Institute of Policy Studies

IPS Conference on Moneylending

By Chang Zhi Yang
IPS Research Assistant

On 3 November, the Institute of Policy Studies (IPS) organised a conference to discuss moneylending in Singapore and measures that can be taken to strike a balance between giving consumers adequate protection and preserving their access to credit. The forum ended with a dialogue session with Minister for Foreign Affairs and Law K Shanmugam who thanked members of the audience and assured them that the feedback would be carefully considered. The discussions, especially on the subject of capping interest rate charged by moneylenders at 4% per month, received wide media attention.

Speakers at the conference included Mr Manu Bhaskaran, Mr David Poh, Mr Kuo How Nam, Dr Walter Theseira, Dr Francis Koh, Mr Peter Tan and Mr Christopher Chuah. Most of them are members of the Advisory Committee on Moneylending that was formed by the Ministry of Law in June 2014 to review the moneylending regulatory regime and recommend suitable measures to strengthen the framework. The committee was chaired by Mr Bhaskaran, Director of Centennial Group International and Adjunct Senior Research Fellow at IPS, and included representatives from the moneylending industry as well as voluntary welfare organisations that help distressed borrowers.

In his opening remarks, Mr Bhaskaran said that moneylenders serve a function in society. As a result, there is a need to both incentivise and regulate licensed moneylenders so that a balance is “struck between allowing borrowers reasonable access to credit from moneylenders, whilst ensuring that borrowers, especially the vulnerable ones, are adequately protected.” He also emphasised that the committee’s recommendations were based on sound analysis of the data as much as the availability of data allowed, and subsequently called on the participants to share their data so that the committee could refine their recommendations suitably before submitting their final report to the Ministry.

Controls on Borrowing Quantum

One of the recommendations made by the advisory committee is to impose an aggregate loan limit of four times of the borrower’s monthly income. In addition, for borrowers with an annual income below $20,000, the loan amount would be limited to $3,000. While acknowledging that some borrowers would be deprived of credit under this borrowing cap, the committee noted that the data showed that 82% of borrowers from moneylenders already keep within the limit. The quantum cap serves as a protection for vulnerable borrowers without being overly restrictive on the majority. Responding to some of the concerns arising from the audience, the panellists added that the cap would help to create the impetus for people to seek out other forms of assistance, and discourage lending to people who are at risk of being overstretched.

One conference participant asked why some individuals are borrowing such huge amounts from moneylenders when, realistically speaking, they would not be able to stick to the repayment schedule. The business model of moneylending is predicated on short-term loans that average around two to three months. Hence, it is unlikely that individuals who take out huge loans would be able to repay the loan within that period or stick to a longer-term repayment schedule given the huge financial burden they would have to bear.

Creation of a Moneylenders Credit Bureau

Responding to an audience member who said that the lack of data on the borrower's total loans from moneylenders is hampering the industry's ability to conduct proper credit assessments, the panellists said that there is a recommendation to create a Moneylenders Credit Bureau (MLCB). The aim is to consolidate all records of granted loans and make them available to all moneylenders so that they can make better loan decisions. Access to this database could also be open to suitable parties like VWOs, so they can get vital information on the financially distressed individuals that they are trying to help.

Requests were also made to address total borrowing and not just unsecured bank loans or loans from moneylenders. For example, there were suggestions for the MLCB to be integrated with the existing Credit Bureau (Singapore) so that the complete borrowing profile of an individual can be known.

Controls on Borrowing Costs

The advisory committee recommended that interest rates for moneylending loans be capped at 4% per month. Late interest will also be capped at the same level, and no other fees should be allowed. The panellists explained that the need to balance between allowing moneylenders to remain commercially viable and protecting borrowers from spiralling costs was a key point of consideration when the committee was deliberating on the issue of borrowing costs. Data provided to them suggests that a cap of 4% per month would not pose significant risk to the commercial viability of moneylenders. In addition, the panellists also said that using a cap is simpler and more transparent for borrowers to understand, because all the charges are shown as a single fee.

However, many participants disagreed with the proposed interest rate cap. One participant said that a minimum interest rate of 20% would be needed for his company to remain viable. He estimated that the average cost of operation for players in the industry was about $20,000 to $30,000 per month. Including the cost of default and other miscellaneous costs, he argued that the proposed 4% monthly interest rate cap would be too low for moneylenders to sustain their businesses.

Another participant pointed out that moneylenders' loan rollover rate is much lower than banks and they do not have access to the source of funding that banks enjoy (e.g., interbank loans and deposits). Furthermore, even when assuming that a company is able to make a default-free loan of $100,000 at 4% interest rate, that only translates to $4,000 monthly return — an amount that is insufficient to cover a moneylender's cost of operation.

The panellists said that the advisory committee is conscious of the potential implications of mispricing the interest rate. Neither do they want to drive demand underground to unlicensed moneylenders. Mr Bhaskaran explained that the committee is guided by principles with the intention to foster a viable licensed moneylending industry. As such, nothing is cast in stone, and it is prepared to look at new data and review the interest rate cap that it has proposed. He urged the moneylending community to submit data for the committee to analyse. It will also look at studies conducted by other agencies to reach a justifiable figure that is acceptable.

Nonetheless, Mr Bhaskaran stressed that it is important to recognise that regulating the moneylending industry alone does not address the root of the problem, which is why so many distressed borrowers exist in an affluent country like Singapore. There is a pressing need to help them via other community and government channels as regulating the moneylending industry alone will not be sufficient.

Dialogue Session with Minister K Shanmugam

In his conversation with the conference participants, Minister Shanmugam said: "At the end of the day there is ultimately a need on the part of borrowers sometimes to access credit not available from banks or from credit cards. As long as there is this need, I think we have to find legitimate ways to satisfy that need…. There is a need for the industry because there will be a need for people to borrow." He said that the government's task is therefore to find how this can be done in a framework reasonable for industry and the borrower.

Minister Shanmugam reassured participants that his Ministry would request the advisory committee to take the feedback gathered into account, especially on the issue of interest rate cap, and study it carefully before submitting the final report. He also asked the participants to submit their moneylending data to help the committee with their analysis to derive a sensible recommendation. However, he emphasised that the purpose of regulating the moneylending industry is to protect people who are vulnerable and have little knowledge or little power to negotiate. As a matter of principle they need to be protected; it does not matter how the interest rate is computed but the bottom line is the borrowers must know clearly how much they would end up paying.

On advertising by licensed moneylenders, Minister Shanmugam acknowledged that advertising restrictions have been difficult on the moneylending community and said his Ministry will review the current laws on advertisements in a balanced way, as recommended by the advisory committee.

With regard to legal advisors overcharging moneylenders, Minister Shanmugam said that one possible solution is to work with the court to craft an agreeable schedule for some sort of standardisation of fees that legal advisors charge their moneylender clients. He would ask his Ministry to follow up on this point.

Responding to feedback from members of the audience, Minister Shanmugam said that the Ministry would be asked to consider a good practice guideline to encourage moneylenders to work with VWOs like Credit Counselling Singapore to agree on a debt negotiation framework and restructuring programme for borrowers. Lastly, he also took on board the suggestion for the Ministry of Law to work with other agencies, especially the Monetary Authority of Singapore, which oversees the regulation of unsecured bank loans, to synchronise intra-agency regulation to improve the robustness of the overall regulatory system.

Chang Zhi Yang is a Research Assistant with the Economics and Business cluster at IPS.

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If you have comments or feedback, please email ips.enews@nus.edu.sg

Lee Kuan Yew School of Public Policy
National University of Singapore

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