



THE FINANCIAL SERVICES BOARD

FINANCIAL COMPETENCY FRAMEWORK

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INTRODUCTION TO THE FINANCIAL COMPETENCY FRAMEWORK

1. Background to the Framework

In 2011, the FSB carried out a baseline study to determine the levels of financial literacy in South Africa. The FSB's financial education programme had previously been hampered by having very limited data available about the financial knowledge, attitudes, skills and behaviours of consumers in South Africa. The purpose of the survey was to generate information on the levels of awareness, knowledge and understanding of financial literacy in South Africa. The information obtained was included in the development of the national financial education policy and in the strategies developed to improve the overall levels of financial literacy in South Africa.

The baseline survey provided descriptive and analytical findings organised around the four core financial literacy domains, which are **financial control; financial planning; choosing appropriate financial products; and financial knowledge & understanding.**

2. Financial Competency Framework

The focus of CFE since the Baseline Survey was carried out is to increase consumer levels of financial literacy in the four core financial literacy domains. The Financial Competency Framework was developed to provide pointers in this regard. It provides behavioural, attitudinal, knowledge and values'-based criteria or *indicators* on which financial education projects and programmes can be based in an effort to increase overall financial literacy.

The Framework is divided into the abovementioned four core financial literacy domains. The 4 domains are referred to as **Organising Categories**. Each Organising Category is then further divided into the following five sections:

- i) **Characteristics/Traits** - A description of a consumer who achieves a high score in this category.
- ii) **Knowledge component** - Indices against which financial knowledge and understanding can be measured.
- iii) **Behaviour** - Activities that reflect financial literate behaviour and indicate financial competence.
- iv) **Type of Programme** - Financial education programmes that can be used to develop financial knowledge and behaviour
- v) **Presentation Approach** - Instructional approaches and media to use for presenting CFE programmes.

Each of the sections provide indicators that can be used for developing implementation programmes. Guidance for evaluating the programmes can be found in the FSB's *Guidelines for Monitoring and Evaluating Consumer Financial Education Programmes* (See www.mylifemymoney.co.za).

FINANCIAL COMPETENCIES: CATEGORY 1: FINANCIAL CONTROL – Managing Current Expenditure

Characteristics/Traits	Knowledge/Attitude	Behaviour	Programme topics	Presentation approach
<p>A financially capable person exercises a high-level of control over their finances, which includes:</p> <ul style="list-style-type: none"> • saving rather than spending money • living in a household that budgets and makes ends meet • being involved in daily household financial decision-making. 	<p>Budgeting</p> <ul style="list-style-type: none"> • Knows the difference between wants and needs • Knows how to prioritise spending given available resources <p>Spending</p> <ul style="list-style-type: none"> • Understands Long-term vs. short-term implications of spending <p>Managing finances</p> <ul style="list-style-type: none"> • Knows that if you borrow now, you pay back more later • Understands when to and how to use credit effectively • Understands the impact of negative listings at credit bureaus • Understands that the cost of borrowing depends on how risky the lender thinks you are • Aware of how fraud scams work and the impact of identity theft • Understands the implications of credit, debt, hire purchase, credit cards, & credit bureaus • Aware of financial rights and responsibilities • Knows where to go for recourse – NCC, regulators & ombuds 	<p>Budgeting</p> <ul style="list-style-type: none"> • Maintains a household budget • Regularly reviews the budget • Monitors daily expenditure <p>Reducing debt</p> <ul style="list-style-type: none"> • Makes ends meet by spending less than what is earned • Regularly evaluates personal and family debt • Maintains an appropriate level of debt • Is aware of the credit and saving products offered by banks <p>Spending</p> <ul style="list-style-type: none"> • Spends in accordance with budget and regularly tracks spending • Spends carefully, pays bills timeously, closely monitors financial matters <p>Managing finances</p> <ul style="list-style-type: none"> • Compares the cost of borrowing from different lenders before making decisions • Where possible, avoids high interest debt • Saves regularly • Establishes an emergency fund or has access to an emergency fund • Uses regulated financial service providers • Regularly reviews income to meet commitment and explores ways to increase income • Meets financial/payment obligations • Uses officially recognised agencies, such as the NCC, regulators and ombuds to seek recourse 	<ul style="list-style-type: none"> • Budgeting- your key to financial survival • Where to go for recourse – NCC, regulators & ombuds • Negative listing –know your rights • Credit – what you should know • Scams and fraudulent schemes- how not to get caught • Regulated financial services – what this means for you • The pitfalls of living beyond your means 	<ul style="list-style-type: none"> • Workshops • Radio interviews • Magazine articles • DVD/TV presentations • Booklets • Pamphlets • Information on website • Social media

FINANCIAL COMPETENCIES: CATEGORY 2: FINANCIAL PLANNING – *Managing Future Income & Expenditure*

Characteristics/Traits	Knowledge/Attitude	Behaviour	Programme topics	Presentation approach
<p>A consumer who undertakes financial planning:</p> <ul style="list-style-type: none"> • sets financial goals and commits to meet them • prefers to save for the long-term • has emergency funds in place. 	<ul style="list-style-type: none"> • Understands the power of compound interest • Understands the importance of short- and long-term financial goals • Understands and compares spending and saving options • Understands that education enhances earning power • Understands the value of having short- and long-term insurance to cover risks such as theft, accidents, death and other unforeseen calamities • Knows the implications of not having a Will • Understands the value of having minimal debt 	<p>Spending</p> <ul style="list-style-type: none"> • Sets spending priorities • Regularly reviews budget • Sets financial goals and takes action to achieve these • Regularly reviews short-term and long-term financial goals • Monitors spending and saving by using appropriate money management strategies/tools <p>Managing finances</p> <ul style="list-style-type: none"> • Sets life goals and budgets to achieve these goals • Plans for large expenditure items • Plan to reduce debt – starting with paying off high-interest debt first • Plans to increase income over expenditure • Is aware of capital growth products offered by banks and other financial institutions • Seeks expert/professional advice regarding investments and retirement 	<ul style="list-style-type: none"> • How compound interest can assist with savings but not with home loans • Key life stages – what they are and the financial demands they make • Delayed gratification – the secret to increasing your cash-flow • Insurance – what you should know about short- and long-term cover and costs involved • Planning to live within your means – goals that you can set • Retirement fund options – questions you should ask your financial service provider • Retirement fund options – moving from Defined Benefits to Defined Contributions and how this affects the consumer 	<ul style="list-style-type: none"> • Workshops • Radio interviews • Magazine articles • DVD/TV presentations • Booklets • Pamphlets • Information on website • Social media

FINANCIAL COMPETENCIES**CATEGORY 3:****FINANCIAL PRODUCT CHOICE - *Choosing the Right Financial Products***

Characteristics/Traits	Knowledge/Attitude	Behaviour	Programme topics	Presentation approach
<p>Consumers who understand financial products:</p> <ul style="list-style-type: none"> are aware of different types of banking, credit/loan, savings/investment, and insurance products hold at least one of each of the banking, credit/loan, savings, investment and insurance products have a clear understanding of their product needs undertake detailed research before choosing a product have no regrets about recent financial product decisions (last year) and who have not taken an unsuitable product (within the last 5 years). 	<p>Knowing about financial products</p> <ul style="list-style-type: none"> Understands the positive and negative aspects of banking products such as fixed deposits, savings accounts, current accounts and money market products Aware of various short- and long-term insurance products <i>Knows and understands the difference between direct investments, managed funds, unit trusts, bonds, shares, equities, property and alternative investments</i> Understands the risks of investing in financial investment products Understands the differences between: <ul style="list-style-type: none"> Retirement Annuities, pension funds, preservation funds and provident funds Defined Benefits vs. Defined Contributions <i>Knows the importance of having short-, medium- and long-term saving goals and products available that could achieve these goals</i> <p>Knowing about the use of financial products</p> <ul style="list-style-type: none"> Understands the advantages and disadvantages of credit/loan products such as HP, using 	<p>Knowing about financial products</p> <ul style="list-style-type: none"> Can select appropriate investment products for retirement planning Can identify important factors to consider when choosing a bank Researches ways to create and protect assets and wealth Asks appropriate questions and evaluates information from financial advisors before making investment decisions Investigates different investment products and evaluates them according to risk, return/interest paid and access to funds <p>Knowing about the use of financial products</p> <ul style="list-style-type: none"> Uses appropriate financial products to insure future income and future prosperity Applies due diligence when selecting investment instruments to invest wisely Uses credit cards and banking facilities with care in order to minimise being financially over-extended Chooses investments appropriate to risk and investment profile Avoids quick get-rich schemes and scams Reduces home loan through extra payments to minimise interest paid Reviews net worth regularly by assessing income, assets and debt Prepares and implements a realistic savings plan for short-term and long-term events in life i.e. child's education, 	<ul style="list-style-type: none"> Various financial products offered by banking and non-banking institutions Collective investments schemes – a way to grow wealth? Capital markets – what you should know about investing in capital markets Developing a personal financial profile Retirement funds – Living annuities vs. guaranteed annuities 	<ul style="list-style-type: none"> Workshops Radio interviews Magazine articles DVD/TV presentations Booklets Pamphlets Information on website Social media

Characteristics/Traits	Knowledge/Attitude	Behaviour	Programme topics	Presentation approach
	<p>overdrafts, credit cards, revolving accounts, etc.</p> <ul style="list-style-type: none"> Aware of the advantages of using regulated financial products as opposed unregulated products Aware of using home ownership products as a profitable investment and a source of surety for acquiring secured loans 	<p>retirement, etc.</p> <ul style="list-style-type: none"> Compares costs, fees, risks and benefits of financial products and services before investing Takes out appropriate insurance and regularly reviews cover to suit life stage and income level Prepares a Will and keeps it up-to-date Considers investing in non-financial assets such as cattle, crops, property, etc. 		

FINANCIAL COMPETENCIES CATEGORY 4: FINANCIAL KNOWLEDGE & UNDERSTANDING - *Increasing Mastery Over Personal Finances*

Characteristics/Traits	Knowledge/Attitude	Behaviour	Types of programmes	Instructional approach & Media
<p>A consumer with high financial knowledge and understanding is familiar with most or all of the following basic concepts:</p> <ul style="list-style-type: none"> • basic mathematical division • effects of inflation • interest paid on loans • interest on deposits • compound interest • Risks involved in high return investments • effects of inflation on cost of living • risk & diversification. 	<p>Conserving wealth</p> <ul style="list-style-type: none"> • Aware of the value using banking products and services • Aware of banking scams and how to guard against becoming a victim • Understands the value of having insurance and difference between long- and short-term insurance • Knows where to go for financial recourse - NCC, regulators & ombuds • Knows the value of maintaining a good credit standing, to avoid having a bad credit record and the impact of negative listings at credit bureaus • Understands the dangers of predatory lending • Aware of consumer rights and obligations when entering into financial agreements • Aware of the high cost of unsecured credit • Understands the difference between productive and unproductive debt and is committed to minimising unproductive debt <p>Growing wealth</p> <ul style="list-style-type: none"> • Knows the current interest rates of credit and the banking products personally being used • Understands how home ownership and long-term insurance policies can serve as sources of collateral for 	<p>Conserving wealth</p> <ul style="list-style-type: none"> • Takes active steps to acquire adequate financial knowledge and understanding • Understands and deals with tax liabilities • Researches ways to create and protect assets and wealth • Asks appropriate questions and evaluates information from financial advisors before making investment decisions • Avoids quick get-rich schemes and scams • Reduces home loan through extra payments to minimise interest paid • Reviews net worth regularly by assessing income, assets and debt • Takes out appropriate insurance and regularly reviews cover to suit life stage and income level • Prepares a Will and keeps it up-to-date • Can distinguish between needs & wants • Awareness of how to protect oneself from fraud and scams • Uses officially recognised agencies, (NCC, regulators and ombuds) to seek financial recourse 	<ul style="list-style-type: none"> • Various financial products offered by banking and non-banking institutions - • Capital markets – what you should know about investing in capital markets • Developing a personal financial profile • Retirement funds – Living annuities vs. guaranteed annuities • Retirement funds – what are the hidden costs? • What you need to know about shares • Financial rights and responsibilities of consumers – where to go for recourse • What you need to know about Wills • Long- and short-term insurance – factors to consider • Managing debt • Using officially recognised agencies, such as the NCC, regulators and ombuds, to seek financial recourse 	<ul style="list-style-type: none"> • Workshops • Radio interviews • Magazine articles • DVD/TV presentations • Booklets • Pamphlets • Information on website • Social media

Characteristics/Traits	Knowledge/Attitude	Behaviour	Types of programmes	Instructional approach & Media
	<p>obtaining secured finance at lower interest rates</p> <ul style="list-style-type: none"> Knows the importance of increasing the value of assets and minimising liabilities Is aware of the financial implications of changing jobs, particularly with regard to retirement planning Understands inflation and how it impacts on savings and assets Knows where to go for financial advice and the value of dealing with registered financial service providers and products Understands the balance between risk and reward when making financial investments Knows how to set short-, medium- and long-term investment objectives Understands the power of compound interest and how to benefit from it Aware of the difference between institutional deposit-making savings with guaranteed returns and speculative investments with no guarantee of returns 	<p>Growing wealth</p> <ul style="list-style-type: none"> Prepared to take calculated risks Chooses investments appropriate to risk and investment profile Prepares and implements a realistic savings plan for short-term and long-term events in life i.e. child's education, retirement, etc. Investigates different investment products to increase assets and evaluates products according to risk, return/interest paid and access to funds Compares costs, fees, risks and benefits of financial products and services before investing Explores the merits of investing in non-financial assets such as cattle, crops, property, etc. Can interpret an investment strategy suitable for their particular circumstance Knows the criteria for selecting a competent financial services provider 		