

# MEDIA RELEASE

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## **Financial Literacy Key to Moving Forward in the Post-COVID Economy**

Financial literacy has long been an issue in South Africa. Developing a national savings culture, ensuring consumers understand how to use credit responsibly and banking the un-banked are just a few of the top line issues we have fought to address since democracy, with varying degrees of success. However, much work still needs to be done – especially as we enter the post COVID-19 ‘new normal’.

Experts agree that the economic downturn sparked by COVID-19 is likely to see South Africa experience significant job losses. Within this context, managing debt is going to be difficult for many South Africans.

In a [December 2019 article](#), BusinessTech laid out some stark South African debt facts, including:

- According to National Credit Regulator (NCR) statistics, 84% of South Africans who earn R15,000 a month or more have some form of debt – with unsecured loans and credit cards the fastest-growing types of debt
- The Debt Counselling Association says that 10 million people in South Africa have bad debt — which means they have missed three or more monthly repayments
- A survey conducted by the Debt Association among people with bad debt found that many are borrowing for daily necessities such as food and transport, while also cutting back on medical aid and insurance policies

‘Bad debt levels are likely to increase further in 2020, in line with retrenchments,’ says Tlalane Ntuli, co-founder and Chief Operating Officer at Yalu, the distributor of the Yalu Credit Life Insurance Plan, insured by Old Mutual Alternative Risk Transfer Limited, a registered long-term insurer. ‘The national economy could easily therefore experience a cruel double blow: a slowdown in consumer spending and a fall in the number of families protected by important risk management tools like medical aid and insurance.’

There is, however, an important note of irony within South Africa’s bad debt paradigm, which can be summed up in three words: Credit Life Insurance (CLI).

Credit Life Insurance is often, but not always, mandatory with certain types of loans. However, because the institution that offers the consumer the loan in the first place also frequently provides the Credit Life Insurance, it’s common for CLI policies to be bundled into a single overall payment

structure. Consumers can easily remain unaware of the fact that they have the policy at all. Consequently, CLI claims rates are amongst the lowest of all South African insurance lines.

'It's a painful thought that in the middle of a retrenchment crisis many South Africans will be unaware that they already have insurance policies in place to protect them and their families from the hardship of attempting to meet monthly debt commitments while unemployed,' says Ntuli. 'But like it or not, this reality exists, and ultimately it should be a spur to action for vastly improved financial literacy campaigns across the South African financial sector, including from emerging FinTech brands.'

FinTech players can offer new forms of value to hard pressed South African consumers. Potentially, this value could have a positive impact on our country's ability to negotiate the turbulent waters ahead. However, for this contribution to be fully realised, consumers must be empowered with a combination of great tools *and* the understanding of how to use them.

What will this require?

'First, we must act on the fact that all players in our financial services sector have a mutual interest in ensuring that ongoing financial literacy and awareness campaigns are key components of our communications activities,' says Ntuli.

'Second, it means paying careful attention to the spirit and stipulations of the Consumer Protection Act by focusing strongly on clear, easy to understand product communication with all consumers. Every aspect of every financial product must be quickly comprehensible, and there should never be any important clauses or stipulations buried in the fine print.'

When it comes to CLI, for example, every borrower, regardless of the type of loan, should be made aware whether a CLI policy is attached to their loan. They must also explicitly understand what protection the CLI policy gives them, how much they are paying for that policy every month and how to claim. They should also be made aware that they have a legal right to choose their own CLI service provider, regardless who is giving them credit. Similar clarity is required in every financial realm, digital banking to short and medical insurance, and beyond.

South Africa has a long and turbulent history which continues to impact consumer behaviour in 2020, which is the backdrop against which our financial sector must view the financial literacy imperative.

'If we accept the challenge presented by this history with the right kind of actions today,' Ntuli concludes, 'we'll put ourselves in a great position to use the opportunities offered by new technologies to create better financial value – and protection – for all our people, even in times of global crisis.'

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