

Tharman Shanmugaratnam: Credit Counselling Singapore – ten years of helping individuals recover from debt problems

Address by Mr Tharman Shanmugaratnam, Chairman of the Monetary Authority of Singapore, at Credit Counselling Singapore 10th Anniversary, Singapore, 28 October 2014.

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Mr Kuo How Nam, President of Credit Counselling Singapore,
Pioneers of CCS,
Distinguished Guests,
Ladies and Gentlemen,

1 Good afternoon. I am very happy to be part of CCS' 10th anniversary celebrations today. I commend CCS and its pioneers for your contributions in helping distressed borrowers over the past 10 years.

2 CCS has come a long way from its modest beginnings in 2004. It has grown in strength, winning the confidence and trust of the people it has counselled as well as the banking industry. This is the result of the dedication of CCS' leaders, staff and volunteers.

3 I would like especially to thank Mr Kuo How Nam, who as CCS President led and inspired the CCS team, and worked doggedly to establish partnerships with banks and other organisations. He has shaped the CCS of today – a credible source of inputs to Government on matters to do with individual credit, and a valuable partner for the financial and social services sectors.

4 As we celebrate CCS' achievements, it is also timely for us to take stock of the consumer credit situation in Singapore, and consider how the Government, CCS, the banks and the social service sector can continue to work together to encourage financial prudence and help Singaporeans in need.

Consumer credit situation in Singapore

Household balance sheets in Singapore

5 The consumer credit situation in Singapore is on the whole healthy. Household balance sheets are generally strong. The net wealth of the household sector, or their assets net of liabilities, has grown significantly over the past 10 years, and stands at about four times of GDP. But while we are in a good position overall, there are some individuals and families who have over-extended themselves and are especially at risk when interest rates rise.

6 The Government has taken a multi-pronged approach to encourage financial prudence. We introduced several rounds of property-related measures to avoid a boom-bust cycle and hence anchor financial stability, and to ensure that individuals and households do not overstretch themselves. These measures include the Total Debt Servicing Ratio (TDSR) framework and tightened loan-to-value (LTV) ratios for housing loans.

7 These measures have helped to strengthen household balance sheets.

- (a) First, they have slowed the growth of household debt.
- (b) Second, the risk profiles of borrowers have improved. The share of borrowers taking up multiple housing loans has declined from about 30% of new housing loans in 2011 to about 13% as of Q2 2014. The average tenure of new private housing loans has also shortened to about 25 years, compared to a peak of 30 years in 2012.

8 The measures are also playing a healthy role in cooling the property market. We can never get rid of cycles in the property market, with the upswings in some years being followed by corrections. Our cooling measures cannot eliminate the cycle, but they aim to temper it. What this means is avoiding a bubble during the upswing, and allowing for a correction in prices subsequently. If we do not get a meaningful reversal after each upswing, property prices will run ahead of the growth of household incomes over the long term, which we should avoid. We have seen some correction in both private property prices and HDB resale prices over the last 4–5 quarters, but there is some distance to go in achieving a meaningful correction, after the sharp run-up in prices in recent years.

9 Apart from housing loans, MAS has also introduced new rules on unsecured credit facilities and credit cards to help individuals avoid unsustainable borrowing.

Credit card borrowing situation in Singapore

10 Globally and in Singapore, the use of credit cards has become more commonplace. Credit cards when used prudently offer convenience in day-to-day transactions, overseas travel and online purchases. However, excessive reliance on credit cards to finance personal spending leads to problems. We see this internationally, and in Asia too. The credit card crises in Korea in 2003 and Taiwan in 2006, where we saw significant increases in card delinquencies, as well as debt-related crimes and strained family ties, are reminders.

11. We have so far avoided most of these problems in Singapore, despite growing usage of credit cards. We were an early adopter of safeguards to discourage excessive borrowing on credit cards and unsecured credit,¹ and cardholders have generally been prudent.

- Credit card outstanding balances are not high by international standards, and the majority of users pay off their credit card bills in full. Compared to 10 years ago, a larger share of total credit card balances is now paid off in full. And bad debts written off from credit cards have remained stable at 4–5% of average rollover balances.

12 Nevertheless, there is a small group of borrowers who have incurred unsustainable credit card and unsecured debts. MAS estimates that about 3% of unsecured credit borrowers have accumulated unsecured debts that exceed their annual incomes. They are mainly not from the lower income group. Close to 65% of these individuals earn incomes above the median, and more than half hold tertiary education qualifications.

13 As CCS has found, people fall into debt problems for various reasons. Over-spending such as on travel and cars, and job-related changes, are the two most common reasons.

Enhancing financial well-being of borrowers

14 We want to help everyone to manage their finances well. The Government, financial industry and CCS are working together on a three-pronged approach.

Thrust one: tightening credit standards

15 First, we have to avoid excessive borrowing in the first place, which is why MAS has introduced tighter credit standards.

- (a) In June this year, the data in the consumer credit bureaus was enhanced to include information on the total amount of debts that an individual has across financial institutions. This enables financial institutions to make a more realistic assessment of an individual's repayment capacity, before they grant a new credit card or unsecured credit facility, and before they increase the credit limits on such facilities.

¹ MAS imposes minimum income requirements and also limits the amount of credit that each bank can extend to individuals.

- (b) From June next year, financial institutions will not grant further unsecured credit to a person if his total unsecured debt across all financial institutions exceeds his annual income, for three consecutive months. This cap on further credit is to help individuals avoid accumulating unsustainable debts. MAS had announced this last year and provided for a transition period of 18 months to allow time for borrowers to adjust. However, even when the rule takes effect, financial institutions are encouraged to give borrowers time to repay their existing debts gradually.

16 The Government is also strengthening other social safeguards to protect higher risk borrowers.

- (a) About 1% of total consumer credit is obtained from moneylenders. Although this is a small segment, there is a risk that some borrowers may turn to multiple moneylenders out of desperation. They may take on more debt than they can afford, or be faced with extraordinarily high rates and fees. The Ministry of Law has thus formed an Advisory Committee on Moneylending in June to review the moneylending regulatory regime. Measures being considered include limiting the aggregate amount of loans that a borrower can obtain across multiple moneylenders, restricting the fees charged by moneylenders, and capping the interest rates of loans from moneylenders.
- (b) The Ministry of Home Affairs has also stepped up efforts to arrest unlicensed moneylending activities. The number of reported unlicensed moneylending and related harassment cases has declined² following the enhanced police enforcement and the punitive legal measures introduced in the Moneylenders Act in 2010.

Thrust two: help the indebted reduce their debts

17 The second thrust is to help borrowers who are already over-extended, to reduce their debts in an orderly manner. We have to address the legacy debt problems, and help the borrowers who got into this over-extended situation before the recently tightened standards.

18 Many individuals who have been helped by CCS can testify that with resolve and determination, it is possible to overcome serious debt problems. Since CCS' setup, about 870 individuals counselled by CCS have already fully settled their debts. Many others, aided by CCS, are on their road to recovery.

19 To assist more borrowers, CCS is working on expanding its services. It will offer a centralised repayment solution to those who have accumulated substantial unsecured debts above their annual incomes. Under this new repayment solution, borrowers will not have to approach multiple creditor banks to negotiate how to reduce their debts. Instead, CCS will coordinate across all of a borrower's creditor banks, and work out a centralised repayment plan. This centralised repayment plan will take holistic account of the borrower's income, expenditure needs, and loan obligations. All the leading retail banks have agreed to come on-board CCS' centralised repayment solution by the first quarter of next year.

Thrust three: empower individuals to take charge through financial education

20 The third thrust is to reach out to more Singaporeans to empower them with the knowledge and skills to better manage their finances, and especially to avoid excessive borrowing.

- (a) An integrated consumer education campaign, that explains the problems that result when debts get too high, will be launched by MoneySENSE next year. The

² The number of reported unlicensed moneylending and related harassment cases has declined 23% from 10,840 cases in 2012 to 8,306 in 2013.

campaign will use multiple media channels to reach out to different segments of Singaporeans.

- (b) We will reach out to Singaporeans where they work and live. The Institute for Financial Literacy, a collaboration between MoneySENSE and Singapore Polytechnic, will reach out to employers and the unions to conduct free debt management talks at workplaces. Free public talks will also be organised from next year at convenient locations across the island for the general public.
- (c) The Institute for Financial Literacy will continue to conduct financial education programmes for social workers and counsellors so that they are better equipped to provide support to those who seek help from them. This is a useful way to help lower-income households who face difficulties.

Conclusion

21 In conclusion, the consumer credit situation in Singapore is on the whole in good shape, because we have taken pre-emptive regulatory actions. We are, however, concerned about a small group of borrowers who have over-extended themselves, and are addressing it in three ways:

- (a) encouraging prudent lending practices;
- (b) providing targeted help to those who are already indebted; and
- (c) empowering people with the knowledge and skills to manage their own finances.

22 This is ultimately a social mission. It is about helping people avoid getting caught in a spiral of borrowing, and avoid the major difficulties that they and their families face when they are saddled with a pile of debts. CCS is on a noble mission. You have had a remarkable story over the last ten years, and I wish you every success in the years to come.