

Credit Checks in South Africa:

When Can They Be Used in your Employee Screening Programme

Credit checks in South Africa are crucial in assessing financial reliability for individuals and businesses. With a unique socio-economic landscape shaped by diverse cultural practices and historical influences, credit checks have become a standard part of many processes, from securing loans to applying for jobs.

However, they also raise important questions about privacy, fairness, and accessibility, particularly in a country where financial inclusivity is still a work in progress. Understanding credit checks' implications helps navigate the balance between financial opportunity and accountability.

Employee screening in South Africa has become far more regulated over the years, and a credit check has probably been the one check that has been most affected. Previously, credit checks could be done on anyone with or without their permission but now it can only be used in the Human Resources environment if the person could pose a financial risk to the organisation. Candidates also need to be informed that the check is being conducted.

If the individual requests a copy of the credit check, they need to understand that when a credit check has previously been done on them, it could be for the following reasons:

- **Bank Applications:** When applying for a mortgage, loan, or any other type of credit facility, lenders typically conduct credit checks to assess the risk of lending money by reviewing the applicant's credit history, including their payment history, outstanding debts, and any judgements or defaults.
- **Rental Applications:** Landlords often run credit checks on prospective tenants to assess their ability to pay rent consistently and on time. A favourable credit history can increase the chances of being approved for a rental property, while an adverse credit history may lead to rejection or require a higher deposit.
- **Employee Screening:** It is highly recommended that employers conduct credit checks for any position involving financial management, accounting, or access to sensitive financial information. Credit checks help employers evaluate an applicant's financial responsibility and trustworthiness level. Organisations require the applicant's consent to perform a credit check.
- **Insurance Applications:** Some insurance companies may consider an individual's credit history when calculating premiums for insurance coverage. They believe that credit history can indicate a person's level of risk and responsibility, affecting the pricing of insurance policies.
- **Compliance with Regulations:** Credit checks are also essential for compliance with regulations such as the National Credit Act (NCA) in South Africa. The NCA regulates credit reporting and promotes responsible lending practices by ensuring lenders assess borrowers' ability to repay loans.

In South Africa, credit checks in HR processes can raise several issues:

- **Consent and Transparency:** Employers must obtain written consent from candidates before conducting credit checks. Employers must communicate the reason and significance of conducting the credit check.
- **Job Relevance:** Credit checks are appropriate solely for roles that involve financial duties, like managing cash or overseeing budgets.

- **Legal Compliance:** Employers are required to comply with the National Credit Act's regulations to ensure credit checks are carried out ethically and within the bounds of the law.
- **Potential Bias:** Candidates with poor credit histories may face discrimination, even when their financial challenges have no bearing on their job performance.
- **Privacy Concerns:** Candidates might perceive that their financial details are being subjected to excessive scrutiny, raising worries about privacy and information security.

Compliance Requirements in South Africa

Protection of Personal Information (POPIA):

South Africa has a comprehensive data protection law called the Protection of Personal Information Act (POPIA). This law regulates the collection, use, storage, and dissemination of personal information. When conducting background checks, you must comply with the provisions of POPIA and ensure that you have the necessary consent from the individuals whose data you are processing. Ensure your background screening company is registered with the NCR and is POPIA compliant to ensure you have access to a legally correct indemnity document.

The National Credit Act (NCA):

The National Credit Act of 2005 regulates credit information and consumer credit in South Africa. While it primarily focuses on credit-related information, it also applies to certain aspects of background checks involving credit history.

It must be remembered that employers may only conduct pre-employment credit checks for any position involving financial management, accounting, or access to sensitive financial information. Credit checks help employers evaluate an applicant's financial responsibility and trustworthiness level. Organisations require the applicant's consent to perform a credit check.

In South Africa, the National Credit Act requires that a potential employer first receive permission from a candidate to run a credit check. In addition, a credit check may only be requested where a candidate is being considered for employment in a job that requires honesty in dealing with cash or finances.

Consumer reports, aka credit checks, may only be kept for 72 hours by the background screening company and the client.

WHO HANDLES CREDIT INFORMATION?

A credit bureau is a commercial company that gathers information about individuals' and businesses' credit history and financial status and sells credit reports to approved interested parties.

While some people fear credit bureaus, they are commercial entities and are, in fact, an essential part of the framework created by the National Credit Act (NCA) to manage credit. The Act requires credit providers to ensure that consumers can afford the credit they apply for and understand their commitment to protect them from taking on more debt than they can manage.

Credit bureaus must be registered with the National Credit Regulator (NCR), which enforces the NCA, and individuals can complain to the Credit Ombud if they have unresolved disputes about credit information listed with the bureaux. The ombud has oversight over credit providers and bureaux that are members.

The bureau gathers, researches, and supplies information that credit providers need to make informed decisions, which the NCA requires. They partner with the companies who use their services, and they, in turn, provide the bureau with month-by-month updates on active credit agreements and the repayments made by those using credit.

Major lenders and credit providers, such as banks, retailers and mobile phone companies, are significant credit bureau service users. These services are also used by estate agents who sell and rent properties and employers who need to verify the financial status and background of prospective employees whose roles require absolute financial integrity.

A credit bureau will calculate an individual's credit score when a credit report is called for as an overall, up-to-date indicator of their credit standing at a particular time. Each credit bureau has its method of calculating a credit score, so often, individuals will have different credit scores from different bureaus.

The bureau or screening companies do not make decisions for the lenders/credit providers or potential employers; they simply supply the answers to questions such as how regularly the individual pays their debts, whether they stretch their credit facilities to the limit, and whether they have recently been refused credit.

The information in a credit report can be highly personal and powerful, and the NCA is stringent in requiring bureaus to keep records confidential and use the information only for the purposes outlined in the NCA:

- To assess whether or not an individual can afford credit or other services and whether they manage credit responsibly.
- To investigate fraud, corruption or theft.
- To consider an application for employment in a position that requires trust and honesty and entails handling cash or finances.

If information is released without permission, an individual can complain to the Credit Ombud.

As a consumer, an individual has the right to access their own reports free of charge once a year, but if they want to monitor their credit record more carefully, they can become a paying bureau client by signing up for regular report updates. If inaccuracies are found in a report, they are entitled to have them corrected by the bureau concerned, with the help of the Credit Ombud if necessary.



About The Author

Jenny Reid, Founder of iFacts Employee Screening and Vetting Services, has been in the Security industry since 1995.

Jenny bought the iFacts brand in 2009. iFacts is a uniquely South African screening and vetting company that aims to keep organisations and their employees safe, secure and honest.

Providing a service for individuals and corporates, iFacts can deliver on requirements to meet the onboarding and vetting process of people and organisations.

With 30 years in the industry, Jenny is an outspoken advocate of change, integrity, and innovation to address areas of human risk. She is considered an expert on employee screening.