MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

# OECD-FSB CONFERENCE ON FINANCIAL LITERACY: FINANCIAL EDUCATION FOR ALL
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## KEYNOTE ADDRESS
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Ladies and gentlemen

Good morning

Welcome to South Africa! You have travelled far and wide to be here today to participate in these meetings and deliberate on issues of critical importance to the global economy. We hope that you will also take advantage of exploring our beautiful country following the official proceedings. I am indeed happy to see so many colleagues from other African countries, and the large show of support from South African organisations and institutions for this important educational and networking opportunity.

Ladies and gentlemen, as we are most painfully aware, consumers are struggling from the after-effects of the financial crisis, and that should be kept in mind as we face this continued uncertain and volatile global economic environment. The desperation of those who have been retrenched and the hopelessness of those who are seriously over-indebted could lead to rash decisions and actions with dire consequences. We must support efforts to convey information, education and skills to consumers to empower them to negotiate their way in the financial marketplace and to understand their rights and responsibilities.

The variety and complexity of financial products, not knowing the right questions to ask of a financial services provider, and not knowing how to complain when there is a problem, are only some of the issues that compound the vulnerability of consumers.

There is a close link between a financially literate population and financial regulation under the umbrella of consumer protection and market conduct. Financial education cannot be relied on to take the place of consumer protection and market conduct financial regulation. Neither can one have such regulation in the absence of financial education.

**Advantages of a financially literate population**

Consumers who are financially literate are in a better position to make effective financial decisions. Financial literacy can set the stage for the positive actions which are so important to wealth creation and preservation – actions such as careful consideration of costs of financial services, avoidance of scams and fraudulent schemes, knowledge and understanding of financial products and services, and saving for a rainy day and for the longer term, such as for retirement.

**The global response**

In implementing directives from decisions taken at the G-20, global institutions such as the OECD, World Bank and the Financial Stability Board, among others, have stepped forward in assisting countries as they address the fall-out from the international financial crisis. Principles for good practice in financial regulation as well as consumer financial education are being prepared by these forums, with extensive international input. South Africa remains an active participant at G-20 forums, including the Financial Stability Board.

At a more operational level, countries are looking at strengthening their regulatory frameworks, and interestingly, are looking toward implementing national consumer financial education strategies to coordinate financial education provision, extending reach and limiting costs and duplication. As an indication of the significance of this option, the OECD is finalising research on national consumer financial education strategies, with wide scale international input. Representatives of the Financial Services Board (FSB) of South Africa and the Central Bank of Portugal are currently co-chairing an OECD expert sub-group on national strategies.

Financial inclusion is also a critically important matter in enhancing financial education programmes. Countries are reviewing issues of access to financial products and services – both physical access and affordable cost. For example, we had a situation in South Africa in the early 2000’s where the cost to consumers for a mini bus taxi trip to the bank was higher than the value of their financial transactions. Now over 90 percent of consumers in the lowest socioeconomic households have a cash-withdrawal access point within ten kilometres of where they live.

**Challenges for policymakers in South Africa**

South Africa is an upper middle income country with a high level of income inequality, a situation which is intimately associated to the country's historical past. A recent Labour Force Survey estimated that in the fourth quarter of 2010, official unemployment was 24 percent (25.70 percent in June 2011), with a significant racial gradient of difference (28 percent of Black South Africans are unemployed compared to 6 percent of white South Africans). In addition, data from the 2003 *Trends in Mathematics and Science Study* show that South African students' maths and sciences scores ranked very low in comparison with the remaining 49 countries that were surveyed.

The fact that our country is a hybrid of low and high income individuals needs to be taken into account in all aspects of planning and policy development. One size definitely does not fit all. This is particularly pertinent to the planning and implementation of financial education programmes, or conducting research into financial literacy. It is also one of the factors contributing to the importance of initiatives to promote financial inclusion.

Household savings rates have persistently remained low in South Africa compared with other countries. There has been a continuous decline by an average of 0.1 percent of GDP in household savings rates every year since 2001. In an OECD survey conducted in 2010, in which the FSB of South Africa participated, 20 per cent of South African consumers questioned indicated that they owned none of the financial products on the survey list. The most widespread form of financial product held by South Africans was a bank account (61 percent). Thereafter, there was a cluster of products that were held between smaller numbers of consumers including insurance policies (18 percent), stokvels – informal savings vehicles (17 percent), a credit card (16 percent) and a post office savings account (13 percent). All-in-all, given the year-on-year declining rate of household savings, the need for a savings culture is no less important in South Africa today than it was ten years ago.

In terms of demographics, the average number of financial products currently possessed is highest for those with a tertiary or technical/vocational educational qualification, White South Africans and those in regular self-employment. Conversely, the lowest average level of product holding is evident among those with no formal education, those aged 16 – 19 years, and discouraged work seekers. The possession of financial products tends to be greater for men than women and increases in conjunction with educational level and grows up to the age 40-49 years, and declines again for older age groups.

Research indicators are showing us that those who are poor, unemployed and/or have lower education levels, show signs of financial exclusion. With the unemployment rate hovering at 25.7 percent as at June 2011, it is clear that any financial education programme for South Africa must be targeted at communities and consumers who are at risk, such as the unemployed and the poor.

**Significant policy reforms for South Africa**

South Africa's National Treasury released a policy document in February entitled "A Safer Financial Sector to Serve South Africa Better". Implicit in this title is the connection between the stability and wellbeing of the financial system and the wellbeing and development of society more generally.

To further strengthen our regulatory architecture and mitigate the cost of financial crises in the future, the National Treasury in conjunction with the FSB (South Africa) and the South African Reserve Bank have taken a policy decision that South Africa should move towards a “twin-peaks” model of financial regulation.

This approach envisages the separation of prudential regulation of financial institutions, locating it within the South African Reserve Bank, while locating the responsibility for market conduct regulation and consumer protection within the FSB of South Africa. It is hoped that this change will help to address the challenges faced by consumers as they try to find their way through the various aspects of the financial marketplace. In addition, it will also coordinate the implementation of the comprehensive Treating Customers Fairly (TCF) initiative.

Financial education of consumers will also be enhanced by implementing a coordinated national consumer financial education strategy under the guidance of the National Treasury. Currently, although many entities in South Africa are engaged in financial education, the effectiveness, sustainability and impact of these programmes can be enhanced by the coordination which is a primary characteristic of a national strategy.

The creation of an independent market conduct regulator within the FSB of South Africa will strengthen consumer protection, particularly in the area of retail banking. A new approach to dealing with high and opaque bank charges, and insurance and savings charges, will assist the process of regulatory reform and consumer protection.

As part of the enhanced market conduct regulation within the FSB (South Africa), the FSB has proposed the adoption of a framework for TCF to facilitate tougher market conduct oversight. It focuses on an outcomes-based approach, requiring businesses to incorporate the fair treatment of consumers at all stages of the product life-cycle, including the design, marketing, and advice, point of sale and after-sale stages. The initiative encourages businesses to re-evaluate their company culture and to foster the attitude of treating customers fairly. It is hoped that the initiative will lead to more optimal outcomes from the perspective of the regulators, consumers and, ultimately, businesses.

Some initiatives aimed at financial inclusion are either already in place or are close to being implemented. The Financial Sector Charter (FSC) is a voluntary transformation charter, initiated by the financial services sector. Launched in 2004, the Charter made positive strides in setting concrete targets for transformation by the sector as a whole. Transformation targets for the financial sector were set for access to financial services, financing of housing for low income groups, access to finance for small and medium enterprises, financing infrastructure in poor communities, financing of emerging farmers and providing financial education to poor households.

Access to financial services is one of the primary objectives of the FSC. The 2008 annual review of the FSC indicates that the targets of 80 per cent for ATM and full service banking access were almost met, at 77 per cent and 75 per cent respectively.

Access products, as they are known in South Africa, include the Mzanzi bank account which provides previously unbanked consumers with more accessible banking services. The number of Mzanzi accounts opened as at April 2009 had surpassed 6 million since the launch of the Mzanzi initiative in 2004. Initially this account provided very basic services. However, consumers are now able to use stop order and debit facilities, payment of accounts, and some banks even offer internet and cellphone banking services.

The FSC also addresses the provision of consumer education, one of its provisions states that “Each financial entity commits....to annually invest a minimum of 0.2 percent of net operating profits after tax in consumer education.” The 2008 performance of the sector indicates that the target of 0.2 percent of after tax profits was spent on consumer education in the amount of R88.26 million (roughly USD 11 million).

Currently the FSC is close to finalising its proposals for the institutionalisation of a Financial Sector Code.

The Cooperative Banks Act was promulgated in 2007. This Act seeks to enhance access to banking services and to introduce more competition in the banking environment. Since 2009, two cooperative banks have been registered and 19 applications are being considered. There are currently over 121 cooperative financial institutions with about fifty-nine thousand members and over R175 million in savings (roughly US$ 24million).

The National Treasury also recently released a policy document entitled “The South African Microinsurance Regulatory Framework”, addressing issues such as promoting better access to affordable insurance products that meet relevant risks; better matching of insurance products to the needs of low-income consumers; and strengthening consumer protection.

The Framework also intends to provide opportunities for informal practitioners in the microinsurance field, enhancing their credentials through becoming regulated entities within the sector. Another objective of this policy is to outline ways in which consumer protection will be enhanced through business conduct regulation, improved enforcement regulations and consumer education interventions targeted at understanding insurance and its associated risks and benefits. It is envisaged that Microinsurance legislation will be tabled in Parliament some time in 2013.

As mentioned earlier, Ladies and Gentlemen, the financial education of consumers is increasing in prominence in South Africa. I am very happy to say that South Africa's own financial regulator of the non-banking financial, the FSB, has been actively engaged in consumer financial education since 2001.

The FSB's Consumer Education Department has promoted the financial education of consumers in both the formal education system as well as in the community. My colleagues in the Departments of Basic Education and Higher Education have opened doors for the FSB to work with educators as well as learners. The FSB has also worked in partnership with the South African Insurance Association to develop financial education materials for educators in keeping with school curricula.

In addition to responding to numerous invitations to facilitate workshops, the Consumer Education Department continues to work with the short-term insurance industry association to create awareness and educate commuters at bus and taxi ranks through various media channels such a large television screens, radio broadcasts onto train stations and into taxis. There continue to be special projects with farmworkers, persons with disabilities, churches, members of trade unions and sports clubs.

An area of difficulty for consumers which deserves special mention is that of debt and the use of credit. Out of a population of close to 50 million, South Africa has just over 18 million credit-active consumers. Of these, close to 47 per cent have impaired records. The National Credit Regulator was established to regulate the credit industry, to ensure the responsible granting of credit by credit providers and the responsible use of credit by consumers. It is involved with consumer education, research, policy development, investigating complaints and ensuring compliance with the National Credit Act.

Ladies and gentlemen, a few months ago the provincial government in KwaZulu-Natal launched a provincial consumer financial education strategy. Part of that strategy is a provincial schools public speaking competition organised by the Financial Practitioners Development Trust. Over 900 schools participated this year, and the topics the Grade 11 learners talked about were on financial regulation and education.

The lessons learned are that education must be delivered using many and varied channels depending on the circumstances of the consumers you are going to work with. Secondly, you need partners to work with. It is far more efficient and effective and impactful to work together in a coordinated fashion. This will enable the gathering of more accurate results from monitoring and evaluation exercises as well.

**Conclusion**

I would like to thank the OECD for affording the FSB (South Africa) the opportunity of participating in their standards-setting work groups and other consumer education discussion forums. I also thank them as our partner in this conference and as the international standards-setting body for financial education, for the extensive work they have done to support countries in their efforts to improve financial literacy.

We also congratulate the staff members of the National Credit Regulator of South Africa as well as the Department of Trade and Industry for their efforts to educate consumers and, as members of the International Network; we encourage their continued contributions and engagements with their counterparts worldwide. I wish my staff at the National Treasury, representatives from the Association for Savings and Investments and the University of Stellenbosch Military College well, as new members of the Network.

In conclusion, Ladies and Gentlemen, South Africa looks forward to its enhanced consumer protection, market conduct and financial education role as a means of continuing to contribute positively to national and global economic stability. We challenge industries and associations in the financial sector as well as in government, civil society and regulators to pay special attention to the significant role of consumer financial education in the overall scheme of economic development and sustainability. We urge you to work together to achieve the common goals of improving the financial literacy and capability of consumers. In doing so, Ladies and Gentlemen, it is necessary to know how we measure up so that policies and resources may be effectively developed and allocated. We must find the right combination of mechanisms to measure our successes and shortcomings. This will be of benefit to consumers themselves as well as to our countries.

Thank you