

**STATEMENT SUPPORTING THE CONDUCT STANDARD
FOR FINANCIAL INSTITUTIONS PROVIDING FINANCIAL
CONSUMER EDUCATION INITIATIVES, 2024**

OCTOBER 2024

1 BACKGROUND AND PURPOSE OF THE STATEMENT

- 1.1 In terms of section 98 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act), a financial sector regulator may not make a regulatory instrument unless it has published the following documents:
- (a) a draft of the regulatory instrument;
 - (b) a statement explaining the need for and the intended operation of the regulatory instrument;
 - (c) a statement of the expected impact of the regulatory instrument; and
 - (d) a notice inviting submissions in relation to the regulatory instrument, stating where, how and by when submissions are to be made.
- 1.2 The FSR Act defines a regulatory instrument as amongst others *a conduct standard*.
- 1.3 In fulfilment of the abovementioned requirements, the Financial Sector Conduct Authority (Authority) has prepared this statement of the need for, intended operation and expected impact of the Conduct Standard for Financial Institutions (FI) Providing Financial Education Initiatives.

2 STATEMENT OF NEED

Background

- 2.1 The then Financial Services Board (FSB) brought Financial Education (FE) in South Africa to prominence with the amendment to the Financial Services Board Act, 1990 (Act No. 97 of 1990) (FSB Act) in 2000 that gave statutory responsibility to the FSB to “promote programmes and initiatives by financial services institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services”.
- 2.2 Between 2004 and 2012, the FSB and various financial industry associations like the South African Insurance Association (SAIA) and the Life Offices Association (now Association of Investments and Savings South Africa (ASISA)), conducted FE activities per institution as well as in partnerships.
- 2.3 In 2012, a voluntary multi-stakeholder National Consumer Financial Education Committee (NCFEC) was established in an attempt to coordinate and encourage collaboration amongst stakeholders on consumer FE activities.

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- 2.4 The NCFEC is chaired by National Treasury and reports to the Minister of Finance. The FSCA serves as secretariat of the committee.
- 2.5 In November 2012, the government gazetted the Financial Sector Codes (FSC), in terms of section 9(1) of the Broad -Based Black Economic Empowerment (BBBEE) Act, (Act No. 53 of 2003).
- 2.6 The FSC aims to commit “all participants to actively promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, which contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investment into targeted sectors of the economy.” The FSC is administered and enforced by the Financial Sector Transformation Council and reports to the Department of Trade, Industry and Competition (dtic).
- 2.7 One of the targets of the FSC relates to socio-economic development and Consumer Education, where relevant entities should aim to use at least 0.4% of their annual Net Profit After Tax (NPAT) on consumer education activities.
- 2.8 These activities should be implemented in line with standards published by the FSTC in Guidance Note 500 (GN500). GN500 sets out standards with respect to physical accessibility, appropriateness, measurability and the target market. However, the FSC [rightfully] prioritises FE interventions for black African consumers, and it is unclear that without supervisory and enforcement powers within the FSTC, the extent that the wider requirements are adhered to. The FSTC relies on the verification reports by the BBBEE verification agencies, which cover mostly reach of the interventions to black Africans and the amount spent in this regard.
- 2.9 The FSC was amended in 2017 and the FSTC is currently in a process of reviewing the codes. The FSCA has been in discussion with the FSTC to ensure alignment between the requirements being proposed in this Conduct Standard and the requirements that financial institutions must adhere to in terms of the Consumer Education Element of the FSC, and GN500.
- 2.10 In 2013 the NCFEC approved the first National Consumer Financial Education Strategy (NCFES). The strategy was quantitatively based on the data provided by the 2012 baseline survey that was conducted by the Human Science Research Council (HSRC).
- 2.11 The National Strategy aimed to increase the financial literacy levels within the four domains of the survey as set out in the table below:

Domain	2012	National Strategy target for 2018	National Strategy target for 2023
Financial control	61	62	70
Financial planning	50	57	65
Product choice	48	49	60
Financial knowledge	57	60	70
Overall financial literacy	55		

Financial literacy levels and national consumer education activities

2.12 The data gathered over the last decade provides strong evidence of persistent low levels of financial literacy in South Africa. The 2020 report concludes “that financial consumer education programmes need to continue to be aggressive and comprehensive”.

2.13 The table¹ below shows the low - and in some instances declining - financial literacy levels of consumers in South Africa

Domain	2012	2013	2015	2017	2020
Overall financial control domain	61	62	63	62	59
Overall financial planning domain	50	48	48	47	47
Overall product choice domain	48	48	48	46	44
Overall financial knowledge domain	57	56	60	58	51
Overall financial literacy	55	54	55	54	52

Note: Orange-shaded cells represent the lowest averages and green-shaded cells the highest averages over the period.

2.14 The objectives of the NCFEC are to develop, oversee the implementation of and monitor and evaluate the NCFES. It further serves to plan, coordinate, implement, monitor and evaluate national consumer FE programmes.

2.15 One such national project is Money Smart Week South Africa (MSWSA). This national financial literacy campaign is aimed at motivating and empowering South Africans to become more educated about their finances by bringing together all stakeholders that deliver FE initiatives. The initiative - aligned with Global Money Smart Week - ran for the 5th time in August 2024; 78 stakeholders participated during MSWSA2023, delivering FE initiatives under one brand.

¹ Financial Literacy in South Africa: Results from the 2020 Baseline Survey

2.16 The benefits of appropriate FE programs or other activities promoting financial literacy is well established and is becoming critically important in a fast-evolving financial sector.

FSCA's legislative mandate for FE

2.17 The Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act), extended the jurisdiction of the FSCA to include oversight of financial products and financial services not previously overseen by its predecessor, the FSB, as well as specific focus areas that did not previously form part of the FSB's legislative mandate.

2.18 Section 57(b)(ii) of the FSR Act provides the FSCA with the legislative mandate to protect financial customers by providing financial customers and potential financial customers with FE programmes, and otherwise promoting financial literacy and the ability of financial customers and potential financial customers to make sound financial decisions ("consumer education mandate").

2.19 In addition, section 106(1) empowers the FSCA to make conduct standards, aimed at, amongst other things, ensuring that FE programmes, or other activities promoting financial literacy are appropriate to the financial customers that the program is aimed at.

The need for conduct standards for FE

2.20 FE initiatives can influence the financial decisions and financial well-being of consumers and SMMEs and given the low levels of financial literacy as shown above, it has a significant role to play in advancing transformation and inclusion of financial customers.

2.21 Licensed financial institutions, regulatory bodies and other FE stakeholders have a responsibility to the consumers and the communities they serve to partner with customers on this journey towards financial literacy.

2.22 Although the NCFEC has attempted to coordinate the implementation of FE in South Africa, in many instances initiatives and activities remain fragmented and uncoordinated, arguably due to regulatory compliance and consumer education activities being overseen by different entities – being the FSCA and FSTC. As such, a need exists to set a common minimum standard to which all Consumer FE initiatives provided by financial institutions must adhere to.

2.23 Further, financial institutions currently use various methods of design and development for FE activities. This sometimes leads to marketing principles and interventions being used under the guise of education. FE initiatives should follow recognised educational design models where

possible, and the standardisation of design and development needs to be addressed and should be subject to an appropriate supervisory and enforcement framework in this regard.

- 2.24 Very little data is available on FE activities implemented by financial institutions. While the FSTC's GN500 has attempted to introduce quality control, there is limited data on actual implementation of FE with respect to governance, methodology and the likes. Data gathered by the FSTC is mostly based on reach (to black South Africans) and amounts spent, as per the requirements of the FSC. However, enhanced reporting on how FE initiatives are undertaken is fundamental to making sure that such are suitably co-ordinated, of an appropriate standard and suitably targeted to the identified target audiences. This is necessary to more effectively monitor the efficiency, effectiveness, suitability and possible impact of initiatives.
- 2.25 An increase in the range of financial products and services and their complexity, amplified by technological developments and a continuously changing economic, social and political environment, impacts how financial decisions are made by consumers and SMMEs, in turn impacting financial resilience and well-being. International research² has also shown that, where monitored and evaluated, FE programmes are very effective in reducing a variety of consumer risks. Thus, monitoring and evaluation measures are necessary to make it possible to identify gaps in topics covered, reach of target audiences, reach of geographical areas and success/lessons learned.
- 2.26 Consequently, during 2020 the FSCA published a Discussion Paper which was aimed at putting forward a variety of proposals relating to ensuring that FE programs or other activities promoting financial literacy, when provided by financial institutions, are documented and appropriate to meet the FE objectives of the FSCA. On the basis of comments received from industry and other stakeholders and taking into account the FE mandate of the FSCA, the FSCA has developed this Conduct Standard aimed at putting forward requirements for financial institutions providing financial education initiatives.

3. CONDUCT STANDARD (LAW) VERSUS GUIDELINES

- 3.1 The FSCA has carefully considered whether the best approach to achieving the intended objectives is to publish the requirements as law in the form of a Conduct Standard, or whether an alternative approach such as issuing an industry guideline is more appropriate in this context.

² For example see <https://www.oecd.org/finance/financial-education/measuringfinancialliteracy.htm>

- 3.2 Certain comments received on the 2020 Discussion Paper noted the following:
- 3.2.1 Making these requirements law will result in additional compliance costs for providers of FE initiatives, which may disincentivise their provision.
 - 3.2.2 Prescribing these requirements as a Conduct Standard may result in a conflict of interest, in that the FSCA is both a FE initiative implementer (“player”) as well as the regulator (“referee”) of standards.
- 3.3 The main advantage of industry guidelines is that it provides more flexibility. A guideline can be changed without going through a cumbersome legislative amendment process, and because it is not a legal instrument financial institution/s are not compelled to comply, providing scope for them to deviate from the guideline, where justified. Such a guideline will essentially serve as best practice but will not be legally enforceable.
- 3.4 However, the fact that it will not be legally enforceable means that financial institution/s are not compelled to adhere to the guideline and the intended outcomes will likely be compromised. The current implementation of the FSTC’s guidance note GN500³ has provided little evidence of FE being implemented appropriately (as per section 106(1) of the FSR Act). As indicated, only data on reach and amount spent is readily available. The lack of comprehensive reporting to the FSTC makes it difficult to monitor and evaluate the quality of FE programmes implemented by the financial industry with respect to issues of Governance, Logistics, Branding and Monitoring and Evaluation, amongst others. The FSTC’s GN500 is therefore an example of the limitations of a “guidance approach” to ensuring the appropriateness of FE initiatives.
- 3.5 The FSCA considers that the FE governance and practices promoted in the Conduct Standard are the minimum standards necessary to develop and deliver effective FE. Indeed, many financial institutions already prescribe to these best practices. On the other hand, one can question the effectiveness and quality of those FE programmes that are not adhering to these practices. This then is the regulatory trade-off. We examine the impact of the Conduct Standard more closely in section 5.
- 3.6 The FSCA further considers that information pertaining to FE initiatives is key to understanding whether FE initiatives are currently achieving the intended outcomes. This information is currently lacking. Therefore, irrespective of whether the approach entails a Conduct Standard or industry guideline, the FSCA will ensure that it initiates the necessary processes to enable

³ Measurement of the consumer education element of broad-based black economic empowerment.

reporting in respect of FE initiatives. Reporting on FE initiatives will form a key part of the FSCA's strategy in monitoring the appropriateness of FE initiatives.

- 3.7 In response to the concerns raised regarding possible conflicts of interest, these may arise insofar as the FSCA may need to supervise its own FE programmes. At this stage the FSCA is still considering the need for it to supervise its own programmes. The FSCA is already committed to and lives by these standards. Also, other ways are being considered to promote further transparency and accountability regarding its own FE programmes, as may be required.
- 3.8 As part of the public consultation process industry input was specifically requested in respect of the various issues raised above, to inform the FSCA's final view on the need for a Conduct Standard. Based on the inputs received:
- 10 out of 12 (83%) of stakeholders was in support of the Conduct Standard approach;
 - 1 out of 12 (8%) stakeholders was in support of a guidance-based approach; and
 - 1 out of 12 (8%) stakeholders was not in support of the Conduct Standard approach and did not clarify whether the guidance driven approach is supported.
- 3.9 The majority of commentators were generally supportive of the objectives of the Standard and that it would in general terms improve the quality of financial education initiatives and the availability of information through reporting.
- 3.10 After reconsidering the benefits and disadvantages as discussed above, and also taking into account stakeholder sentiment, the FSCA remains of the view that the Conduct Standard approach will be the most effective intervention to reach the intended outcomes.

4. OVERVIEW OF DRAFT CONDUCT STANDARD

- 4.1 The requirements in the Conduct Standard will only apply to financial institutions that provide FE. The financial institution will then need to adhere to the requirements, including requirements for the monitoring and evaluation of the effectiveness, efficiency and appropriateness of FE initiatives, as well as requirements relating to reporting relating to FE initiatives to the FSCA.

Definitions of financial education" and "financial education initiative"

- 4.2 The definitions of financial education" and "financial education initiative" in the Conduct Standard is critical as it essentially sets the scope of the activities covered under the Conduct Standard. During the public consultation process commentators raised various questions surrounding these definitions and the scope of activities covered by the definitions. Some of the questions/issues raised included the following:
- The definitions are not broad enough.

- The definitions are too vague.
- The Conduct Standard needs to indicate if it applies to both awareness and interactive initiatives as awareness type of initiatives may not be able to provide the detailed data as required by the Conduct Standard.
- Various specific activities were highlighted, and it was asked whether the following activities would fall within the aforementioned definitions:
 - *Retirement fund context:*
 - Communication by a retirement fund to members concerning the specific benefits within a specific retirement fund (for example as happens in a newsletter to members or a member booklet);
 - Education by funds of the Board (even if conducted by a service provider);
 - Education by funds of participating employers (who are stakeholders of the fund, not customers);
 - Education by administrators of participating employers;
 - Education by funds of their employees;
 - Education by funds (or their administrators/consultants) of financial advisors or consultants of a participating employer.
 - *Websites*
 - Would these definitions include websites of FSPs where they explain certain features of financial products, concepts and/or risks?
 - *Articles*
 - Would these definitions include articles written by an FSP where it is hosted on an FSPs website or a publication in a magazine?

4.3 The FSCA acknowledges that these definitions are very important as they in essence define the scope of the Conduct Standard. However, the types of FE initiatives that can be provided are very broad, and it is therefore very difficult to come up with a definition that clearly captures all the relevant FE initiatives. As such, the definition was drafted purposefully wide and in general terms. However, through the public consultation process the FSCA identified certain distinguishing factors that should be incorporated into the definition.

4.4 Firstly, there is a need to distinguish between general information and product/service provider and financial product specific information. The intention is not to capture activities that are aimed at marketing or creating awareness surrounding a specific financial product/service provider or

their specific products. As such, an exclusion making this clear has been incorporated into the definitions.

4.5 Secondly, the intention is also not to include arbitrary actions such as the publication of a once-off article providing consumer relevant information, even if such information is general in nature. The FSCA believes that the current definitions already, to a large extent, deals with this issue. For context, the definition of “financial education initiative” contains two key concepts, both of which should be aimed at providing financial education:

- *Financial education programme*: The term “programme”⁴ is defined as, amongst other things, ‘an officially organized system of services, activities or opportunities to help people achieve something’. Therefore, in the context of financial education, a ‘financial education programme’ would entail an officially organised system of financial education driven activities.
- *Other similar initiative*: The term “initiative”⁵ is defined as ‘a new plan or process to achieve something or solve a problem’. Therefore, to qualify as an initiative similar to a FE programme, the initiative has to entail some form of systematic planning/process aimed at providing FE. This would, for example, include an awareness campaign but would exclude a once off action like publishing an arbitrary article providing general information.

4.6 Therefore, the FSCA believes that the aforementioned definitions, also taking into account the amendments referred to above, adequately addresses the questions that were posed by commentators. For example, taking into account the above examples and explanation provided, it would mean that –

- any retirement fund related communication or action that is aimed at providing information aimed at supporting understanding of a particular pension fund (including benefits, processes, etc) will not constitute a financial education initiative; and
- a once-off or arbitrary publication (be it on a financial institution website or a news article) providing general consumer relevant information will not constitute a financial education initiative. However, if, for example, a financial institution executes a planned series of publications which is aimed at promoting financial education in a systematic manner, that would constitute a financial education initiative.

⁴ <https://dictionary.cambridge.org/dictionary/english/programme>

⁵ <https://dictionary.cambridge.org/dictionary/english/initiative>

- 4.7 Should there be further ambiguity when implementation of the Conduct Standard occurs, the FSCA will consider issuing more specific guidance on the scope of application of these definitions.

Conduct Standard requirements

- 4.8 The requirements of the Conduct Standard require all financial institutions that provide FE initiatives to take reasonable steps to ensure appropriate standards of behaviour, put in place governance and oversight arrangements when developing FE content, implementing, monitoring, evaluating and reporting on consumer FE activities. Adherence to these requirements will ensure that all FE initiatives developed by financial institutions are of a similar standard, creating consistency across the sector. As some of the requirements contained in the Conduct Standard are principles-based and considering the need to enable financial institutions to apply such principles in a manner that makes sense in the context of the nature, size, complexity and risk profile of the financial institution concerned as well as the nature and target group of the relevant financial education initiative, the Conduct Standard also provides for proportional application of requirements where appropriate (see clause 2(3)).
- 4.9 Based on the needs identified in paragraphs 2.20 to 2.26 the Conduct Standard addresses the following specific matters:
- 4.9.1 Governance arrangements: Clause 3 provides for the governance arrangements, including the oversight arrangements that must be put in place within the financial institution, to ensure appropriate standards of behavior, governance and oversight when developing content, implementing, monitoring, evaluating and reporting on FE activities or interventions.
- 4.9.2 Design, and development requirements of FE initiatives: Clauses 4 and 5 of the Conduct Standard imposes requirements pertaining to the design, suitability, location and accessibility of FE initiatives. These requirements also deal with the oversight arrangements that a financial institution must have in place to ensure that the interest of customers is protected, and the stated objectives of the initiatives are met. When undertaking FE initiatives, a financial institution must be able to demonstrate that it identified the most appropriate channel for the relevant target audience and the potential benefit of providing the audience with financial education initiatives that are tailored to their specific needs. The content of an FE initiative should be based on objective and impartial information, as guided by the National Strategy and generally accepted methodologies, research and trends. The content of a FE initiative must not be based

on any financial institution's specific financial product or service or marketing campaign and must be brand agnostic.

4.9.3 Measurability, Monitoring and Evaluation Requirements: Clauses 6 and 7 set requirements for the monitoring of each FE initiative by the financial institution to ensure that the stated objective of the FE initiative is measurable and that same is monitored and evaluated. The purpose of the monitoring and evaluation is to ensure that the programme was effective, to identify areas for improvement and to verify that the initiative met its stated objective.

4.9.4 Marketing restrictions: Clause 8 provides for the marketing and branding requirements which a financial institution must adhere to when offering FE, both to ensure that marketing does not take place under the guise of FE and to provide the standard to which branding must adhere and not cross over into the marketing sphere. Marketing and sales of specific financial products or services as part of FE initiatives is expressly prohibited. Marketing of a brand as part of an FE initiative is allowed, although branding may not be excessive. The FSCA will consider issuing guidance to further elaborate on when or when not branding would be viewed as being excessive.

4.9.5 Reporting requirements: Clause 9 provides for the information that will have to be reported to the FSCA when conducting FE initiatives although the manner and form of submission of these requirements to the FSCA will still be determined and will likely align with other reporting to the Authority.

4.10 The FSCA believes that the Conduct Standard will contribute to increasing the effectiveness of national strategies for FE, and ultimately assist individuals and households to navigate the challenges and opportunities of today's financial markets and products offered in the financial sector in general, thereby improving their financial wellbeing.

4.11 The FSCA will also consider issuing a Guidance Notice in terms of section 141(1) of the FSR Act that supports the Conduct Standard, to further inform the application of the principles contained in the Conduct Standard (noting that a Guidance Notice is not legally binding, as discussed in section 3 above).

5. STATEMENT OF IMPACT OF THE PROPOSED AMENDMENTS

5.1 As part of the 2020 Discussion Paper process, stakeholder input regarding the potential impact of the proposals was requested.

- 5.2 At that stage it was submitted that additional resources may be required within financial institutions to ensure adherence to the new proposed requirements, additional mandating of governance sub-committees to fulfil the governance and oversight required as well as additional time required to get initiatives to market. It was also submitted that the request for more intentional monitoring and evaluation and needs-based assessments in the development and updating of consumer education learning material would likely result in greater quality content.
- 5.3 It was further submitted that, as a result of the proposed requirements with regards to programme development, design, testing and monitoring and evaluation, there is a risk that financial institutions may conduct fewer, costlier initiatives with less reach, but that such initiatives will possibly have a deeper impact on the targeted groups.
- 5.4 No additional quantitative or qualitative impact data was submitted by stakeholders as part of the 2020 process.
- 5.5 To further explore the potential impact of the Conduct Standard, stakeholder input was specifically requested in respect of the envisaged impact, including cost implications of the proposals contained in the Conduct Standard as part of the public consultation process.
- 5.6 In total, fifteen (15) commentators submitted comments as part of the public consultation process. Commentators at various questions and topics raised in Section C of the comments matrix (section relating to the anticipated impact of the Conduct Standard) cautions against requirements that are too onerous, such as the requirements surrounding systems to track and report on outcomes as well as the competency required from content developers. Concerns were also raised that the requirements may create barriers to entry for smaller institutions due to the requirements being too onerous, including being too costly to adhere to and also lead to smaller institutions stopping to provide financial education initiatives as a result.
- 5.7 A further concern raised with regards to the impact of the Conduct Standard was that the proposed Standard will introduce an unlevel playing field, as non-financial institutions that provide financial education initiatives will not be subjected to the same requirements as financial institutions that provide the same initiatives.
- 5.8 With regards to costs, 10 of the 12 (83%) commentators that responded to this section indicated that the new requirements would lead to an increase in compliance costs as a result of the data, monitoring and evaluation, process and reporting requirements that are being proposed. Some commentators indicated that the costs may be prohibitively expensive, leading to a decrease in available programs. One commentator indicated that any increased costs may push a programme to become no longer financially viable, and some very valuable programmes may

then cease to run, with the obvious detrimental effects. Some service providers may also fail to be able to sustain increased costs, reducing the availability of experienced provision. All commentators (11) who responded to the question with regards to the impact on the operational cost of the Standard, indicated that there would be an increase in costs for the financial institution. Commentators highlight the risk that financial institutions will not proceed to offer financial education initiatives due to the additional requirements and their knock-on effect of increased operational costs.

5.9 Four (4) of the eight (8) commentators (50%) who responded to the questions with regards to how different customer groups would be impacted by the requirements of the Standard, was of the view that the Standard could lead to an improved standard of financial education for customers.

5.10 The FSCA notes the concern raised regarding requirements being too onerous, especially requirements pertaining to measurability (effectiveness and impact), monitoring and evaluation, which could lead to the provision of FE initiatives becoming unviable due to increased costs. Related to this, the FSCA also notes the concern raised that these onerous requirements might create barriers to entry for smaller institutions.

5.11 Although the FSCA understands the sentiments expressed, the FSCA holds the view that these risks can to a large extent be mitigated:

- Firstly, the Conduct Standard enables proportional application of requirements, meaning that a financial institution can establish its controls and measures in such a way that makes sense in the context of the nature, size, complexity and risk profile of the financial institution concerned. The principle of proportionality therefore allows a smaller institution to develop and apply a more rudimentary approach to how it, for example, measures, monitors and evaluates CE initiatives, provided that the approach is appropriate and achieves positive outcomes.
- Secondly, the measurability requirement in the Conduct Standard has been qualified to allow for more flexibility in application. The extent to which it will be possible for a financial institution to demonstrate effectiveness and measure impact, as stated in the revised clause, will depend on the nature, size, complexity and risk profile of the financial institution concerned.

5.12 The FSCA also takes note of the concern raised that the Conduct Standard will create unlevel playing fields in the context of financial institutions vs non-financial institutions providing FE initiatives. Although the FSCA does not dispute this, we are of the view that this is not a significant issue. Improving the quality of CE initiatives provided by financial institutions will already go a long way in improving CE initiatives in general, and the fact that non-financial

institutions fall outside the scope of the Conduct Standard does not detract from the aforementioned. Put differently, the fact that non-financial institutions offering CE initiatives is not subject to the Conduct Standard is not sufficient reason to justify no legislative intervention. It must also be noted that FE initiatives provided by non-financial institutions on behalf of financial institutions are subject to the Conduct Standard, such institutions are therefore “indirectly regulated” through the Conduct Standard.

- 5.13 The FSCA remains of the view that the Conduct Standard will support appropriate standards of behaviour, governance and oversight when developing content, implementing, monitoring, evaluating and reporting on consumer FE initiatives, and that this will lead to improved quality of consumer education in South Africa.

6 STATEMENT OF INTENDED OPERATION OF THE PROPOSED CONDUCT STANDARD

- 6.1 The Conduct Standard is consistent with the objectives of the Financial Sector Regulation Act, and specifically the mandate of the Authority to protect financial customers by providing financial customers and potential financial customers with FE programs, and otherwise promoting financial literacy and the ability of financial customers and potential financial customers to make sound financial decisions.
- 6.2 To manage compliance with the requirements of the draft Conduct Standard, financial institutions will be expected to design and implement appropriate governance arrangements and other control mechanisms that will ensure the protection of financial customers. Financial institutions will be required to demonstrate to the FSCA appropriate standards of behaviour, governance and oversight when developing content, implementing, monitoring, evaluating and reporting on consumer FE initiatives are adhered to.
- 6.3 The FSCA will monitor compliance with the draft Conduct Standard by using proactive supervisory approaches in which potential areas of concern are identified, with a greater emphasis on pre-empting negative customer outcomes where possible. Once risks have been identified, the FSCA will have engagements with the financial institutions concerned to try and remediate the situation and pre-empt customer harm or seek redress where harm has already occurred.
- 6.4 When the Conduct Standard is made effective, financial institutions will be provided with a period of 12 months before the requirements become operational in order to provide financial

institutions with sufficient time within which to become compliant and implement appropriate arrangements and controls mechanisms.

- 6.5 The FSCA also intend to send an Information Request (IR) to all financial institutions to obtain baseline information with regards to FE initiatives being undertaken, and to use this baseline information to measure the effectiveness of the requirements of the Conduct Standard once it is made effective.