



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# National Consumer Financial Education Strategy

July 2013

Approved by the National Consumer Financial Education  
Committee on 23 July 2013

## Introduction

South African consumers of financial services generally have limited resources and skills to understand the complexities of the financial sector. Compelling consumer issues such as inability to evaluate the appropriateness of financial products in relation to personal circumstances; predatory lending; high levels of consumer debt; low saving rates; proliferation of pyramid schemes and financial scams; high product service and penalty fees; lack of accessible and comparable pricing information; limited knowledge of recourse mechanisms have added to the sense of urgency for consumer financial education.

The National Treasury released its policy statement “A safer financial sector to serve South Africa better” in February 2011. The document highlights ***consumer financial education as one of the components of a comprehensive solution for protecting consumers of financial services***. In support of this the national consumer financial education policy document sets out the objectives of the policy namely to (i) provide a framework for collaboration and co-ordination of financial sector stakeholders in consumer financial education; (ii) provide data and measurement of financial education programmes and determine whether policy and programme objectives are being achieved; and (iii) in this way improve consumers’ financial well-being by improving their financial literacy in the dimensions of financial control, financial planning enhancing helping them to (i) understand financial management and thus take good decisions that are tailored to their personal circumstances (ii) monitor the market conduct of financial institutions through their decisions and use of recourse facilities (iii) face their ever-increasing responsibilities as a result of the growing complexity of financial products and the transfer of financial risk to consumers (iv) know where to look for important information, objective advice or access to recourse facilities.

### *What is consumer financial education?*

The process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

OECD

The achievement of these policy objectives rests on four principles (i) ***consumer financial education is part of a wider market conduct and consumer protection policy approach***. It is not seen as a substitute for effective consumer protection and market conduct regulation. Instead it should be taken into account in the broader consumer protection and market conduct regulatory framework, including the regulation of financial information and advice; (ii) ***consumer financial education has a common focus and direction for a wide group of consumer education initiatives***. National policy and strategy developed in terms of the policy will not attempt to replace existing consumer education interventions or even suggest less emphasis be placed on such interventions. Rather they aim to leverage current resources by encouraging their alignment with national policy and strategy; (iii) ***consumer financial education is a shared responsibility among many stakeholders*** all of which have a powerful and legitimate role to play: government, schools, financial institutions, industry associations, employers, trade unions, community organisations, and NGOs. A multi-stakeholder and centrally coordinated committee - the national consumer financial education committee is required to secure the active involvement of all; and (iv) ***the achievement of consumer financial education requires a broad public national consumer financial education strategy and associated tools and programmes***. The national strategy strives to establish high-level guidance for stakeholders’ consumer financial education strategy. Since the resources available for consumer financial education are finite, the national strategy should be risk-based i.e., it should focus on high-priority issues.

## From policy to strategy

The ***national consumer financial education committee*** was established early 2012. The committee reports to the Minister of Finance. National Treasury chairs the meetings and will do so for at least two years. The Financial Services Board serves as secretariat. Members of the committee include representatives of labour; civil society; financial industry associations; the ombudsman schemes; financial self-regulatory organisations; government departments, provincial treasuries and NGOs.

At its inaugural meeting the committee adopted its terms of reference, which mandate it to (i) develop the national consumer financial education strategy including defining target groups; using a risk-based approach to decide which target groups to focus on; and setting up appropriate action plans and key performance indicators indicating comparisons to international standards to measure achievement; (ii) oversee the implementation of the strategy by monitoring performance; and (iii) review the national consumer financial education strategy on an annual basis to ensure its relevance.

Key to the crafting of strategy and monitoring its implementation is the ***financial literacy baseline study*** as it provides guidance on priorities and targets and enables the assessment over time whether consumer financial education objectives are being achieved. The first financial literacy baseline study undertaken in the second half of 2011 had both encouraging and discouraging results. However it does indicate priorities for strategy formulation and sets a point of departure from which to improve. The baseline study will be repeated every five years, with a smaller touch-base study every year, to assess the impact of consumer financial education initiatives on financial literacy and capability.

It is important to note that the baseline study includes South African from the age of 16. As a result ***children below the age of 16*** are not prioritised in national strategy. However it is recognised that consumer financial education should start at school as South Africans should be educated about financial matters as early as possible in their lives. To this end the committee is working on embedding financial literacy in the school curriculum.

The scope of national strategy does not at this stage incorporate small business.

### *What is financial literacy?*

People's ability to understand finance thereby allowing them to make informed and effective decisions through their understanding of finances. It encompasses participation by people in economic life that maximises life opportunities and enables them to lead fulfilling lives

### *What is financial capability?*

People's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market".




Financial capability is a broader concept than financial literacy.

### *Funding will come from various sources, including as an outcome of the Financial Sector Code*

The Financial Sector Code was gazetted as a sector code in terms of the Broad-Based Black Economic Empowerment Act, of 2003 on 26 November 2012. The origins of the Code are the Financial Sector Charter, a voluntary transformation charter implemented through the Financial Sector Charter Council. It came into effect in January 2004 as a result of agreements reached at the NEDLAC Financial Sector Summit in August 2002.

The Financial Sector Code provides for all financial services firms to apply 0.30% in 2013 and 0.40% in 2014 of their net profit after tax from retail business to consumer financial education.

# A dream for South Africa

Young people	Grown ups	The aged	Communities
<p>Financially literate</p> <p>Responsible and self-aware</p> <p>Want to improve their lives and communities</p> 	<p>Financially adept</p> <p>Avoid poverty traps (e.g. debt spirals)</p> <p>Plan, invest and create wealth</p> 	<p>Financially secure</p> <p>Not victims of scams and fraud</p> <p>Plan and control finances</p> 	<p>Economically and financially Inclusive</p> <p>Entrepreneurial</p> <p>Developing and prospering</p> 

# Strategy: vision, mission and objectives

## Vision

To increase the financial capability and thereby the financial well-being of all South Africans



## Mission

All South Africans, particularly those that are vulnerable and marginalised, are empowered to participate knowledgeably and confidently in the financial marketplace and to manage their financial affairs, deal with their day-to-day financial decisions and make good choices about allocating their incomes from school-going age, during working age and through to retirement.

South Africans:

have financial control

do financial planning

exercise product  
choice

have financial  
knowledge

## Objectives

### Financial control

- In five years South Africans achieve a baseline study score of 62 or more
- In ten years South Africans achieve a baseline study score of 70 or more

### Financial planning

- In five years South Africans achieve a baseline study score of 57 or more
- In ten years South Africans achieve a baseline study score of 65 or more

### Product choice

- In five years South Africans achieve a baseline study score of 49 or more
- In ten years South Africans achieve a baseline study score of 60 or more

### Financial knowledge

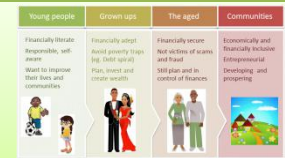
- In five years South Africans achieve a baseline study score of 60 or more
- In ten years South Africans achieve a baseline study score of 70 or more

In five years financial literacy will be embedded in the school curriculum

# From strategy to work

## Vision

To increase the financial capability and thereby the financial well-being of all South Africans



## Mission

South Africans:

manage their money

plan ahead

exercise choices about  
financial products

stay informed

## Objectives

### Financial control

- In five years achieve a score of 62 or more
- In ten years achieve a score of 70 or more

### Financial planning

- In five years achieve a score of 57 or more
- In ten years achieve a score of 65 or more

### Product choice

- In five years achieve a score of 49 or more
- In ten years achieve a score of 60 or more

### Financial knowledge

- In five years achieve a score of 60 or more
- In ten years achieve a score of 70 or more

## Work stakeholders do together

Central database of  
initiatives

Financial Wellness Centre

Work with the Department of Basic Education to embed  
financial literacy in the school curriculum

Encourage patronage

Advocacy/Media

Propose regulation if  
necessary

Research such as  
behavioural economics

## Work stakeholders do individually

Plan, fund, implement, monitor and evaluate consumer financial education programmes and initiatives. Embed such programmes and initiatives into the every day lives of consumers.

# Priorities for consumer financial education programmes and initiatives

		1 Highest	2 High	3 Medium	4 Low	Financial control	Financial planning	Product choice	Financial knowledge
Gender	Male								
	Female								
Age	16-19 years								
	20-29 years								
	30-39 years								
	40-49 years								
	50-59 years								
	60-69 years								
	70+ years								
Race	Black African								
	Coloured								
	Indian								
	White								
Living standard	Low								
	Medium								
	High								
Location	Urban formal								
	Urban informal								
	Rural, traditional authority								
	Rural farms								
Province	Western Cape								
	Eastern Cape								
	Northern Cape								
	Free State								
	KwaZulu-Natal								
	North West								
	Gauteng								
	Mpumalanga								
	Limpopo								

**Financial control – managing current expenditure**  
Financially capable consumers

- exercise a high-level of control and restraint over their finances
- save rather than spend money
- live in a household that budgets
- are able to make ends meet
- are involved in daily household financial decision-making.

**Financial planning – managing future income and expenditure**  
Consumers who do financial planning

- set financial goals and commit to meeting them
- prefer to save for the long-term and
- have emergency funds in place

**Product choice – choosing the right financial product**  
Consumers who make good product choices have:

- a broad awareness of different types of bank, loan, savings, investment, and insurance products;
- a clear understanding of their product needs and undertake detailed research before choosing a product;
- no regrets about recent financial product decisions and who have not taken an unsuitable product in the past.

**Financial knowledge and understanding**  
Consumers with good financial knowledge and understanding are familiar with most or all of the following basic concepts: basic mathematical division, effects of inflation, interest paid on loans, interest on deposits, compound interest, risk of high return investments, effects of inflation on cost of living and risk diversification.

# What competencies should consumers have to achieve strategic objectives

## Financial control – managing current expenditure

Financially capable consumers

- Know the difference between wants and needs
- Know how to prioritise spending given available resources
- Understand the long-term versus short-term implications of spending
- Know that if you borrow now, you pay back more later
- Understand when to and how to use credit effectively
- Understand the impact of negative listings at credit bureaus
- Understand that the cost of borrowing depends on how risky the lender thinks you are
- Are aware of how fraud scams work and the impact of identity theft
- Understand the implications of credit, debt, hire purchase, credit cards, & credit bureaus
- Know their financial rights and responsibilities
- Know where to go for recourse - ombud schemes and regulators

## Financial planning – managing future income and expenditure

Consumers who do financial planning

- Understand the power of compound interest
- Understand the importance of short- and long-term financial goals
- Understand and compare spending and saving options
- Understand that education enhances earning power
- Understand the value of having short- and long-term insurance to cover risks such as theft, accidents, death and other unforeseen calamities
- Know the implications of not having a will
- Understand the value of having minimal debt

## Product choice – choosing the right financial product

Consumers who make good product choices:

- Understand banking products such as fixed deposits, savings accounts, current accounts and money market products
- Are aware of various short- and long-term insurance products
- Know and understand the difference between direct investments, managed funds, unit trusts, bonds, shares, equities, property and alternative investments.
- Understand the risks of investing in financial investment instruments
- Understand the differences between: retirement annuities, defined benefit or contribution pension funds, preservation funds and provident funds,
- Know the products available to achieve their short-, medium- and long-term saving goals
- Understand the advantages and disadvantages of various loan products
- Are aware of the advantages of using regulated financial products as opposed to unregulated ones
- Are aware that home ownership is a profitable investment and a source of surety for acquiring secured loans

## Financial knowledge and understanding

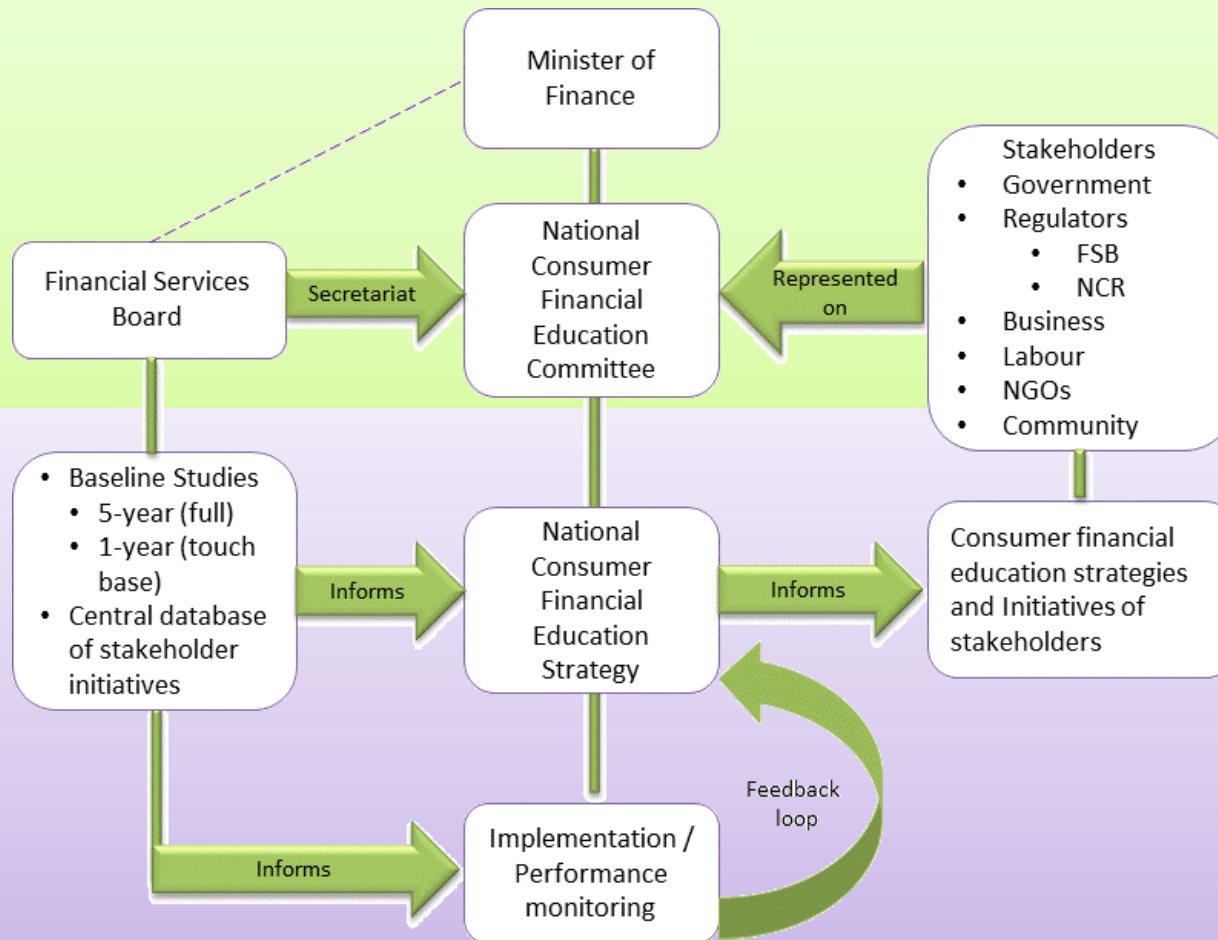
Consumers with good financial knowledge and understanding are familiar with most or all of the following basic concepts: basic mathematical division, effects of inflation, interest paid on loans, interest on deposits, compound interest, risk of high return investments, effects of inflation on cost of living and risk diversification.



# Governance and performance monitoring

The National Consumer Financial Education Committee reports to the Minister of Finance. National Treasury chairs the meetings. All stakeholders are represented on the Committee. The mandate of the committee is to develop the national consumer financial education strategy, oversee its implementation and review it on an annual basis to ensure its relevance.

The Financial Services Board serves as secretariat of the committee. It develops and maintains the central database to which stakeholders capture their initiatives and oversees the baseline studies.



## Stakeholders

- (i) develop and implement individual consumer financial education strategies that are in line with national strategy;
- (ii) capture the consumer financial education programmes and initiatives they have undertaken to the central database to enable the performance monitoring of national strategy.

The baseline study will be repeated every 5 years with a touch-base assessment every year.

The results of the studies together with the information on the central database of stakeholder initiatives will inform the (i) crafting of the strategy (ii) its annual review and (iii) the monitoring of its implementation.



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