Responsible lenders need to lead the charge towards financial literacy

By Brett van Aswegen

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South Africa has a well-developed formal financial sector, however the country also has a population that ranks high in terms of indebtedness, according to the World Bank. In addition to these high levels of borrowing, South Africans also stand out in terms of poor repayments and many are trapped in a debt spiral.

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This suggests that in our country, financial literacy skills are important yet underdeveloped. In my opinion, it is the responsibility of lenders to identify entry points to improve financial literacy as a stepping-stone towards financial soundness.

Interventions towards enhancing financial inclusion aim to empower lenders to make more informed financial decisions and strengthen behaviour towards better budgeting, planning and better-informed borrowing.

An analysis of financial inclusion in South Africa shows that affordability limits poor households' access to formal financial services. While financial inclusion is typically addressed by improving the financial infrastructure, it is important to note that a higher degree of financial literacy has a clear beneficial effect.

Many financial education initiatives are being implemented by a number of institutions, however these initiatives are scattered with low levels of coordination. Given that a significant part of our population is ill-equipped to make good financial decisions, it is our responsibility as lenders to improve the understanding of financial products and awareness of risks. This empowers people to make well-informed choices, to know where to turn to for support and holistically improve their financial well-being.

People who are financially literate are less likely to accumulate credit card debt or long-term debt, while less financially literate counterparts struggle with debt and fall behind on repayments. As a result of limited financial literacy, low income earners often distrust financial institutions, are wary of the charges they incur and don't understand the benefits they can provide.

Consumer protection

South Africa's National Credit Act prohibits credit providers from entering reckless credit agreements. An agreement is defined as reckless if, at the time of entering it, the lender failed to conduct an affordability assessment; or if, having done the assessment, the evidence suggested either that the borrower did not understand the agreement or that it would make the borrower over-indebted.

This an opportunity for lenders to differentiate themselves as a responsible lending institution, operating according to strict legislative requirements and employing fair lending practices to protect consumers.

I believe that financial literacy will have a profound impact on consumers and their ability to provide for their future. Low to no levels of financial education leads to low to no levels of consumer protection in that they do not have a clear understanding of their unique financial requirements, their rights as financial consumers and financial products and services available to them.

I encourage lenders to lead the way through educational initiatives which will ultimately result in financial behavioural change.

ABOUT THE AUTHOR

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