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LEGAL UPDATE: FSCA'S DIRECTION ON FINANCIAL EDUCATION AND LATE PAYMENT INTEREST

In this publication we look at:

- The Financial Sector Conduct Authority (FSCA) Conduct Standard 1 of 2025: Requirements for Financial Institutions Providing Financial Education Initiatives, and
- FSCA Communication 6 of 2025: The calculation of late payment interest by pension funds.

FSCA CONDUCT STANDARD 1 OF 2025: REQUIREMENTS FOR FINANCIAL INSTITUTIONS PROVIDING FINANCIAL EDUCATION INITIATIVES

Published on 26 March 2025, this Conduct Standard seeks to enhance financial literacy and financial inclusion in South Africa. With its implementation set for 26 March 2026, financial institutions, like retirement funds, have a year to align with its requirements.

Important definition

Financial education (FE) means the process by which financial customers improve their understanding of financial products, financial product providers, financial services, financial service providers, financial concepts and risks and, through objective basic information, instruction and the like, aim to develop the skills and confidence to:

(a) become more aware of financial risks and opportunities;
(b) make informed financial decisions;
(c) manage their financial affairs more sustainably;
(d) know where to go for financial assistance and recourse; or
(e) take other effective actions to improve their financial well-being and the financial well-being of those under their responsibility;

THE PURPOSE AND SCOPE OF CONDUCT STANDARD 1 OF 2025

The FSCA's mandate includes protecting financial customers, promoting fair treatment by financial institutions, and fostering financial literacy. Conduct Standard 1 of 2025 directly supports these objectives by setting baseline requirements for financial institutions offering FE programs. Unlike promotional or product-specific activities, the standard focuses on systematic, non-commercial initiatives designed to equip consumers with the knowledge to make informed financial decisions.

The regulation applies to all financial institutions under the FSCA's oversight that provide FE programs. These include banks, insurers, retirement funds, and other entities offering structured educational efforts, such as workshops, campaigns, or digital content. Random or one-off actions, like a single article or advertisement, don't qualify - FE must be deliberate and ongoing to fall under this standard.

KEY REQUIREMENTS: GOVERNANCE, MEASURABILITY, AND CONSUMER FOCUS

At its core, the Conduct Standard emphasises governance and accountability. Financial institutions must establish clear oversight for their FE initiatives, ensuring they align with consumer needs and regulatory expectations. This includes appointing qualified staff to develop and manage programs, with content tailored to the target audience's literacy levels, cultural context, and financial challenges.

One of the most debated aspects during the consultation process was the requirement for measurability. Institutions must track the effectiveness and impact of their FE programs, using metrics like participant engagement, knowledge retention, or behavioural changes (for example, increased savings or better budgeting). In response to stakeholders who expressed concern that this could raise costs, the FSCA introduced flexibility, allowing smaller institutions to adopt simpler evaluation methods based on their size, complexity, and risk profile. This proportional approach ensures that even modest players can comply without abandoning their programs.

The standard also prioritises consumer-centric education. FE initiatives must avoid marketing or promoting specific products, focusing instead on general skills like understanding credit, managing debt, or planning for retirement. By fostering impartial education, the FSCA aims to build trust and empower consumers to navigate South Africa's complex financial landscape.

ADDRESSING INDUSTRY CONCERNS

During the public consultation, the FSCA received feedback from 15 commentators, many expressing concerns about compliance costs and complexity. Smaller institutions feared that requirements for data collection, monitoring, and reporting could make FE programs financially unviable. Others worried about barriers to entry, potentially reducing the number of providers offering education.

The FSCA responded thoughtfully, refining definitions and introducing proportionality to ease the burden on smaller entities. For instance, a community-based credit provider might use basic surveys to measure impact, while a large bank could deploy sophisticated analytics. The Authority also clarified that FE initiatives should be systematic but not overly rigid, allowing flexibility in delivery—whether through in-person workshops, online courses, or mobile apps.

Despite these accommodations, some disparities remain. Larger institutions with more resources may deliver polished programs, while smaller ones might struggle to compete. However, the FSCA argues that raising the overall quality of FE will benefit consumers, even if the playing field isn't perfectly level.

IMPLICATIONS FOR FINANCIAL INSTITUTIONS

With a 12-month transition period, financial institutions must align their FE programs to comply by March 2026. This involves reviewing existing FE programs, establishing governance frameworks, and training staff to meet the standard's requirements. For those not yet offering FE, the regulation presents an opportunity to develop initiatives that align with their brand and community goals.

CONCLUSION

FSCA Conduct Standard 1 of 2025 represents a significant step forward in promoting financial literacy in South Africa. By setting clear guidelines for financial education initiatives, it aims to protect consumers, foster informed decision-making, and contribute to sustainable economic growth.

FSCA COMMUNICATION 6 OF 2025: THE CALCULATION OF LATE PAYMENT INTEREST BY PENSION FUNDS

Up to now there has been differing opinions on the date from which late payment interest (LPI) is to be calculated on late contributions receipted into a retirement fund. The FSCA, in Communication 15 of 2023, indicated that LPI was to be calculated from the 8th of the month, while the Pension Funds Adjudicator was of the opinion that it should be calculated from the 1st.

After receiving guidance and advice in this regard, the FSCA has reconsidered their position and in Communication 6 of 2025 confirm that LPI is to be calculated from the 1st day of the month following the end of the month in respect of which contributions were payable.

In other words, a contribution for April is payable within the first seven days of May. Should it not be paid by the 7th of May, the defaulting employer is liable to pay interest at the prescribed rate from the 1st of May until the date of payment of the arrear contributions.

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