

Amnesty forces update of models for credit risk

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Credit providers will from June this year have to change risk models as the credit amnesty by government will mean that credit histories have been wiped out, say lawyers.



Rob Davies is keen to get new credit regulations in place. Image: GCS

Credit providers will no longer be able to rely on the historical behaviour of consumers, increasing concerns that credit may become more expensive, or fewer people will get credit.

The proposed affordability assessment guidelines published by the National Credit Regulator last year will set the tone for new risk models, though the guidelines have already drawn criticism from banks because of its one-size-fits-all approach.

Trade and Industry Minister Rob Davies introduced the National Credit Amendment Bill to the National Assembly last week after publishing regulations that would give effect to the credit amnesty, whereby people who have paid up debts would be removed from all registered credit bureau records.

All adverse terminology such as "slow payer", "delinquent" or "defaulter" will also be removed in future.

The head of law firm Hogan Lovells consumer credit practice, Simone Monty, said the main problem with the amnesty was that though someone might have paid up his or her debt, they might have defaulted on agreements before paying up. "No credit provider or supplier wants that, because it is a cost to collect money," she said.

She said the credit amnesty was a political move, because for someone relying on the credit history of a person the amnesty made "no sense" as they could not properly assess their risk.

Monty said credit bureaus' records reflected "ticks" against names to indicate credit judgments against them. These markers will now be taken away, leaving a consumer's credit history wiped out.

Source: Business Day via I-Net Bridge

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