FSCA
Financial Sector Conduct Authority

Financial literacy, competency and education

Briefing Report No. 7

based on the results of the 2020 Financial Literacy Baseline Survey



Putting consumers first:

Public evaluations of financial institutions in South Africa

INTRODUCTION

Following the promulgation of the Financial Sector Regulation Act in 2017, the Financial Sector Conduct Authority (FSCA) has, in line with its expanded mandate, focused on developing guiding frameworks. Notable examples include the drafting of a Conduct Standard for Banks (No 3 of 2020), partnering with National Treasury in preparing and refining the second draft of the Conduct of Financial Institutions (CoFI) Bill (September 2020), and facilitating stakeholder engagements based on comments submitted on the bill.

The emphasis of these regulatory frameworks is on maintaining and monitoring conduct within the financial sector and ensuring that at least minimum established standards of service are provided to consumers.

In line with this focus on efficiency and integrity in service culture, this briefing report presents an overview of representative survey data on public evaluations of the conduct of financial institutions in the country. This is crucial in determining the potential alignment or disjuncture between the spirit of the regulatory frameworks being promoted for the sector and the lived experiences of sector standards in practice.

OVERVIEW OF THE STUDY

Data for this briefing report is drawn from a nationally representative survey of adults aged 16 years and older in South Africa that was administered in 2020. As part of on-going efforts by the FSCA to better understand, monitor and promote financial literacy, capabilities, and well-being in South Africa, it commissioned the Human Sciences Research Council (HSRC) to undertake the multitopic survey. This forms part of a long-running survey partnership initiated by the FSCA in 2010.

Fieldwork for the survey began in late February 2020 but was suspended a few days prior to the 27 March 2020 COVID-19 national lockdown. At this stage, approximately 40% of interviewing had been completed (n=1066). After restrictions were lowered to alert level 1 in September 2020, the HSRC's Research Ethics Committee (REC) deemed it safe to resume fieldwork, and the remaining 60% of interviewing was completed by February 2021 (n=1627). Overall, 2693 interviews were completed nationally.

The survey included a new set of items that aimed to capture the views of citizens on the conduct of financial institutions in practice. The structure of these items draws on the Batho Pele (people first) principles, and the Batho Pele Index (BPI) that was developed in the late 2000s (Roberts & Hemson, 2008) and has since been monitored annually by the Human Sciences Research Council (HSRC) as the basis for determining the extent to which municipalities are fulfilling service standards from the perspective of citizens residing in specific localities.

In the context of this FSCA survey research, the BPI items have been repurposed as a means of evaluating the conduct of financial institutions in general in the country. Responses to all nine statements listed above are captured using a standard five-point agreement scale, ranging from strongly agree to strongly disagree.

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> *"A majority share (43%) was unhappy about the level of consultation being provided by financial institutions."*

The specific set of survey questions asked of respondents were as follows:

And now I would like to ask you a few statements about the performance of financial professionals and institutions (these include banks, insurance companies and brokers). Please think of these professionals and institutions in general. To what extent do you agree or disagree with the following statements?

Batho Pele principles:	Statements (5-point agreement scale)
1. Consultation (BP1)	Financial institutions consult people enough
2. Setting service standards (BP2)	Financial institutions deliver services that are of good quality
3. Increasing access (BP3)	Financial institutions are making progress in giving all South Africans equal access to services
4. Courtesy (BP4)	Financial institutions treat people with respect
5. Providing information (BP5)	Financial institutions provide people with good information about services
6. Openness and transparency (BP6)	Financial institutions are honest when dealing with people
7a. Redress (BP7a)*	Financial institutions respond quickly to complaints about problems with services
*7b. Redress (BP7b)**	*Financial institutions do a good job of following through and fixing problems*
8. Value for money (BP8)	*People are getting good value for the money they are charged for financial services*

INSTITUTIONAL EVALUATION

Do consumers feel that their needs come first?

The Batho Pele principles are often considered a general statement of intent of the way services are to be provided in the context of democratic South Africa. A review of these principles shows their broad applicability to the financial sector, both in terms of the way in which financial institutions intend to deliver services to consumers, and the services the public expects of the institutions they interact with. In **Figure 1,** the national pattern of responses to the set of statements is provided, and ranked from most positively evaluated element of the sector's conduct to the least favourably assessed.

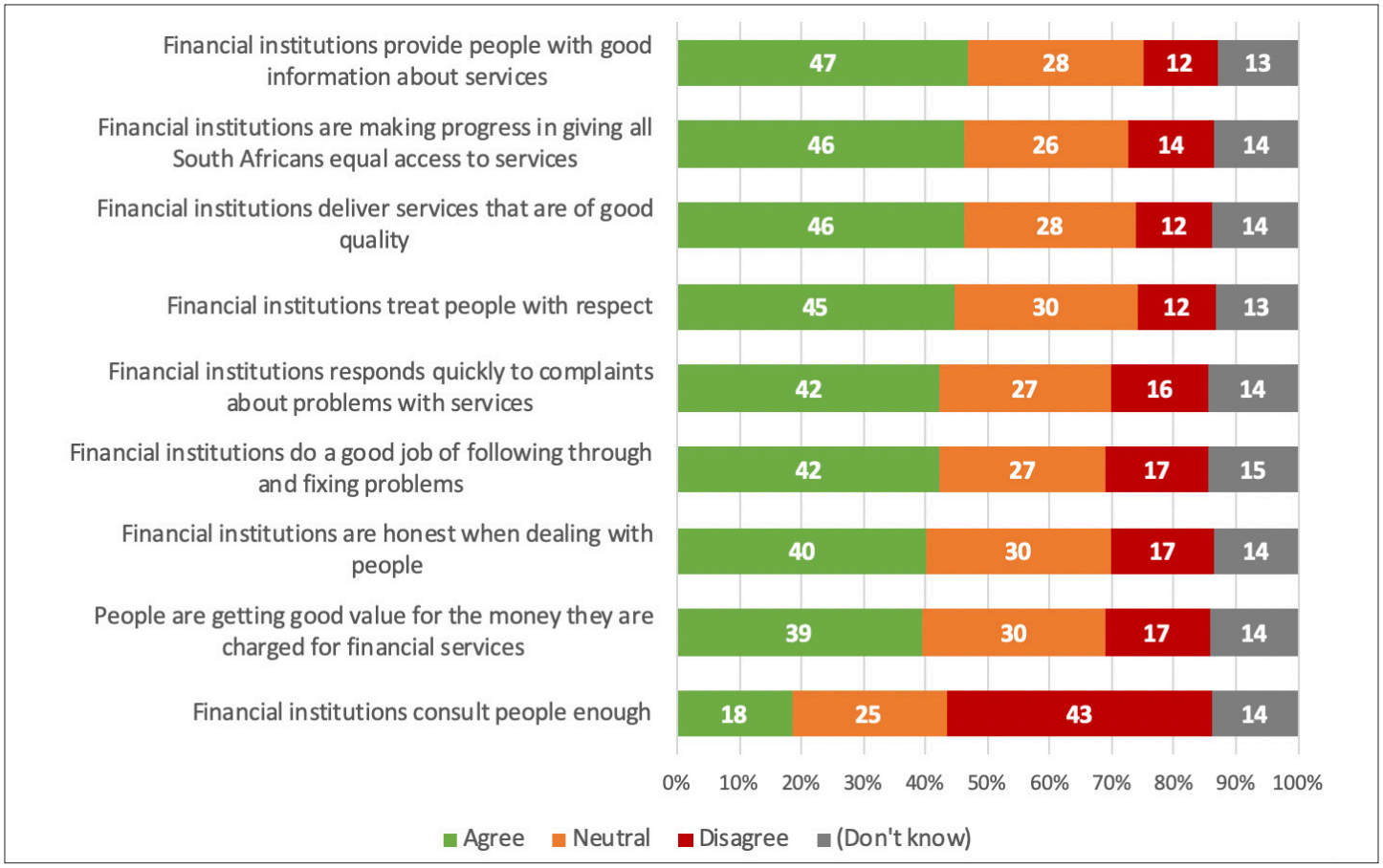
The results presented in the bar chart show that there is not much variation on most of the indicators. Between two-fifths and half of the adult public on aggregate expressed contentment with the different dimensions of the conduct of financial institutions. The only exception is in relation to consultation with consumers. In this instance, a majority share (43%) was unhappy about the level of consultation being provided by financial institutions.

The share providing critical views of the service conduct provided by financial institutions ranged mostly between 10 and 20 percent, again with the notable exception of the consultation dimension. It is also worth noting that between 25 and 30 percent were ambivalent, providing neutral responses to the statements, while nearly 15 percent were uncertain how to rate financial institutions.

The survey results indicate that people see limited difference in practice between the various dimensions of institutional performance. On average, the evaluation

could be considered lukewarm at best, with no dimension being rated favourably above the 50% mark. Certainly, this is not the kind of general evaluation the sector would wish to receive. The greatest level of discontent relates to consultation, which indicates that this remains the main gap in implementation. Despite the similarity in assessment, apart from the distinctive views on consultation, a slightly harsher view is evident in relation to value for money for services provided, openness and transparency, and redress compared to the other dimensions.

Figure 1: Evaluations of the conduct of financial institutions, (2020, % ranked highest to lowest based on the share agreeing with the statements)



Source: FSCA Financial Literacy and Competencies Survey 2020/21.

Unequal voices: The patterns of contentment and disgruntlement

To provide a sense of the degree of uniformity or disparity in views on the conduct of financial institutions in South Africa, the five-point scales on the 9 items were converted into 0-100 scales, with higher values representing more positive appraisals. In addition, a composite Financial Institution Conduct Index was constructed by averaging together the scores from the nine individual items.

Based on this constructed index, **Figure 2** displays differences in the average index scores based on select socio-demographic attributes. Based on statistical testing, there were no discernible variations in assessment of financial institutions based on gender, age group, or marital status, and these are therefore excluded from the figure.

Some of the major differences in evaluating financial institutions from the set of variables examined were along class, race, and geographic lines. The self-rated poor were less favourable in assessment (mean=56) than the non-poor (mean=59). Tertiary-educated adults were more positive (mean=63) about the conduct of financial institutions than those with lower levels of education (mean scores ranging from 55 to 58). Indian adults were also more critical on average than black African and white adults. The results also suggest that active social media users were more positive than adults not actively online, which is likely to partially reflect underlying class variation.



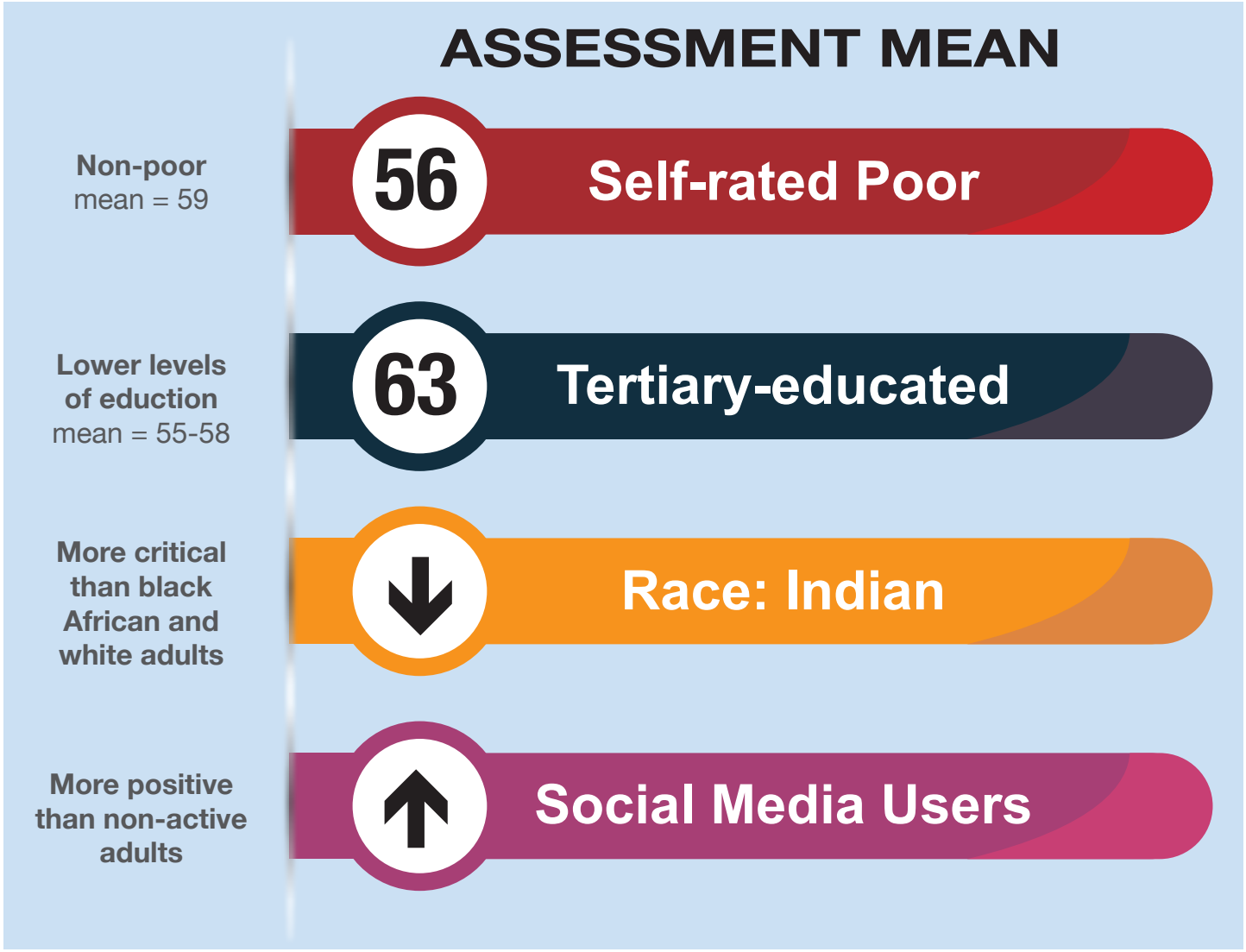
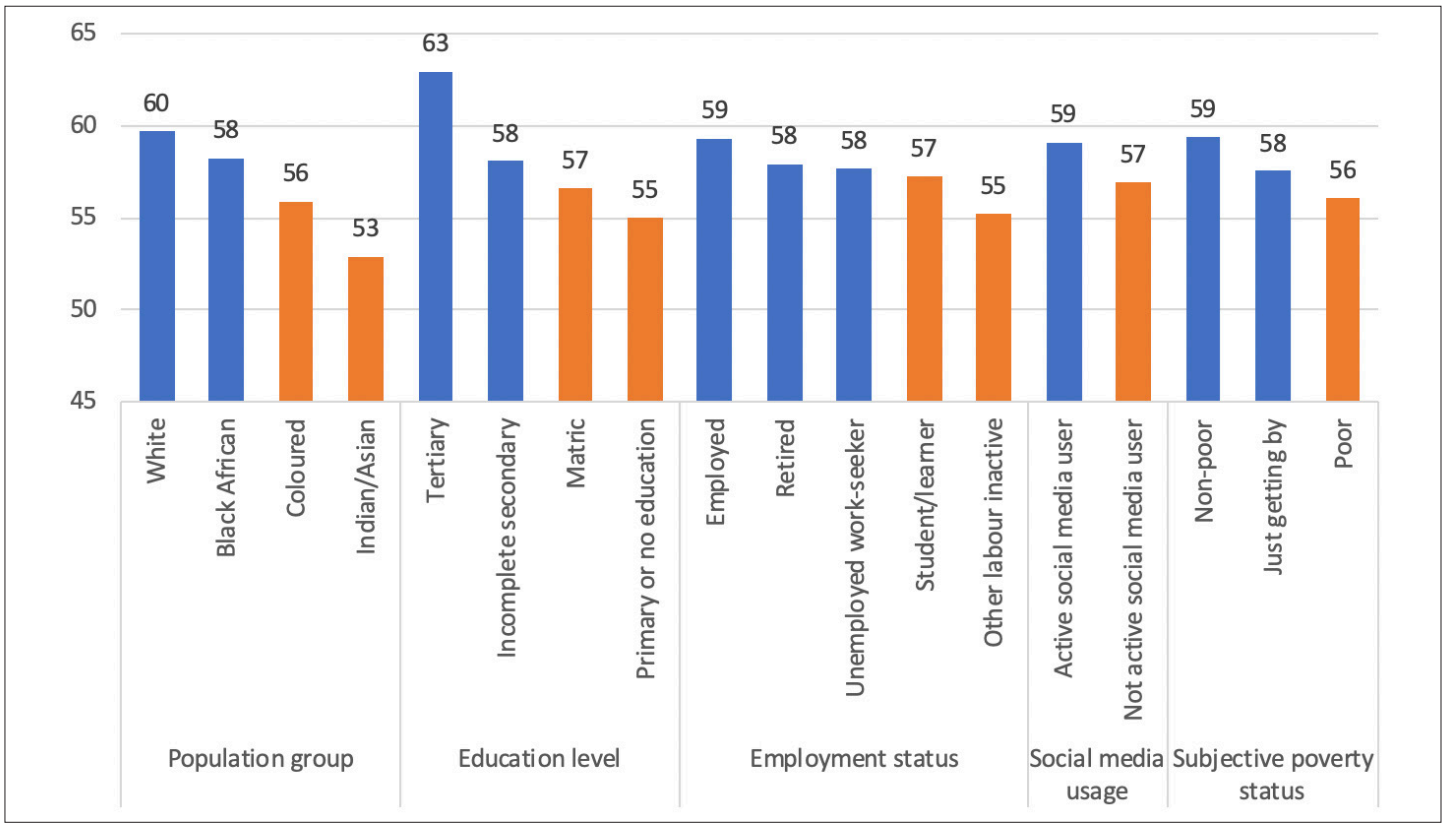


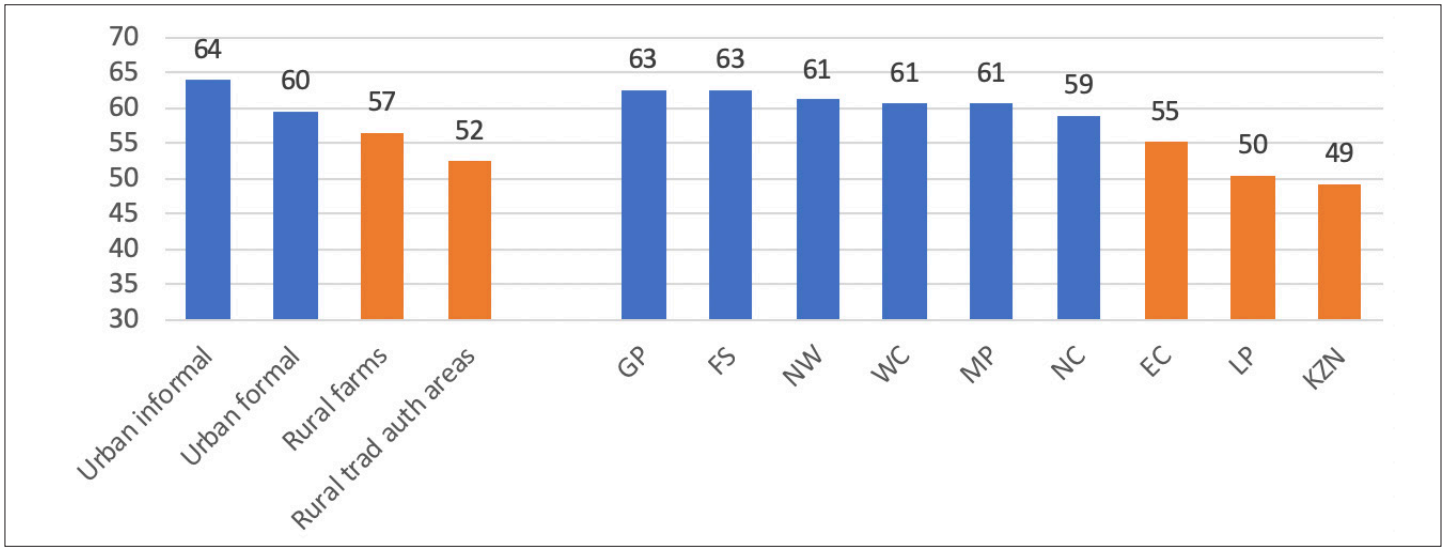
Figure 2: Financial Institutions Conduct Index scores by select socio-demographic attributes, 2020 (mean score on a 0-100 scale, where higher values represent more positive appraisals)



Source: FSCA Financial Literacy and Competencies Survey 2020/21.
Note: Orange-shaded bars represent evaluation scores below the national average of 58.0.

From a spatial perspective (**Figure 3**), those residing in rural traditional authority areas tended to be more critical in their evaluation (mean=52) than those living in formal urban areas or informal urban settlements (mean=60 and 64 respectively). Stark provincial variation was apparent, with significantly lower scores provided by those living in KwaZulu-Natal (mean=49) and Limpopo (mean=50) in particular. Evaluations of the financial sector in KwaZulu-Natal and Limpopo were lower than in most other provinces. The most positive provincial evaluations were found in Gauteng and the Free State (mean=63 in both cases).

Figure 3: Financial Institutions Conduct Index scores by type of geographic location and province, 2020 (mean score on a 0-100 scale, where higher values represent more positive appraisals)



Source: FSCA Financial Literacy and Competencies Survey 2020/21.
Note: Orange-shaded bars represent evaluation scores below the national average of 58.0

It is also worth noting that there was a modest but statistically significant decline in the Financial Institution Conduct Index score between interviewing conducted before and after the implementation of COVID-19 regulations in late March 2020, with the score declining from 60 to 57. This change is informed primarily by the emergence of slightly less favourable assessments of the openness and transparency of financial institutions, as well as their ability to provide swift redress (fixing problems).

To provide further nuance, regression analysis was conducted on each of the nine conduct dimensions as well as the overall index. The following findings summarise the results of the 10 ordered logistic regression models that were undertaken:

- **Education:** The tertiary-educated are more positive than those with primary or no formal schooling. This is evident on the overall index, as well as seven of the nine dimensions examined - all





except for consultation and value for money.

- **Racial variation:** Controlling for all other variables, white adults were more critical than black African adults on the overall index, as well as in relation to courtesy, redress, and value for money.
- **Geography:** Consumers residing in Limpopo and KwaZulu-Natal were less favourable in their views of financial institutions on aggregate as well as in relation to the nine aspects of conduct examined (all apart from consultation). Eastern Cape residents are more concerned than average with information and redress (rapid responsiveness). Those living in rural, traditional authority areas displayed lower overall scores than urban residents, especially in respect of the service standards (quality services) and courtesy dimensions.
- **Age:** The only model where age was a significant predictor controlling for other variables was in relation to the issue of access and inclusion. Young adults aged 16-24 years were less content than older age groups with efforts by the sector to provide equal access to financial services.
- **COVID-19:** The effect of the pandemic and the associated lockdown regulations appear to have had a partial effect, depressing scores on the openness and transparency as well as the redress dimensions of service conduct. No discernible effect is present for the other six elements assessment.
- When controlling for other factors, gender, marital status, employment status, subjective poverty status, and social media usage are not determinants of views on the conduct of financial institutions.

Financial matters: Individual financial attributes that influence evaluations of the sector

In addition to the socio-demographic variables described above, a series of relevant financial variables were tested to determine their impact on the evaluation of financial institutions. Crosstabulations and (ordered logistic) regression analysis were again used. The main factors of note associated with these assessments include the following:

- **Financial knowledge:** Those reporting relatively higher knowledge of financial matters offered more positive appraisals than those professing low levels of knowledge. The same applies to those reporting that they are good at staying informed about financial issues versus those that are not.
- **Financial strain:** Those battling to save money during the year prior to interviewing were less positive in

their view of financial institution performance than those able to actively save. A similar pattern was evident for those struggling to cover their expenses and pay all their bills; those whose financial situation has worsened in recent years or expect it to worsen in coming years; those lacking emergency funds; and those who are not confident they have been adequately provisioning for retirement.

- **Indebtedness:** The more difficult consumers find it to keep up with debt and credit commitments, and the more anxious they are over their indebtedness, the harsher the evaluation of financial institutions.
- **Quality professional financial advice:** Those that have received professional financial advice that they are satisfied with are more positive in their evaluation of financial institutions than those that have received dissatisfactory advice or have never had professional advice.
- **Trust in the advice of financial sector representatives:** Those that trust the advice of independent brokers or financial advisors, banks or bankers, as well as informal associations like stokvels / savings clubs or burial societies are all likely to provide more positive appraisals of financial institutions in general than those that are distrustful of the advice of these representatives.
- **Recourse-related agency:** Those with greater self-confidence about how to make an effective complaint against a bank or financial institution were more positive about financial institutions than those lacking such certainty.
- **Financial product holding and approach to product choices:** Those with no banking products had a more critical view of financial institutions than the banked. Those with no credit products were more positive of financial institutions than those with one or more credit products. No significant difference was evident in relation to the holding of savings and investment as well as insurance products. This suggests a degree of skepticism on the part of the unbanked, as well as discontent among those with credit. Those that tend to have a good sense of the types of financial products or services they need and research their financial choices thoroughly before making decisions are more favourable towards financial institutions than those who do not display such traits.

"Those battling to save money during the year prior to interviewing were less positive in their view of financial institution performance than those able to actively save. A similar pattern was evident for those struggling to cover their expenses and pay all their bills; those whose financial situation has worsened in recent years or expect it to worsen in coming years; those lacking emergency funds; and those who are not confident they have been adequately provisioning for retirement."



CONCLUSION

From this overview of findings on the evaluation of different aspects of the service provided by financial institutions to the public, it is evident that South African consumers generally tend to provide middling performance ratings on average across a range of dimensions. However, South African consumers are not uniform in their perspective. Distinct class, race, and geographic differences in views on financial institutions were evident, with social disadvantage and financial vulnerability associated with lower assessments on average. In addition, a range of financial attributes were shown to be significant drivers of ratings of financial institutions. This includes financial knowledge and understanding, financial strain and difficulties with indebtedness, satisfaction with financial advice received, and trust in the advice provided by key sector representatives. The holding of certain types of financial products also plays a role, as does one's individual approach to product and service choices.

The findings are layered and speak to several aspects of the FSCA mandate in relation to regulatory frameworks, industry conduct standards, as well as broader efforts at consumer financial education. The conduct of financial institutions and their representatives matter instrumentally for the public. The quality, trustworthiness and value-for-money of products and services provided influences views of the sector, as do recourse-related responses in the face of consumer complaints. The financially vulnerable have a more circumspect view of financial institutions, though there is scope for improved evaluations of the sector across the public. Ensuring that appropriate standards and regulations are in place to protect the consumer and ensure swift redress where required is paramount to improving overall public confidence in the sector. Yet, it needs to be accompanied with wide-ranging efforts and interventions to promote financial literacy and enhance the financial capabilities of consumers, so that they make prudent financial choices appropriate to their need and circumstances when dealing with financial institutions. These elements, among others, are key to expanding financial wellbeing among South Africans in future.

The reader is encouraged to download the full FSCA report for more in-depth analysis, available at www.fsca.co.za and www.fscamymoney.co.za

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