

Getting to grips with Capitec claims

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Viceroy Research's report contains a number of explosive allegations against Capitec, including that its bad debts are massively understated and it should be placed into curatorship.



Gerrie Fourie, CEO, Capitec. Photo: Capitec

Do these accusations hold water? *Business Day* explores.

Capitec should write off R11bn to reflect the real bad debts on its book

Viceroy claims that Capitec "materially misrepresents the balance of its unpaid loans by consistently rescheduling these loans through the issuance of new loans".

Capitec's rescheduled loans have indeed spiked in recent years, but these are provided for as if clients were in arrears.

Accordingly, Capitec's provisions for doubtful debts increased 33% in 2016 and another 16% in 2017 to R5.9bn, covering 13.1% of gross loans and advances.

"A rescheduled loan is not considered a new loan, so we don't charge any additional fees. But by law it is a new agreement, which reflects the client as being up-to-date," says Capitec CEO Gerrie Fourie.

Capitec does not issue new loans to repay existing facilities and it provides on average 52% for rescheduled loans.

Viceroy says affidavits from customers show new loans were used to repay existing facilities. While this raises ethical issues, from a solvency perspective, on a customer base of more than 9-million, Viceroy would need thousands of affidavits for this to be statistically significant.

Viceroy made an "error of logic" in suggesting 2017's write-offs of R5.4bn should be considered as a percentage of how much principal Capitec expected to receive in the next 12 months (in this case R12.9bn), Fairtree Capital portfolio manager Jean Pierre Verster says. "When capital is written off, it is capital expected over all future months, and therefore, logically, cannot be compared to principal expected just within the next 12 months."

Capitec's arrears are "impossibly low"

Viceroy compares Capitec with Bayport Financial Services and African Bank, saying that arrears of 6.3% are "impossibly low" for a lender in the low-income market.

Bayport's arrears are closer to 30% of gross advances.

However, these lenders are not directly comparable. Capitec writes off loans that are 90 days in arrears, while lenders such as Bayport carry these on their books for 180 days. This means Capitec's arrears should be lower.

The actual impairment provision raised by African Bank for its 2017 financial year is R2.5bn - not the R6.3bn cited by Viceroy, says Verster. This constitutes 12% of its gross advances book - in line with Capitec's 13.1% impairment.

Capitec resembles a loan shark

Using court papers between Summit Financial Partners and Capitec, Viceroy shows how Capitec issued reckless loans to customers, particularly on its now discontinued multiloan product. Capitec's new credit facility, Viceroy believes, is "exactly the same thing".

Reckless lending has been a problem in SA's credit market and Capitec will need to state its case in a court of law. "The National Credit Regulator investigated all our complaints against Capitec, including their multiloan product, and found in favour of Capitec. Summit has gone to great expense to approach the courts on these matters," says CEO Clark Gardner.

Legal proceedings against Capitec could trigger a R12.7bn class action.

Gardner says it is very possible that a class action could be certified if Summit wins cases in which it is seeking to have loans declared reckless or invalid. "Summit will then ensure that every consumer prejudiced by these loans receives their due."

These cases must be heard before a class action can be certified and taken to court.

Capitec has an artificially low cost structure.

Capitec's cost-to-income ratio of 35% is far below the big four banks, which are all above 50%, say Viceroy.

Consider that Capitec has no highly paid corporate and investment banking staff, no currency trading desks or costly legacy systems. Relying on Indeed.co.za, Viceroy says Capitec branch managers are paid R13,219 a month. Capitec says its average branch manager is paid R22,000.

Capitec should be placed under curatorship.

The Reserve Bank has stated that Capitec is well capitalised and solvent.

Source: *Business Day*

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