PRELIMINARY PRINCIPLES FOR EXPANDING CONSUMER FINANCIAL LITERACY IN SA

Purpose of document: to propose overall principles in terms of which consumer financial literacy can be effectively addressed in SA, to inform discussion around this aspect of the financial sector charter.

Rationale for focusing on consumer financial literacy: The goal of making financial markets work for the poor depends on the poor being sufficiently able to engage with such markets from an empowered base. In addition, various international studies have demonstrated the commercial benefit of consumer financial literacy. Amongst others, these include, (a) improvement in the quality of the portfolio (eg reduction of lapsed policies, reduction in the portfolio at risk etc) (b) improvement in the public trust of providers to include both the government and the consumer, and (c) increase in the visibility of organisations [in low-income markets].

Further, the Financial Sector Charter provides real opportunities to focus on the development of a concerted approach towards consumer financial literacy in South Africa beyond the term of the Charter.

Charter requirements: In terms of the charter, consumer financial literacy (CFL) is defined under the two following commitments:

(8.4) Each financial institution commits, from the effective date of the charter to 2008, to annually invest a minimum of 0.2% of post tax operating profits in consumer education. Consumer education will include programmes that are aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles. (italics added)

(13.1) Each financial institution will have a target of directing 0.5% per annum of post tax operating profits to corporate social investment (CSI) between the effective date of the charter and 2014.
(13.3) CSI projects may include, but will not be limited to – …… Training: community training; skills development for unemployed; adult basic education and training in communities; financial literacy programmes in communities. (italics added)

It is clear that there is some overlap between the two commitments (cf 8.4 and 13.3). For the purposes of the Charter we propose that consumer financial literacy is the objective of the consumer education commitments as it relates to the desire to improve access – or to put it another way, appropriate and effective access cannot be achieved without a level of financial literacy. Accordingly the focal point of consumer education versus CSI is the need to focus on ensuring effective decision making around their financial lives. Simply this may be seen as persons being able to make simple cost-benefit decisions over how to manage their financial lives. The CSI section may then be considered as covering wider consumer education programmes and focused around training of communities and is likely to be more broad based and less specific programmes.
Summary: Proposed Principles

1. **Consumer financial literacy is a fundamental to the success of the Financial Sector Charter.** It creates the basis for individuals to make effective choices regarding their financial lives, and the new opportunities that the Charter offers them;

2. **Consumer financial literacy requires a definition and CFL programmes must be designed to be consistent with this definition.** All programmes, irrespective of how and by whom they are delivered, should focus on building their the skills required for individuals to make effective choices regarding their financial lives. CFL programmes are about much more than product marketing and information;

3. **Consumer financial literacy makes good business sense.** While private financial service providers should not be forced to collaborate or to use unbranded programmes, such approaches should be encouraged in specific situations;

4. **Consumer financial literacy programmes require the use of multiple delivery mechanisms.** In this way they can respond to the diversity of consumers’ needs;

5. **The effectiveness and impact of CFL programmes must be credibly monitored over time.**

6. **Expanding effective consumer education towards greater consumer financial literacy will require greater facilitation and coordination between the various providers;**

7. **All stakeholders have a role to play.** While the Charter calls for financial service providers to engage in the delivery of CFL programmes, government has a clear role to play in enabling and facilitating the environment for consumer financial education over the long term. To this end a policy and monitoring role is implied.

8. **Financially literate consumers must have recourse options available to them and be aware that these options exist.** It is government’s responsibility to ensure that these are established, either publicly or by private sector players. Consumer recourse processes should be effectively and adequately communicated.

Background:

‘Consumer education’ in South Africa has been undertaken for many years with considerable spend allocated to it at many levels from government, private sector providers to NGOs. However it is clear that the majority of the programmes have, however well meaning, been either inappropriate, marketing focused or duplicating existing programmes, which has limited the effectiveness of outreach. As a result, the impact of these programmes has been extremely limited at a country level.

To address this deficiency, in 2000, the FSB were endowed under statute to focus on promotion of consumer education as one of their key roles in the financial field. In line with this mandate the FSB developed a strategy document for this purpose. This strategy was accepted by the FSB’s Board in October 2001. This follows on from international examples in the UK and Australia. Since 2000, progress has been mixed which, it has been suggested, has been contributed to by a lack of capacity, skills and resources¹. As one of their strategies they established a Foundation as a repository for donor funding, which unfortunately coincided with the exit from SA of donors due to its middle-income status. Again, progress has been mixed

¹ Further details on some of their challenges is detailed in ECIAfrica (2004).
with their main achievements being through support from SAIA’s consumer education work under the Charter and various other smaller projects. The Financial Sector Charter specifies significant commitments to consumer education and therefore should re-inject energy into this space, and with an eye to posterity, could have a systemic impact on the way consumer education is delivered and coordinated in South Africa.

**Current status:**

The FinScope survey of financial services provides some data on the extent of consumer financial literacy:

FinScope 2004 demonstrated the following: Only 34% of respondents knew the correct word to describe ‘annual price increases’. 45% of the banked are confused on financial matters. And among the unbanked it was at 61%.

In terms of sophistication, the FinScope FSMs (2004) tell a more challenging picture where 55% of the population could be broadly defines as financially unsophisticated in terms of attitudes and access to financial services

![FinScope Data Chart](chart.png)

The FinScope 2005 survey was more illuminating as follows:

<table>
<thead>
<tr>
<th>FinScope 2005</th>
<th>Never heard of</th>
<th>Heard but doesn’t mean anything</th>
<th>Heard and know what it means</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Account</td>
<td>9</td>
<td>13</td>
<td>78</td>
</tr>
<tr>
<td>Debit Card</td>
<td>34</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Burial Society</td>
<td>9</td>
<td>12</td>
<td>79</td>
</tr>
<tr>
<td>Insurance</td>
<td>13</td>
<td>21</td>
<td>66</td>
</tr>
<tr>
<td>Ombudsman</td>
<td>74</td>
<td>14</td>
<td>12</td>
</tr>
</tbody>
</table>
Even with the Mzansi bank account, which some 89% of people say makes banking more understandable, 26% of users would like to know more about how their account works.

**Proposed principles:**

1. **Consumer financial literacy is a fundamental to the success of the Financial Sector Charter.** It creates the basis for individuals to make effective choices regarding their financial lives, and the new opportunities that the Charter offers them;

   **Rationale:** As noted above consumer financial literacy is not only a moral requirement in terms of enabling an empowered consumer, it also makes good business sense for the organisations involved in terms of managing their risks and supporting the roll out of new financial products suitable to low income households.

2. **Consumer financial literacy requires a definition and CFL programmes must be designed to be consistent with this definition.** All programmes, irrespective of how and by whom they are delivered, should focus on building their the skills required for individuals to make effective choices regarding their financial lives. CFL programmes are about much more than product marketing and information;

   **Rationale:** A focus on product placement and marketing is unlikely to have any positive impact on the market in terms of improving effective access or improving the risk profile of providers. A clear definition for CFL will therefore be needed to ensure consistency and strengthen impact.

   **Comment:** Consumer education can be seen from a number of angles (to include Adult Basic Education and Training – ABET - etc) but in the case of the Financial Sector Charter it is clear that the focus should be on consumer financial literacy to ensure effective access.

Various definitions for consumer financial literacy have been used by a number of organisations (see below) and there will be a requirement for SA to develop its own definition appropriate to its needs and circumstances.

   “Financial literacy may be defined as the ability to make informed judgements and to take effective decisions regarding the use and management of money.” *National Foundation for Education Research UK*

   “Financial literacy is the way an individual or a family can be changed by a shift in basic habits. It is a basic understanding of banking, savings and the importance of good credit that can allow a low or moderate income individual or family to save enough money to actually buy a home or start a small business.” *The National Community Reinvestment Coalition (NCRC) US*

   “Personal financial literacy is the ability to read, analyse, manage and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite of) discomfort, plan for the future and respond competently to life events that affect everyday financial decisions, including events in the general economy.” *Fannie Mae*

The Charter, with government, can play a key role in setting the definition applicable for the main issues relevant to South Africa. For example, one may want to include a definition that
refers to an element of entrepreneurship. Once there is a clear definition, it becomes clear what is not consumer financial literacy - that which may fall into the arena of marketing or product placement. An easy simplistic test may be ‘if one removes the branding, does the message make sense?’ The following four questions developed by ECIAfrica could provide the basis for a test of what constitutes an effective and appropriate consumer financial literacy programme:

- Does the programme provide the [consumer] with a set of relevant and appropriate options?
- Is the content objective with the best interest of the [consumer] at heart?
- Is the intent of purpose of the programme in the best interest of the individual (as opposed to the institution, e.g. market penetration)?
- Would the content and message make sense if the brand (where applicable) accompanying the message is replaced by that of a different institution – including that of a different sector or other financial institution?


3. **Consumer financial literacy makes good business sense.** While private financial service providers should not be forced to collaborate or to use unbranded programmes, such approaches should be encouraged in specific situations;

*Rationale:* A concerted approach to CFL will be required in order to maximise impact and pooled funding and collaboration is one clear way to maximise impact. However, it is noted that consumer financial literacy is seen to be a difficult sell to financial service providers due to the already intangible returns. Requiring unbranded programmes further weakens the incentive structure, which will make any payments made under the Charter commitment be grudge payments (ie a tax) - and therefore likely limited to the period of the Charter. With clear quality control procedures (in terms of a clear definition, monitoring and impact assessment), one will still be able to have effective CFL programmes and yet allow companies to more clearly measure payback in terms of improved behaviour and trust.

4. **Consumer financial literacy programmes require the use of multiple delivery mechanisms.** In this way they can respond to the diversity of consumers’ needs;

*Rationale:* Effective consumer education / financial literacy programmes should reflect an improvement both in understanding and financial behaviour. International evidence points to the need for mutually enforcing programmes using alternative delivery mechanisms over the life cycle of a population.

*Comment:* It is clear that there is no silver bullet to consumer education and the use of many alternative delivery channels are essential. These alternative delivery channels may include schools, work placed programmes, mass media, community and group based, point of sale, consumer groups, leaflets etc.

Delivery could be considered, amongst others, in terms of

(a) **Effective outreach:** in terms of reaching the right persons to whom it is targeted eg LSM 1-5.
(b) **Appropriate timing**: consumer education must be delivered when required and may be proactive (eg planning & budgeting) or reactive (eg debt counselling). For example, it is clear that knowledge of life insurance is only needed at a certain point of life, such as when one is in a steady relationship, has children and/or has a house.

(c) **Appropriate content**: See above discussion on the definition of CFL.

5. **The effectiveness and impact of CFL programmes must be credibly monitored over time**;

   **Rationale**: Without effective monitoring of changes over time, it would be difficult to ensure that spend is being undertaken in an effective manner, to assess gaps or to generate dynamic feedback into existing programmes.

   **Comment**: Alternative mechanisms are possible to assess impact, which could be individual impact assessments of programmes to nationally representative household surveys. Whilst it is notoriously difficult to assess financial literacy by surveys, tools such as the nationally representative survey, FinScope, provide some indication. For example, a shift in the FSMs (ie increase in numbers of people in the middle to higher FSMs) will provide a composite view of how households are managing their financial lives. Alternatively, specific survey questions could be incorporated into other surveys undertaken by Stats SA e.g. the Household Expenditure Surveys and Census. In any survey, it will be key to assess both financially included and excluded to get a full picture.

6. **Expanding effective consumer education towards greater consumer financial literacy will require greater facilitation and coordination between the various providers**;

   **Rationale**: Considering the extent of the current activity in consumer education, the dividend has been poor as measured by sources such as FinScope etc. Greater facilitation and coordination at different levels (eg national or industry), such as being undertaken by SAIA will improve allocation of funding and greater competition in terms of the providers of consumer financial literacy

7. **All stakeholders have a role to play.** While the Charter calls for financial service providers to engage in the delivery of CFL programmes, government has a clear role to play in enabling and facilitating the environment for consumer financial education over the long term. To this end a policy and monitoring role is implied;

   **Rationale**: Whilst industry bodies will play a key role in their respective sectors (eg SAIA, LOA, BASA), there will remain a need for a national body to provide the overall national perspective. As consumer education/CFL is required in perpetuity, short-term solutions are not appropriate and therefore the Financial Sector Charter should strongly consider how to capacitate a national body to play this role.

   **Comment**: During the term of the Charter, it is suggested that the national body should become responsible for monitoring the CFL commitments and have some delegated authority to allocate Charter points. This will (a) provide it with an overarching view of the types of consumer financial literacy programmes that are being undertaken to best position it as an

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2 For example, a recent national survey on consumer education levels in South Africa only assessed the financial included and therefore is not nationally representative.
information clearing house beyond the Charter and (b) reduce the administrative burden on Charter structures.

At present there is no clear vehicle that can play this national role in their current guise. Amongst the national bodies the FSB’s Consumer Education Department (and affiliated Foundation) appears to be best positioned, although it arguably lacks certain skills and capacity at present, which it is seeking to address. In addition, it does not appear to enjoy the support of all Charter constituencies. However, as they now have a statutory duty to focus on the promotion of consumer education, consideration should be given as to whether to engage and capacitate them to take on this role.

8. **Financially literate consumers must have recourse options available to them and be aware that these options exist.** It is government’s responsibility to ensure that these are established, either publicly or by private sector players. Consumer recourse processes should be effectively and adequately communicated;

**Rationale:** An effectively working market requires effective and well-communicated recourse mechanisms, in terms of protecting consumers and ensuring good behaviour amongst providers.

**Comments:** FinScope 2005 shows that 88% of the population has either not heard of one of the approximately seven ombudsmen or does not know what the term means. This is of particular concern as financial service providers should be responsible for making consumers aware of recourse mechanisms at the point of sale. Whilst ombuds are only one the various means of recourse to include magistrates, and regulators etc, this reinforces the concern around the lack of awareness of recourse mechanisms, which will continue to damage the sector. Increasing awareness of each ombud / adjudicator is not cost effective so will require the setting up of one central contact point (possibly including the set up of one central call centre rather than requiring a new super-ombud) to divert calls accordingly.

Further consideration should also be given to the overall consumer recourse mechanisms, in terms of their effectiveness as well as their visibility. Attention should be given to the courts, regional consumer education departments as well as consideration of the possibility of establishing counsellors as occurs in the USA.

FinMark Trust
November 2005

**References:**

ECIAfrica, 2004, Financial Literacy Scoping Study & Strategy Project
[www.finmarktrust.org.za](http://www.finmarktrust.org.za)

ECIAfrica, 2004, Consumer recourse against financial service providers.
[www.finmarktrust.org.za](http://www.finmarktrust.org.za)