



# PROPOSAL FOR A REGULATORY FRAMEWORK FOR PAYROLL DEDUCTIONS

SAPA 2018





# Introduction

- National Treasury and the South African Reserve Bank initiated payroll deductions engagements with public stakeholders to regularise payroll deductions.
- They aim to create an acceptable framework to govern payroll deductions.
- Formal discussions were held in March 2018, with a deadline for public commentary at the end of April 2018.
- In attendance were NT, SARB, NCR, various financial service companies and the Department of Labour.





# Principles

## Principles of the proposed regulatory framework

- Protect employees from predatory or unfair lending and/or selling practices.
- Access to finance at reasonable rates.
- Promote savings and productive credit over unproductive credit.
- Minimise the potential for conflicts of interest, especially where the employer has a vested interest in the supplier.
- Ensure that regulatory requirements are easily understood by providers and consumers.
- Ensure that the provisions for the protection of employees are clear.



# Types of payroll deductions

## Types of payroll deductions

- Statutory deductions.
  - UIF, PAYE
- Court order deductions.
  - Garnishee orders, maintenance orders
- Collective agreements deductions.
- Arbitration award deductions.
- Discretionary or voluntary deductions.
  - Pension, medical aid, union memberships, housing loan repayments



# Important considerations

## Items to consider

- Industry complaints – companies burdened with entities involving payroll deductions and lending.
- Abuses from payroll deduction practices.
  - Examples: over-indebtedness, unauthorised deductions, employers and unions with vested interest persuading employees to take up products to their disadvantage.
- Impact on the national payment system (NPS) – early debit order and EFT debits collection streams.



# Questions and thoughts

- Should the payroll be used as a collection mechanism?
- Employee over-indebtedness leading to more payroll deductions.
  - Additional data from the South African Reserve Bank (SARB) indicates that household debt as a percentage of disposable income increased from around 50% in the 1980s to 73% in June 2017, peaking at 83% in March 2009.
- What is the legally acceptable definition of a 'payroll deduction'?
- Will certain creditors enjoy preferential treatment as they are paid before other creditors?
  - Could this lead to an anti-competitive environment?
- Will additional payroll deductions be cumbersome on payroll departments – additional administration?

# Questions and thoughts (cont.)



- Should there be a set minimum nett pay, any further deductions not allowed?
- If payroll is used as a deduction method, is the consumer viewed as less of a credit risk to the lender and may therefore receive a lower interest rate?
- Payroll deduction results in employers intermediating employee third-party relationships.





# Proposed options

## Option 1

- No access to payroll voluntary deductions; only allow statutory, court order, collective agreement and arbitration award deductions
  - This is the preferred option by NT and SARB as it will protect the employee the most.

## Option 2

- Limited access to voluntary payroll deductions.

## Option 3

- Unrestricted access to payroll voluntary deductions.

# Advantages vs Disadvantages

## Option 1

### Some advantages

- Less complicated option as no further decision-making is required from the employers.
- The playing field is levelled as no preference is created in respect of providers or products.
- Employees are protected against unauthorised deductions.

### Some disadvantages

- May affect employee benefit programmes offered by employers, thereby decreasing employer willingness to provide the employee with financial assistance.





# Advantages vs Disadvantages

## Option 1

### Some disadvantages (cont.)

- Increased financial exclusion – employees may lose the cost-effective benefit of paying through payroll.

# Advantages vs Disadvantages

## Option 2

### Some advantages

- Allows for voluntary payroll deductions that are beneficial to the employees (mortgage, savings, retirement annuities). Thus ensuring that employees do not become a burden to the state in the future and fostering financial inclusion.

### Some disadvantages

- Adjustments to payroll systems to accommodate payroll deduction changes.
- Certain financial services providers may feel disadvantaged as their type of deductions may not be allowed.



# Advantages vs Disadvantages

## Option 2 (Cont.)

### Some disadvantages

- Employees' choices may be restricted with regard to the type of payments allowed through payroll.
- Smaller employers may be disadvantaged if their payroll systems do not have the capability to meet the required changes.



# Advantages vs Disadvantages

## Option 3

### Some advantages

- Level playing field – parties will have equal access to the payroll system, therefore, increase competition and drive down costs for employees, such as lower interest rates.
- Preferences will be addressed as no service provider will be preferred over another.
- Improvement in employees honouring their financial obligations.
- Employees will have a choice to decide who is paid from payroll.

### Some disadvantages

- Payroll system modifications rather than leveraging a shared National Payment System.



# Advantages vs Disadvantages

## Option 3 (cont.)

### Some disadvantages

- Collection preference may occur as the employer will decide the hierarchy of collections.
- Employers may be incentivised to prefer specific creditors and may not act in the best interest of employees.
- Unfavourable contractual terms – creditors or service providers may include, as part of the credit granting terms and conditions, the right to collect through the payroll; thus, the employee may not be able to change payment mechanisms.
- Given the unregulated nature of payroll deductions, it may be difficult for employees to stop or dispute payroll deductions.



# Feedback from NT and SARB



- Public consultation held on 27 Aug, with NT, SARB, NCR, FSCA (FSB)
- Committee questions to stakeholders/employers
  - What is the real impact of a “floor” (minimum) nett pay after deductions on employees?
  - How is an employee disadvantaged if payroll deductions are fully taken away?
  - Can payroll systems be configured to only cater for certain deductions – Option 2?
  - Will employees be forced to pay for benefits to their disadvantage?
  - The impact of certain suppliers taking preference of others due to relationship with employers?
  - Impact of double administration costs, additional bank charges if employees pays for benefits themselves instead of payroll deductions?
  - NT and SARB needs statistics on how many current payroll deductions are for credit specifically?
  - Questions were asked by public on what the specific mischief is that is being addressed – NT and SARB did not want to provide and answer.



THANK YOU

