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Headline: Commentary: Loan sharks - who's still borrowing from them in this day and age?

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File photo of Singapore dollars. (File photo: AFP/Roslan Rahman)

While businesses across Singapore have been impacted by COVID-19, there is one sector that is thriving: Unlicensed money lending.

Nearly 300 were arrested by the police for loan shark activities in early September.

Barely a month ago, 237 people, aged 13 to 77, were arrested in a similar 11-day sting operation for acting as runners, opening up bank accounts to facilitate loansharking activities or carrying out acts of harassment.

There were also reports during the circuit breaker of loan sharks sending families hundreds of dollars of food deliveries, leaving them stuck with orders they didn't make, and others recruiting runners to harass debtors while posing as enforcers for stay-home notices.

These incidents and arrests has raised some eyebrows: Why are there still so many loan sharks in a modern society like Singapore?

Given how notorious loan sharks are known for their tactics, why are people still borrowing from them?

#### IN NEED OF CASH DURING TOUGH TIMES

The advent of modern banking has not eliminated off-bank lending, even in a global financial hub like Singapore where over 97 per cent of people aged 15 or older have a bank account and a majority own a credit card, according to the World Bank's 2017 global financial inclusion data.

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On the surface, Singapore residents don't have apparent issues with access to banking services. But dig deeper and you find some have limited options when a rainy day hits.



File photo of some banks in the CBD district of Singapore (Photo: Jeremy Long)

About 8 per cent relied on family or friends as their main source for emergency funds, though a vast majority said savings were their main source, according to the same World Bank survey. In contrast, barely 0.2 per cent of people raised funds from a bank, employer or a licensed private lender for emergency uses.

This is worrying when two-thirds of Singapore households say they only have enough savings to last six months if they lose their jobs, in an OCBC survey conducted in May.

Although provisions for individuals to defer principal and interest payments for student, car and property loans have been rolled out by the Monetary Authority of Singapore (MAS) earlier this year as part of COVID-19 measures, Singapore workers who have found themselves furloughed or laid off need credit to tide them until their next job. In that vacuum lies space for unauthorised lenders like loan sharks to operate.

#### RESTRICTIONS AND RULES ON LENDING

The trouble also arises because legal restrictions on how much banks can lend mean credit to those who need money urgently might not come easily or cheap.

Such intensive regulations on banks' capital adequacy, risk management and internal control systems to ensure the solvency of banks and safety of the financial system are necessary but translate into banks needing to carefully assess and manage credit risk in loaning out cash.

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Hence, banks may require borrowers to post collateral to secure their loans or restrict the loan-to-value ratio. They may be less likely to lend to a person with a low credit score.



People in every age group borrowed less, but 18- to 24-year-olds showed the biggest drop when it came to asking for financial help. (Photo: Freepik/pressfoto)

If they do, they may require collateral or charge very high interest rates for unsecured loans – just think of the high interest rates charged for unpaid credit card debts.

These costs – which may include minimum charges each month that money is borrowed, processing fees, and late fees – can add up and create a vicious cycle trapping relatively low-income workers.

While licensed moneylenders are another option, they may not meet the demands of a person who urgently needs quite a bit of money. The Moneylenders Act caps the amount of unsecured loans that can be loaned.

A Singapore citizen with annual income of at least S\$20,000 can borrow up to six times of their monthly income, but the cap is only S\$3,000 for someone whose income is less than \$20,000.

#### HELP THOSE WITH LITTLE INCOME TO RECEIVE FINANCIAL SUPPORT

Perhaps it is worth diving into the characteristics of someone who may be the target of such loan shark operations.

While there is little public data on this, it is reasonable to surmise that low-income earners with few savings, a low credit score and little recourse to friends and relatives who can loan them money, may make look for alternatives that are unregulated for easy and quick access to loans.

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When he or she urgently needs cash, they may turn to loan sharks in desperation. This is especially since loansharks these days can disguise themselves as a legitimate credit organisation with professional looking websites.

Such efforts often conceal their suspiciously less stringent lending rules that banks have to protect themselves and borrowers from having too much credit on their hands.

Without such legal obligations and responsibilities, loan sharks appear to offer hassle-free applications and easy credit to lure unassuming victims.

When such borrowers run into trouble, they are also reluctant to turn to authorities for help to resolve the dispute when it involved illegal moneylending activity.

Grappling with stigma, these borrowers then open themselves up to further extortion (for example, high cumulative interest rates) and violent debt collection tactics.

#### HOW TO CATCH A LOAN SHARK

Strong law enforcement and public education should be welcomed to suppress and deter illegal practices.



Singapore police officers arresting a suspect. (Photo: Hanidah Amin)

It is heartening to see ground-up initiatives and online communities to help victims of loansharking activities emerge in recent years, including Facebook group Singapore Anti Loanshark, the National Crime Prevention Council's X-Ah Long hotline and social service organisations that provide credit counselling.

However, these do not resolve the underlying issue of demand for unlicensed and unregulated alternative sources of loans.

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While the Government can arguably relax regulations so banks and moneylenders can provide credit to this group, a loosening of the financial system could be a double-edge sword if it encourages spending beyond one's means.

Memories of the US sub-prime mortgage situation, which triggered a global financial crisis in the US are still fresh. Policymakers have to carefully measure any potential impact and assess if higher risks are worth taking.

Where the MAS has only recently tightened rules in 2019 to bring down the total unsecured debt limit to 12 times one's monthly income to manage growing debt among Singaporeans, I cannot see how regulators will shift gears now.

The arrival of FinTech may broaden the ways that people can seek credit, especially if MAS' FinTech Regulatory Sandbox gains more traction.

FinTech firms, like MoneyBank in Vietnam and Lendr in the Philippines, engage in micro-financing small sums that banks usually do not loan, to those without a credit history, using big data to assess risks.

A better understanding of the gaps FinTech can fill, their methods and the trade-offs would benefit Singapore in the long term.

Perhaps having better information about the victims of illegal lending activities, their demography and circumstances that led to them borrowing money may be the needle-mover for authorities in devising strategies to tackle the scourge of loan sharking, especially during these tough economic times where the demand for aid may be heightened.

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A woman buys Malaysian ringgit from a money changer at The Arcade at Raffles Place, Singapore. (Photo: Jeremy Long)

An understanding of where the financial pressure points are, whether families borrow to fund a child's educational needs, a medical emergency or to tide over short-term cashflow challenges for a small business, could also help authorities take a more social welfare approach to the problem.

The mass arrests these past few months shows the Government's seriousness in law enforcement; that should send a strong signal that illegal lending is not welcome in Singapore.

But maybe it's also time to relook access to credit to see how we can help more among us avoid the need to borrow from loan sharks altogether.

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