylending and illegal moneylending was not as clear-cut as assumed. Improving access to licensed moneylending may not necessarily reduce the demand for illegal moneylending, noted Mrs Gardner. The Centre of Responsible Credit found that in Japan, increasing access to licensed moneylending actually led to an increase in illegal moneylending. A possible reason was that borrowers who could not repay loans from licensed lenders subsequently approached illegal lenders for loans. Work done by the

Institute of Financial Studies in Hamburg concluded that the relationship between the two was ambiguous. Hence, it is important to undertake country-specific research to uncover the relationship in the local context, she said.

One participant had reservations on the Committee's recommendation to exclude business loans from the borrowing costs and loan quantum caps. While the Committee feels that loans used for business purposes are different from consumer loans, studies conducted in the United Kingdom show that this is not necessarily true for small businesses, he said. Several UK studies showed that owners of small businesses tend to conflate personal and business debt. In fact, Step Change Debt Charity, a UK social service organisation, found that small business owners tend to have higher personal debt than larger business owners. Hence, small businesses should be protected the same way individuals were protected.

Dialogue Session with Minister K Shanmugam

During the dialogue session, Minister Shanmugam emphasised the importance of the moneylending industry to Singapore's society, highlighting the need for a proper and healthy framework to ensure a fair licensed moneylending regime for both the borrowers and the moneylenders. However, he said that the government has a duty to the consumer, adding that the average consumer often did not know his full rights and required the government's protection.

The advisory committee was formed to study how best to strengthen the current moneylending regime, and the Committee had given serious consideration to the feedback it received in the consultation sessions with industry stakeholders before submitting its final recommendations, he said. Out of the 15 recommendations, the government had accepted 12. As this is a process to ensure both the consumers and the lenders receive fair treatment, rules would be reviewed regularly and changed if they did not work.

While he agreed with a participant that there was a need to improve consumer rights awareness, Minister Shanmugam said that this was complicated by the fact that most borrowers who used the services of moneylenders were "people who struggle to make ends meet, generally hold lower-paying job, are in a lot of stress, and would sign whatever he is asked to sign to get the cash he needs". While the law required the moneylender to explicitly state the borrowing costs and the terms of payment, it was not enough to protect this group of vulnerable people. Hence, on top of providing more public education, there was also a need for a regulatory framework that protected these people.

Minister Shanmugam felt that borrowers could also be more upfront with their lenders and try more proactively to negotiate a debt-restructuring plan. Many borrowers thought that it was better to avoid their creditors, but they often end up in greater trouble when the moneylenders attempt to recover their loans.

Responding to concerns over the process of implementation, Minister Shanmugam assured that the government would carefully study the plan to transit into the new regime, and would not retrospectively enforce the rules on existing loans.

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