



A Financial Guide For Youth



First edition 2009

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This project is a consumer education initiative by the Financial Services Consumer Education Foundation

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Foreword



Young adults, this booklet aims to educate and inform you about making wise financial decisions, starting today. You may think you have forever to secure your financial status in the years to come, but there's no better time to learn about financial responsibility than right now.

We're not saying that you can't have fun, but the choices you make now can mean the difference between financial security, and financial insecurity.

So, now that I have your attention. The things that are important to you today, may not be important to you tomorrow. As you grow and mature, you will go through the stages of life, from studies, establishing your career, acquiring a home and vehicle, marriage, kids and eventually retirement.

In this booklet we provide you with some handy tips to help you save your money as well as enjoy the benefits of it, wisely. You will also find the details of financial institutions that can assist you in making these decisions.

Share this information with your friends and family as well and you will help in creating a better saving and investment environment in South Africa.

Regards

A handwritten signature in black ink that reads "D.T TSHIDI". The signature is fluid and cursive, with a horizontal line extending from the end of the "I" towards the right.

Dube Tshidi
Executive Officer
Financial Services Board

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PERSONAL FINANCIAL PLANNING

Managing your finances is one of the many challenges facing us all. Most of us are battling with money problems, causing us to end up with debt and empty bank accounts. Basic financial knowledge is one of the most important needs to fulfill by obtaining the required personal financial literacy in order to:

Financial skills are the best skills you can acquire. You will be able to use them to your benefit throughout your life. It will help you to set personal goals and gain the necessary confidence for successful personal financial planning and management. Yes, financial wellness is within your reach.

- Successfully secure employment
- Start a business
- Become financially independent



You need to understand what it means to plan your personal finances

1.1. What is Personal Financial Planning?

Personal financial planning is easily confused with making an investment.

When you plan, you take control of your financial life and your money problems. Planning helps you to enjoy a better life, even if you have fewer resources than other people, or even if you have limited resources.

| | |
|-------------------|--|
| Personal: | It has to do with you personally – not anybody else ... Not your relatives or your neighbours, for instance. |
| Financial: | This deals with your personal money matters, and the money matters of your household. |
| Planning: | This is all about how you think about the future, with your current financial situation as the starting point. |

1.2 Your financial future – 6%

PLANNING FOR THE FUTURE

MOST PEOPLE DREAM OF A FINANCIALLY SECURE FUTURE. BUT NOT EVERYONE WHO HAS THE INCOME, TRAINING AND QUALIFICATIONS TO REALISE THAT DREAM IS WILLING TO GIVE WHAT IT TAKES: EARLY & CONTINUOUS PLANNING AND DISCIPLINE

Do you want to be one of the 6% (6 out of every 100) of people in South Africa who are financially independent when they retire? A financially independent person's own investments are sufficient to live on after retirement. The other 94% (94 out of every 100) are usually dependent on their families, friends and the state for their future existence, and they struggle to make a living after retirement.

Resources

factors of production e.g. knowledge, money, machinery, labour, capital, etc.

Retire/retirement

when you reach a mandatory age as stipulated by government and stop working





THE PRIMARY GOAL OF PERSONAL FINANCIAL PLANNING IS FINANCIAL INDEPENDENCE

Financial independence means that when you decide to retire (at any age), you:

- will not be dependent on family, the state or friends for an income
- do not have to continue working in order to survive financially
- will have enough of your own investments to live on, after retirement.

You need to START PLANNING IMMEDIATELY, in order to become part of the 6% of people who retire financially independent.

There are reasons why 94% of people remain financially dependent. Here's what they did not do:

- They did not plan their finances to satisfy financial goals
- They spent their money on wants and greed, instead of spending money on needs. For example:

| Needs | Wants | Greed |
|---|------------------------------------|--|
| A house An affordable, second hand car | A double-storey house A new car | A house that you cannot afford An expensive (unaffordable) sports car |

- They thought they would always earn a good income and be employed
- They thought things would always go well financially
- They chose a lifestyle they could not afford, buying expensive cars and enjoying expensive holidays.

1.3 Plan your Personal Finances



WARNING: Do not start planning and saving when you are 40 or 50.

John is 35 years old and is still living with his retired parents who are 60 years old. He uses the bus to travel to work. He does not own his own car.

Mary is renting a townhouse from her friend who owns several townhouses and is also 40 years old.

David and his brother Thabo rent a townhouse. At the age of 50 they do not have any investments for retirement nor do they have their own transport.

Without your own income (salary) you cannot plan your personal finances. The first secret about managing money is that you have to:

- get a job and earn an income
- keep a job (or start managing your own business) until retirement (to be able to make investments towards your retirement).

"HOW IS THAT MY CONCERN? I AM STILL VERY YOUNG"

- A lifetime seems very long
- I have my own plans and would like to see the world
- I want to enjoy life for as long as possible
- My parents are willing to keep on paying for my expenses and life style

Expenses
Needs

everything you have to pay
those things that you cannot do without e.g. shelter, food, education

COMPOUNDING: YOUR FINANCIAL OPPORTUNITY TO WEALTH

Personal financial planning must start at the beginning of a young life (preferably right after school). The sooner you start, the better. By the same token, the longer you do it, the better. You must start investing as early as your first pay-cheque, and keep investing for as long as possible.

If you keep your investments for many years you earn interest on interest, as well as interest on your investment. We call that 'compounding'.

Let's use the following example:

Let's say you invest R100 per month for periods of 20, 25, 30 and 40 years at 8% interest per year.

Now let's look at what the future values would be over the various terms:

| Term | Amount per month | Interest rate | Future value |
|----------|------------------|---------------|--------------|
| 20 years | R100 | 8% | R 58 902.04 |
| 25 years | R100 | 8% | R 95 102.64 |
| 30 years | R100 | 8% | R 149 035.94 |
| 40 years | R100 | 8% | R 349 100.78 |

Let's express the same example in slightly different terms: Four people invest R100 per month at 8% per year, till the age of 60. They begin at 20, 30, 35 and 40 years of age respectively.

| Start age | Amount per month | Interest rate | Future value |
|--------------|------------------|---------------|--------------|
| 20 years old | R100 | 8% | R 349 100.78 |
| 30 years old | R100 | 8% | R 149 035.94 |
| 35 years old | R100 | 8% | R 95 102.64 |
| 40 years old | R100 | 8% | R 58 902.04 |

In other words, the person who starts investing at age 20 will get R350 000 from his or her investment. If you wait until you are 40 years old before you start investing, you will have to be satisfied with about R60 000 at the age of 60. The difference between early and late investing may be millions at an interest rate of say 15% .



WARNING: BEWARE OF PYRAMID SCHEMES! (Illegal "get rich quick" schemes)

1.4 How to draw up your budget and plan your finances (The personal financial planning process)

PLANNING AND BUDGETING MEAN REACHING YOUR GOALS

John Pityana (20) and Beatrice Phenya (21) attended a friend's party. Everything seemed so expensive at the party and in his townhouse. The friend spoke about not being able to afford anything until the day he started planning and budgeting to reach his goals. Now he can afford his plans and uses a budget to discipline his spending and saving.

Budget

a plan that details how you are going to spend your income

Pyramid scheme

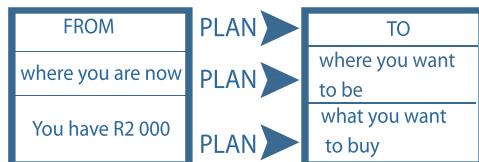
is an illegal system of making money, that for its success, requires endless streams of new investors



PLANNING AND BUDGETING MEAN REACHING YOUR GOALS

When you plan, you are trying to find out whether you can achieve the financial goals you have set for yourself, and how you can achieve them. You can also determine whether your plans and dreams will be affordable.

Ask yourself: "How do I get from point A to point B ?"



You will find that you can't buy everything with your R2 000, because you want to buy too much. Then you should plan to buy some things now and others later, and also forget about buying certain things, because you can't afford to buy everything at the same time.

John and Beatrice need to start following these steps: STEP 1 – STEP 2 – STEP 3 – STEP 4 – STEP 5

To plan, you need to follow a series of steps. We call these steps the personal financial planning process. A process which everybody (young, old, poor, rich, married, single) must follow to do personal financial planning.



STEP 1: Determine your financial position/situation (Point A)

Your current financial situation will include:

- your money problems
- your income
- your accounts, debts and micro-loans
- your savings, policies, investments and assets
- knowledge about your family members' employment, health, financial problems, debts, income, expenses, contributions to household, number of children, needs, wants and priorities
- the current financial habits of your family members
- saving plans (suggested by each family member)
- real and new priorities for each family member.

After completing this step **YOU WILL KNOW MUCH MORE ABOUT YOUR FAMILY'S FINANCIAL AFFAIRS.**

STEP 2: Set immediate, short, medium and long term objectives (Point B)

These objectives must include things you want to do with your (or your family's) money (Christmas shopping, paying accounts, buying something, saving/investing money) over the various periods. Include only those objectives that you think (at this stage, before drawing up the budget) you will be able to afford. Let's look at an example of objectives you can set for yourself:

| | | |
|--|----------------|---|
| | Account | - a method to buy something on credit |
| | Assets | - a book detailing expenses and income of a client things you own that have value e.g. house, car, furniture |

| Term/period | Objectives |
|----------------------------------|---|
| Immediate (1–3 months) | Pay back R200 that I borrowed |
| Short-term (3 months – 1 year) | Pay my clothing account (R150 per month) |
| Medium-term (1–3 years) | Save R5 000 for a deposit on a second-hand car (Invest R120 per month in a money market account, and save the interest as well for 3 years) |
| Long-term (3–5 years and longer) | Save R10 000 for a deposit on a house (invest R200 per month in a collective investment scheme for a period of 5 years) AND invest R300 per month in a retirement annuity |

BUDGETING

STEP 3: Draw up a budget (your financial plan to get from Point A to Point B)

If your income is enough to pay for your expenses and saving, you can move to the next step and implement your plan in order to reach your objectives. If your expenses and savings exceed your income, you may have to forget about investing in a home at this stage, because you simply cannot afford the R200 per month. It may also mean you have to forget about setting aside R300 for your retirement at this stage.



| Question | Answer | Action |
|-------------------------|--------|--|
| Does my budget balance? | No | Go back to step 2 and change your objectives until it balances |
| | Yes | Go to the next step and implement your plan/objectives |

It is possible to increase your income or decrease your expenses and savings/investments to help balance your budget. If your budget balances, it means your income is equal to your expenses + investments.

A BUDGET TEACHES YOU TO APPLY FINANCIAL DISCIPLINE

- All household members should be involved in drawing up the budget
- Family members should understand the key role of the budget in attaining the household's goals (teach everyone)
- A budget should be realistic (do not estimate income or expenses too high or too low)
- There should be good communication between family members, who should, for example, be informed why certain expenses have to wait for a few months
- You need a good record keeping system (papers, receipts, invoices and accounts) to draw up a proper household budget – all documents related to income and expenses should be kept in order to compare the budget with your actual (real) income and especially, expenses
- Records should be kept in a safe place

| | |
|------------------------|---|
| Save/saving Deposit | when you put money away for future use -the initial payment that one needs to make when purchasing goods or services -an amount you put in an account |
|------------------------|---|

Keep all your papers

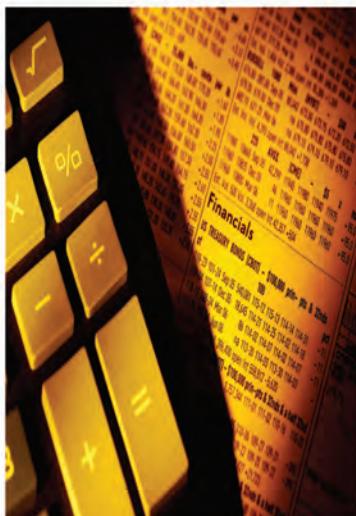
- For food, clothing, the house, the bus, the taxi, your car and petrol – everything you pay for each month
- Salary (husband and wife) – if you are getting money (an income)
- Put all of it in a box/file
- You need all these papers for your budget

Sequence to follow when you draw up your budget:

| | |
|----------|--|
| 1 | Add your monthly income from all sources together. |
| 2 | Add all your monthly expenditure together. |
| 3 | Compare income and expenditure to determine shortfall or surplus. |
| 4 | Analyse shortfall or surplus and take action as needed. |
| 5 | Use surplus for savings and/or investments. |
| 6 | Plan to reduce or eliminate shortfall (you can take many actions to reduce expenses). |
| 7 | Plan ahead (manage the surplus or shortfall) to prevent future shortfalls or huge surpluses. |

Practical example 1:

John lives with his parents. He uses a bus to travel to work and earns R5 000 per month. His parents decided to ask him for a monthly rent of R1 000, R500 for food and R250 for his washing. John plans to buy himself an expensive hi-fi and a second-hand taxi. Let's look at his monthly budget as presented in the January column of his budget.



BUDGETING

| Income | January |
|--------------------------------------|--------------|
| John | 5 000 |
| Second job | 1 000 |
| (1)Total income | 6 000 |
| Expenses | |
| Rent | 1 000 |
| Food | 500 |
| Clothing | 1 000 |
| Transport (car) | |
| Furniture(hi-fi) | |
| Washing | 250 |
| Entertainment | 500 |
| Studies | 1 000 |
| Cellphone | 700 |
| (2)Total expenses | 4 950 |
| Income (1) | 6 000 |
| Minus expenses (2) | 4950 |
| Surplus (+) or Deficit (-) | +1050 |
| Cumulative surplus or deficit | +1050 |

Actions to balance the budget:
Use surplus for saving and investments



Salary/wage
Deficit/shortfall

reward for labour or work done
when your expenses are more than your income

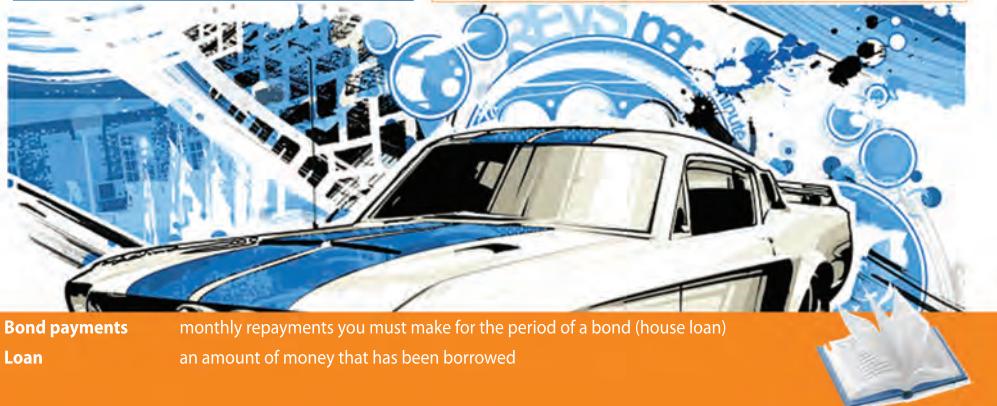
Practical example 2:

John fell in love with Beatrice. They got married, bought a townhouse and a car, and opened a clothing and furniture account. Beatrice earns R10 000 per month and so does John, after his promotion. John stopped driving a taxi over weekends.

| | | | |
|-------------|---------|----------|------|
| Credit Card | Income | Clothing | |
| | Holiday | Car | |
| | Studies | Food | Loan |

John and Beatrice's monthly budget

| Income | R |
|--------------------------------------|------------|
| John | 10 000 |
| Beatrice | 10 000 |
| (1) Total Income | 20 000 |
| Expenses | |
| Bond on town house | 5 000 |
| Food | 3 000 |
| Clothing | 1 000 |
| Car | 2 000 |
| Furniture | 1 000 |
| Credit card | 1 000 |
| Loan (parents) | 1 000 |
| Short-term insurance | 1 000 |
| Holiday | 500 |
| Entertainment | 1 000 |
| Banking cost | 500 |
| Domestic worker | 1 000 |
| Studies | 1 000 |
| Telephone/cellphone | 500 |
| Levy | 500 |
| (2) Total expenses | 20 000 |
| Income (1) | 20 000 |
| Minus expenses (2) = | 20 000 |
| Surplus (+) or Deficit (-) | R 0 |
| Cumulative surplus or deficit | R 0 |



| Income | January |
|--------------------------------------|----------|
| John | 10 000 |
| Beatrice | 10 000 |
| (1) Total income | 20 000 |
| Expenses | |
| Bond | 5 000 |
| Food | 3 000 |
| Clothing | 1 000 |
| Car | 2 000 |
| Furniture | 1 000 |
| Credit card | 1 000 |
| Loan | 1 000 |
| Short-term insurance | 1 000 |
| Policies | 1 500 |
| Holiday | 500 |
| Investments | 1 500 |
| Social | 1 000 |
| Banking cost | 500 |
| Studies | 1 000 |
| Domestic worker | 1 000 |
| Levy | 500 |
| Telephone/cell | 500 |
| (2) Total expenses | 23 000 |
| Income (1) | 20 000 |
| Minus expenses (2) = | 23 000 |
| Surplus (+) or deficit (-) | (-3 000) |
| Cumulative surplus or deficit | (-3 000) |

Practical example 3:

A broker visits the Pityana household and informs them about investments and the need to start planning for their retirement. Will they be able to afford their debt and these investments or do they have to adjust their joint budget? From their budget (on the previous page) they discover that they have no money for additional savings/investments. They have to adjust their budget to accommodate their savings.

Actions to balance the budget = reduce certain expenses and/or investments to the amount of R3 000.

YOU COULD CHANGE YOUR BAD FINANCIAL HABITS - MY BUDGET DOES NOT BALANCE ?

- Check if you used the correct figures
- Try to increase your income
- Try to reduce your expenses
- Try to slow down/reduce your investments
- Extend the payment period of a loan (if the supplier of the funds agrees) – with the help of an accredited debt counsellor
- Extend the term of a bond from 20 to 30 years (you will pay more interest) – with the help of an accredited debt counsellor
- You could obtain a personal loan for a short period (three months)
- Postpone certain expenses for three to four months
- Use an investment to obtain finance
- Close certain accounts so that you are not tempted to buy on credit

STEP 4: Implement your plans (objectives)

Implementing your plans means making them work: Now you are taking action. When you receive your salary, do the following – if you can afford it: pay the person you owe R200; pay off R150 on your clothing account; go to the bank and arrange for a monthly payment (by stop order) of R120 to be invested in a money market account; call a broker and invest R200 in a collective investment scheme and R300 in a retirement annuity.

STEP 5: Revise your plans

You should evaluate and update your objectives/plans regularly to prepare in the event of the following:

- You lose your job
- You get married
- A family member dies
- An emergency situation arises, such as illness, or your car gets stolen
- You are involved in an expensive court case
- There is a divorce in your family
- A baby is born.

Short term insurance

insurance that provides cover for your possessions and liabilities against anything that may happen, like fire, theft or damage.



1.5 Managing your debt

What is debt?

- You incur debt when you borrow money or acquire goods and services that you must pay for later
- You incur debt when you buy goods and services (food, clothing, furniture) on credit
- When you incur debt you must repay the money you owe, as well as interest on that money

Example: What is interest? Let us say you borrow R100 from the bank. The bank charges 15% interest per year. At the end of the year you must repay the loan amount (R100) plus the interest of R15 (15% of R100) = R115.



WARNING: INTEREST RATES CHANGE FROM TIME TO TIME

John's friend at work bought everything he saw that he liked. His debt soon became like a mountain. He could not keep up with his monthly repayments. He received the one red letter of demand after the other from different credit providers. Last year, at the age of 24, he was negatively listed and sequestered. He can no longer obtain a loan from a bank or credit from any credit provider. He moved back to his parents' house who are now supporting him.

**WE ARE BEING ENCOURAGED TO SPEND, SPEND, SPEND!
WE ARE BEING INVITED TO BORROW, BORROW, BORROW!**

WE FORGET THAT EVERYTHING WE BORROW OR BUY ON CREDIT WILL HAVE TO BE REPAYED EVENTUALLY

We need to learn about needs, wants, good and bad reasons for incurring debt. Needs include essential things like food, clothing, a place to stay, basic transport, education and a job.

Wants or desires include things you do not really need, but would like to have, like expensive clothing, expensive furniture and a sports car. Before you borrow money or open a credit account, ask yourself whether your purchase will satisfy a need or a want/desire.

Bad reasons for incurring debt are the following:

- You want to impress people
- You want to compete with your rich friends
- You want to buy something because everybody else has it
- You are convinced by a clever salesperson to buy something
- You cannot control your bad spending habits
- You want to be in fashion
- You need money to maintain too high a standard of living, according to your income

Good reasons for incurring debt are the following:

- To pay for education/studies, an affordable vehicle and a place to stay – dwelling
- You need something and you will be able to repay the debt
- It will enable you to get out of a temporary situation where your monthly debt repayments are too high
- The price of the item is rising every month
- The repair cost of your asset is too high – it will be cheaper to replace it

Interest rate the rate of interest paid on borrowed money calculated as a percentage

Sequestered to confiscate assets temporarily until creditors are satisfied or a court order is complied with



DEBT AND THE CREDIT BUREAU

Credit bureaux are companies that keep a record of all consumers who use credit as well as details of their credit history. All credit bureaux must be registered with the NCR. You can get a copy of your credit information from any registered credit bureau free of charge every twelve months.

A judgement against your name might affect your financial standing and your ability to get credit and open accounts. If you fail to pay your creditors they can take legal steps against you. Summons will be issued against you, and then judgement. Then your name will automatically be handed over to a Credit Bureau and you will be negatively listed.

Advantages of debt

- If you repay your debt on time you will get a good credit record
- In the absence of cash, opening an account or borrowing money can help you to buy the goods you need

Responsibilities when incurring debt

- Repay your debt on time or you will get a bad credit record
- Try to limit borrowing as you pay interest and other costs as well
- Ensure that you have some form of security
- Do not borrow more than you need
- Only borrow money if your budget shows that you can repay the loan

THINK AND PLAN BEFORE YOU BUY SO THAT YOU:

- Know what you want to buy
- Buy only what you need
- Know exactly what the total cost is (amount you need + interest + administration cost + insurance premium)
- Know that you are getting the best price – shop around before you buy or borrow
- Buy according to your budget
- Make sure you understand the credit agreement before you sign it

NEGATIVE LISTING (Black Listing)

HOW TO BE A GOOD CUSTOMER

- Make your repayments punctually and in full
- Make an arrangement with your creditor if you cannot repay

HOW TO BE A GOOD BANK CLIENT

- Make your repayments punctually and in full
- Do not exceed the credit limit of your overdraft facility



Credit limit
Security

the maximum amount for which you may buy something deposited or pledged as guaranteed fulfillment of an undertaking or repayment of a loan

The Act came into effect on 1 June 2007 and has several goals including:

- protecting consumers against illegal and reckless lending behaviour;
- several rules see to it that consumers don't take on too much debt and also ensure that they don't pay too much (interest and fees) for the credit;
- this is achieved by compelling all credit providers such as banks, retailers and micro lenders to register with the National Credit Regulator;
- credit providers must register information on all credit transactions with the National Credit Regulator – they will have the information needed to make a call on whether a consumer already has too much debt or not;
- consumers now also have access to their credit history which is kept by Credit Bureaux (CB's). Credit providers make use of CB's in order to determine whether a consumer has a good or bad track record in repaying credit. However, consumers can now verify whether their CB-information is correct.
- to accredit debt counsellors
- to protect consumers
- ensuring that consumers do not borrow recklessly
- ensuring providers do not lend recklessly

Complaints: **The National Credit Regulator** can be phoned at 0860 627 627. Complaints which can't be resolved by the

Regulator are referred to the National Consumer Tribunal for a decision. More information on the National Credit Act is available at www.ncr.org.za

CHAPTER 2

YOUR BANK AND BANK ACCOUNT

2.1 Choosing a bank

Choose a bank:

- With a good history and a reputable name
- That can meet your particular needs.
- That caters for your income group. There is also no point in going to a bank that is only prepared to accept you if you open a savings account, while you actually need a bank account with a debit card or a bankcard to use ATMs (Automatic Teller Machines).

John and Beatrice would like to open their own separate bank accounts. Which bank(s) to choose? Which banking services and products should they get?

- With a branch as close to your home or work and an ATM within your reach.
- With friendly, helpful and knowledgeable staff who are willing to provide you with accurate information and help you with the right products and services

Shop around to find the right bank.

2.2 How to open a bank account (You can also open an account at the Post Office)

- Even children can open a bank account, but with several limitations
- You need to be 18 years old to open your own bank account and be a South African resident – take along your ID book
- Fill in an application form
- Provide proof of all personal information you give on the form like proof of your residential address, for example your electricity bill

- Also provide proof that you pay your accounts and debt
- The bank will phone your creditors and check your credit record to assess your application
- Once your application is successful, you will have to make a minimum deposit into your account (minimum deposits differ)
- The bank will allocate a personal account number to you, give you an automatic teller machine (ATM) card and a secret personal identification number (PIN). Your PIN is a secret code which you must remember in order to draw cash at any ATM. Do not tell anybody this secret code.

Account -a method to buy something on credit

-a book detailing expenses and income of a client

Application form a form you fill in to apply for credit or to open an account



2.3 Banking services and products

A BANK CAN HELP YOU TO:

Plan your finances, draw up a budget, make use of debt (get a loan), buy a vehicle, buy a home, make different investments, protect your income and assets, invest for your retirement, and get your career or business going.

- Most professional businesses make use of the services banks offer
- They use their bank accounts to settle their debt and other account payments by means of a cheque, debit order, stop order, automatic teller machine (ATM), or debit or credit card
- Deposit money into your account by completing a deposit slip

BANK STATEMENTS

- You will receive a bank statement at the end of each month
- You must compare the bank statement with the amounts of all transactions you have done
- Check if any unauthorised transactions were made
- Check if there was any illegal spending by someone else
- Note the bank fees you have to pay for the transactions. Your bank can help you reduce your banking fees by educating you about various services they offer.



WARNING: KEEP YOUR PIN IN A SAFE PLACE!



ATMs (Automatic Teller Machines)

Ask your bank enquiries counter for assistance on how to withdraw money from an ATM and how to make deposits at an ATM.

Note: withdrawing from the ATM is less expensive than withdrawing inside the bank

| A debit order | Debit orders and stop orders | A stop order |
|---|------------------------------|--------------|
| How to arrange a debit order: | How to arrange a stop order: | |
| <ul style="list-style-type: none"> • You can also sign a document (debit order) at a company or business, to make payments on your behalf • You can sign a document at the bank (a stop order), requiring the bank to make payments on your behalf • The payments will be made on pre-agreed dates | | |
| <p style="text-align: center;">Debit order and stop order</p> <ul style="list-style-type: none"> • Once you have paid your debt, you have to stop the stop orders at the bank, company or business • If you want to stop your monthly investments, you must also stop these orders at the bank, company or business | | |

Debit cards:

- They allow you to withdraw cash at ATMs and point-of-sale machines at certain shops
- They allow you to pay for goods or services without using cash, by swiping the card at a point-of-sale machine at the till
- You do not have credit facilities directly linked to a debit card
- If there is not enough money in your account, the transaction will not go through – this means you cannot spend more money than you have, and you cannot accumulate debt
- You cannot withdraw more money than you have in your account or your overdraft limit allows
- The card is protected by a secure PIN, known only to you
- You do not have to carry large amounts of cash
- You have 24-hour access to your money
- Cash withdrawal fees at point-of-sales (in stores where you purchase) are lower than at ATMs



Credit cards:

- You can spend money you do not have and accumulate debt
- They function like a bank account
- You can make payments from your credit card account on certain dates
- Your payments are interest free for a certain number of days, even if it is the bank's money that you are using, but you will pay very high interest after 55 days
- You do not pay any interest if you pay your full credit card amount on the agreed date
- You can use different kinds of credit card, each with their own conditions and advantages
- You must pay your credit card purchases on a specific date from another bank account, such as a transmission account
- You can borrow money from your credit card



**you can borrow
money from
your credit card**

DEBIT CARD
debt-free living!

Interest

money paid to consumer for storing his/ her money or money paid for borrowing money from a lender



Electronic banking

Electronic banking refers to the use of a bank card, a telephone or cell phone, self-service terminals at a bank, a computer and the internet to do banking transactions on-line. It is also called direct banking, because it happens without the help of banking staff. This reduces the number of personal visits to the bank and enables you to do your banking transactions any time of the day or night.

The advantages of e-banking:

- It saves time (you bank without visiting a branch)
- It is accessible (you enjoy access at the touch of a button)
- It is convenient (no queuing or writing out cheques)
- It is secure (you choose your own PIN, preventing unauthorised access to your accounts)
- It is safe (no need to carry around large amounts of cash)
- It saves money (it is cheaper than transactions over the counter involving staff)



WARNING: ALWAYS USE A SECURE TELEPHONE LINE, CELLPHONE PROVIDER AND INTERNET SERVICE! DO NOT PROVIDE YOUR ID AND BANKING DETAILS VIA INTERNET, CELLPHONE OR TELEPHONE!

Match the following banking service or product with a description of their use

| Product or service | Description of use |
|--------------------------|---|
| 1. Savings account | a. Card you use to pay accounts and withdraw money, limited to the amount in your account |
| 2. 32-day notice account | b. No risk account for saving money |
| 3. Fixed deposit account | c. A written arrangement with a company to receive monthly payments from your account |
| 4. Debit order | d. Deposit money for a fixed period |
| 5. Debit card | e. You need to give 32 days notice in writing to withdraw your money from your account |

e-banking
is secure

low transaction
cost

INVESTMENTS AND INSURANCE

John and Beatrice met an independent intermediary selling investments. He persuaded them to make a monthly investment of R200 in an endowment policy.

BUT:

Can they trust him? Should they start with this type of investment? What protection do South African investors have? Should they rather go to the bank? They spoke to five different friends and each one believed in different types of investments.

3.1 Criteria for choosing investments and insurance

No single investment can provide for all John and Beatrice's different financial needs. (They need different kinds of saving, investment and other types of financial products to meet all their different needs).

THE FOLLOWING CRITERIA ARE SUGGESTED:

- Income (an older person would choose to save/invest to receive a monthly income)
- Capital growth (a young person should invest for capital growth – growth that is higher than the inflation rate)
- Liquidity (money in a savings account or money market fund is available within hours if you need it for an emergency – like a vehicle breakdown, for example)
- Flexibility (this refers to the possibility of changing from one type of saving/investment/insurance to another)
- Taxability (you pay tax on the income you receive from savings/investments and pay capital gains tax on the profit on capital growth of an investment)
- Your financial objectives (based on your financial needs) (the reason for a saving/an investment will always determine your choice).

John and Beatrice need to bear the following in mind:

- Choose the best savings or investment instrument for your financial need
- Your goal (to solve a financial need) determines your choice of the best savings or investment instrument for your financial situation

HOW MUCH SHOULD YOU SAVE IN WHICH PRODUCT FROM WHICH COMPANY?

- Ease of management (financial investments are managed by professional fund managers)
- Risk (this involves the possibility of making a loss, i.e. losing your money)
- Return (choose an investment that offers the best return after tax and inflation)
- Term of saving/investment (don't save money in a fixed deposit for a fixed term of five years, if you are going to need it in a year's time)
- Amount required (some investments require larger amounts than others. Decide whether you want to invest a monthly amount, or a single lump sum)
- Transaction cost (beware of the costs linked to that specific type of investment)
- Timing (if you want to sell your shares after six months, the timing of purchasing and selling is vital)
- Diversification/spreading your risks over various investments (if you diversify, you lessen your chances of making a huge loss or losing all your money, compared to when you have all your eggs in one basket)
- Control (control over your investments is less important when you are young)
- Knowledge/management requirements (buying and selling shares require more knowledge than other types of investment)
- Inflation (invest for capital growth to beat inflation)

SOUTH AFRICANS ARE SPENDERS, NOT SAVERS

We spend 80 cents out of every 100 cents (R1) we receive on repaying our debt (accounts and loans)

Insurance products

different kinds of insurance for different kinds of risks

Negotiate

to discuss any issue with another party with the intention of reaching a settlement or agreement



FINANCIAL RISKS ➤ FINANCIAL NEEDS ➤ FINANCIAL PROVISION

FINANCIAL RISKS = Theft, car accident, loss of a job, becoming disabled, loss of a house and no money for retirement

FINANCIAL NEEDS = Money for clothing , food, education and shelter

FINANCIAL PROVISION = Savings/investments and insurance

FINANCIAL SERVICES INTERMEDIARIES (BROKERS)

form the link between the companies (insurers, JSE, banks) and the consumer (you). Most financial services products are marketed and sold through intermediaries. Intermediaries include financial advisers, insurance brokers, bank officials and stock brokers.

You will need to pay the intermediary.

3.2 How to choose an intermediary (broker)

- Don't invest with just anybody. Choose and evaluate one or several intermediaries before you make an investment. There are many good, professional intermediaries who would like to start and maintain a lifelong financial relationship with you.
- Check his or her academic, professional and training qualifications (ask the broker for a CV indicating his or her experience and qualifications. Check the reputation of the intermediary with the firm and the Financial Services Board, interview some of the broker's existing clients to determine his or her reputation).
- Find out about the specific business the intermediary represents (make sure the intermediary is employed by a reputable company with a good standing)
- Weigh up the person sitting in front of you (make sure you can communicate easily and comfortably with the intermediary, and get all the required information – the intermediary must be interested in establishing a long-term financial relationship with you).
- Make sure the broker and company are licensed by the FSB

BE HONEST WITH THE INTERMEDIARY AND PLAN YOUR VISIT TO HIM OR HER – DO NOT WASTE THE TIME OF ONE INTERMEDIARY AFTER ANOTHER, BECAUSE IT ALSO WASTES THEIR MONEY.

3.3 Questions to ask before signing the mandate or policy

- Are you registered with the Financial Services Board as a Financial Services Provider (FSP)?
- Are you an FSP representative?
- Do you have indemnity insurance?
- Which company's products are you licensed to sell?
- What products are you licensed to sell?
- What are your qualifications?
- Will you do a financial needs analysis for me?
- Will you provide me with my risk profile?
- How will you be paid and how much? What other incentives do you receive?
- How often will I see you?

Ask for a copy of the POLICYHOLDER PROTECTION RULES for long-term insurers: this will provide you with information about:

- The intermediary
- The impact of the decision you elect to make
- Your rights when being advised to replace an existing policy
- Your right to cancel the transaction
- The nature of your investment
- The code of conduct for intermediaries and fit and proper requirements according to the FAIS (Financial Advisory and Intermediary Services) Act.



Offer to purchase

a document in showing your willingness to purchase e.g. a house

3.4 Types of investment and long-term insurance

(a) Stokvels

Suppose five people contributed R100 a month to the stokvel, in order to receive R500. Every month a different person receives the R500. Each person must budget for his or her contribution of R100 per month. They will receive no interest on their money, but it disciplines them to save. NASASA (National Stokvel Association of South Africa) is the official body representing all registered stokvel members.

(b) Savings accounts

- You can open a savings account with a bank
- Small amounts can be deposited into the account
- You earn interest on your money
- You can get your money back immediately when you need it
- You pay bank charges, but no commission

(c) Fixed deposits

- You can place your money with a bank as a fixed deposit
- Small amounts can be saved like this
- You can choose the period for which you want to keep your money there
- the period can vary from 1 to 60 months
- Your money is very safe
- You must address a written request to the bank to get your money back
- You can use your deposit as security to borrow money from a bank or micro-lender
- You will receive interest on your money
- The interest is fixed and does not fluctuate with other interest rates
- You pay bank charges, but no commission

(d) 32-day notice deposits

- These function in the same way as fixed deposits
- If you want to withdraw money, however, you have to give 32 days' notice in writing

TAKE RESPONSIBILITY FOR YOUR INVESTMENT DECISIONS

(e) Money market funds

- A money market fund is a kind of collective investment scheme
- The risk is very low, because you invest in the money market, not the capital market
- You can deposit small amounts into this account each month
- You earn interest on your money, which is therefore taxable
- You can get your money within 24 hours, if you need it
- It is suitable for older people who need a monthly income
- Other people can use this for a very short period, or when interest rates are very high

(g) A life policy (long-term insurance)

- Take out a life policy when you are young and healthy – your monthly payment (premium) will be much lower, for a large amount of life cover
- This policy will protect you against many financial risks
- A life policy can help you pay off your debt after your death
- You pay commission to the broker who helped you
- You can also borrow against your policy or cede your policy to a bank in order to obtain a loan
- Immediately take out a policy when you buy property or start a business

(f) An endowment policy (long-term insurance)

- You can invest a small monthly amount or a large lump sum in this policy
- You pay commission to the broker who helped you to invest
- If you call up your policy within five years, you pay tax on your money, but after five years it is tax free
- You can also add life cover to the policy
- If you are short of money you can stop your monthly payments temporarily or borrow against your policy, or offer the policy to a bank as security for a loan

32 days notice deposits

a way to invest and receive monthly interest/income.

Money market fund

You need to inform the bank 32 days in advance of withdrawals

a type of investment that provides monthly income through interest



(h) A retirement annuity (long-term insurance)

- This is an investment for your retirement
- You can invest monthly, yearly or a lump sum
- You cannot use the money before the age of 55
- A portion of your premium is tax deductible
- Your creditors cannot lay claim to your investment
- You can invest up to the age of 69 years and 11 months
- After the age of 55 years, you can withdraw one-third as a lump sum and two-thirds must be invested in a compulsory annuity (a monthly pension)
- You can add life cover and disability to your annuity

(i) Collective investment schemes

- You indirectly invest in shares on the Securities Exchange (it includes unit trusts, bonds and money market instruments)
- You can invest small monthly amounts, or a larger lump sum
- You can stop your payments at any time, cash in your investment when you need it, or leave it there until later
- You earn dividends or interest on your money which you could reinvest in order to increase the value of your investment



WARNING: SHOP AROUND FOR THE BEST RETURNS BEFORE INVESTING!

(j) Shares

- Shares are direct investments on the Securities Exchange
- There is a high risk involved
- There is no guarantee that you will get your investment back
- You buy a right to the profit of a company which pays you dividends

(k) Off-shore investments

- You can invest in all these types of saving and investment products overseas too
- Ask your broker to help you
- You will have to fill in forms from the Reserve Bank
- Because of the low value of the Rand, your investment will be worth much less in a foreign country
- Be aware of currency fluctuations when making your investments

(l) Fixed property (real estate)

- You invest in a second property for income and capital growth
- You can rent it out if you find a suitable tenant
- You will pay tax on the rental income you receive from your tenant
- You can also invest in shops, office space and industrial property



WARNING: DO NOT SIGN ANY BLANK OR PARTIALLY COMPLETED APPLICATION FORMS – DON'T BE PRESSURISED TO SIGN

CHAPTER 4

STUDIES, WORKING FOR SOMEONE ELSE, YOUR OWN BUSINESS

Beatrice left school at the age of 18. She started selling jewellery in grade 10. She already earns R10 000 per month and is interested in studying marketing. Should she study full time (and leave her full time job) or part time (through correspondence) while she continues working or rather start her own business selling jewellery?



4.1 I want to further my studies

- Those who wish to further their studies must weigh up the cost of doing so carefully against the financial benefits (salary package) of an occupation or working for themselves.

"WHAT EXPENSES DO STUDENTS HAVE?"

- Remember that the cost of studies is determined by the following aspects:
Distance to be travelled to and from the university, the number of classes you attend and the number of subjects you register for, the cost of transport, the availability of a bursary, the number of family members studying at the same time, and even something like the distance to the library.
- Remember holiday or part-time jobs or a second job as options for meeting these expenses

CREATING AND PROTECTING YOUR JOB

- Knowledge about money matters is vital for anyone starting a career either as an employee, or as an entrepreneur.
- You can only plan your financial future if you are employed or self-employed, and receive an income
- It is therefore important to have a job and to protect it
- You must keep an updated curriculum vitae (CV), which is a record of your qualifications, work experience and achievements
- You can use your CV to prepare for a job interview to sell yourself to a prospective employer – draw it up with this in mind
- Be honest and do not exaggerate about your previous life and achievements
- Training, studies and other skills are all part of getting a job

4.2 Working for someone else

If you are not prepared to take big risks and to start your own business after school, you can apply for a job and become an employee. You will thus receive a fixed salary at the end of each month.

FINDING A JOB

- To find a job you need to know yourself (your skills, talents and the type of job you would like to have)
- Know what careers are out there (the type of work, workplace, pay package and skills you need to do the job)
- Ask a recruitment agency to help you apply for a job

YOUR FIRST INTERVIEW

- The purpose of this interview is to sell yourself, your services and your abilities to an employer
- Avoid a poorly completed application form or CV or any disagreement during the interview
- Arrive early and dressed neatly
- Don't be the one to end the interview
- Answer only the questions that are asked
- Research information about the prospective employer before the interview – this always impresses

"I'VE FOUND A JOB – NOW HOW DO I KEEP IT?"

- Be punctual (time is money), polite (manners market the man), neat and tidy (first impressions count)
- Know what your boss expects of you, and ask him or her whether you are doing a good job, if you're not sure
- Attend training courses to improve your skills
- Give your best and always try to work well with others
- Help to improve your work environment

4.3 Your own business

We live in a fast-paced world with constant changes, threats and opportunities. It would be wise if you and your family could start your own business (see section 6 – Starting your own business). People who start their own business are called ENTREPRENEURS.

I WANT TO BE THE BOSS

You must have a very good idea of what to do before you can start:

- A business plan
- MONEY
- Ask a qualified person to help you to draw up a BUSINESS PLAN to find money
- NAME
- If you are the only person in the business, you are the owner-manager
- register a legal entity if two or more of you start a business
- BUSINESS INSURANCE
- BUY A BUSINESS

Business insurance
Business plan

insurance that covers business risks
a plan that details how a business is going to operate



EMPLOYEES: PAYROLL DEDUCTIONS



John just received his first payslip. There seems to be a mistake. He received much less than he expected and there are certain deductions that he does not understand. Words like SITE, UIF, pension and med, appear on the deduction list as well. But what do they mean?

5.1 INCOME TAX

Every South African earning more than a certain amount of money is required to pay income tax to SARS (South African Revenue Services). This minimum amount is reviewed annually in February when the Minister of Finance delivers his/her budget speech. The more you earn, the more tax you pay. The state uses the following systems to collect taxes on a continuous basis throughout the year: SITE, PAYE and provisional tax.



(a) Standard income tax on employees (SITE)

With SITE, employers pay the income tax liabilities of their employees on behalf of their employees to the office of SARS. The employer will deduct a certain amount per month from the employee's salary. The employee does not complete an income tax return and pays the minimum amount of tax according to the official income tax scales. SITE taxpayers pay employee tax. An employee is not a SITE taxpayer if he/she:

- Earns less than the minimum amount
- Has other taxable income (apart from the salary) as well



(b) Pay as you earn (PAYE)

Persons/employees who earn more than the minimum amount (to make them SITE taxpayers), are called PAYE taxpayers. PAYE taxpayers must complete an income tax form every year and send it to SARS. PAYE taxpayers pay employee tax.

(c) Provisional tax

Some people receive an employee salary and income from their own business. They pay employee tax as well as provisional tax. Provisional tax is payable on all income not regarded as remuneration (not your official salary). It is not paid monthly by you or your employer.

Steps in calculating your taxable income

You can calculate the amount yourself using an income tax guide (it is reviewed annually in the budget speech in February) and by following the following steps:

- Gross income (you add all your income from all sources)
- Less: Exempted income (capital gains, disability benefits, bursaries)
- Less: Permissible deductions (where people work for themselves, rental of buildings, salaries of employees, stationary, packaging material, water and electricity of rented building, lease payments of equipment, cash registers, vehicles and computers)
- Add: Capital gains (profit on selling a car or building)
- Calculate tax according to tax tables (a certain taxable amount is linked to a certain tax payment)
- Less: Rebates (rebates are deductions you can make depending on your number of dependants and your age)
- This amount represents the amount you have to pay to SARS – your income tax liability

5.2 Unemployment Insurance Fund (UIF) benefits

All employers liable for the payment of skills development levy and/or PAYE must pay UIF contributions for all their employees to SARS. Employers and employees each contribute 1% of the gross salary of the employee for the month. Unemployment benefits are meant to assist capable (and available) employees while they are looking for work. A worker who becomes unemployed must apply for unemployment benefits at the right office by:

- Completing an application form
- Presenting the blue card
- Providing proof that he/she tried to get a job
- Sign an unemployment register



YOU NEED TO BELONG TO A MEDICAL SCHEME

Most employers offer their employees membership in a medical scheme.

- You only have one life – protect your health
- Medical costs have skyrocketed over the last decade
- Only the very rich can pay hospital fees and other medical bills.
- You need to belong to a medical fund, to get around the problem – that means you have to pay a monthly premium to a medical scheme in exchange for hospital cover and the payment of a large part of your doctors' and medicine bills
- Healthcare intermediaries can help you find the best scheme to suit your needs.

5.4 Provident fund

John and Beatrice received documents about the company's (their employer's) newly formed provident fund. Unfortunately they do not know the functioning of this type of retirement fund.



Conditions for unemployment benefits

It is only applicable to workers who:

- Contribute to the unemployment insurance fund while working
- Were unemployed for at least three months (91 days) in the last year before they apply

5.3 Medical Scheme

Beatrice's friend was fit, active and just 22 years old when her doctor told her: "you have aids". She could not believe her ears not realising it was about to get worse. "We need to get you to hospital. How are you going to pay your hospital bills?" She could never see the point of having medical aid. She got better in hospital, but had to sell her car to pay for her medical costs. Five years later, she still lives with her parents.



Most employers offer their employees membership in

- a defined benefit pension fund, or
- a defined contribution provident fund

The goals of these funds are to provide:

- a pension for employees
- a pension for the dependants and/or beneficiaries of an employee in the case of the death of the employee

Every employee should contribute to a pension or provident fund

Medical scheme
Provident fund

a scheme that provides medical cover
a fund which pays out a monthly pension or a lump sum.





WARNING: UNFORTUNATELY, your pension might not be sufficient at retirement to allow you to maintain the same standard of living than before retirement. YOU WILL HAVE TO make additional provision for your retirement in the form of other long-term investments and insurance with capital growth.

Characteristics of a defined contribution provident fund:

| Defined contribution provident fund |
|---|
| 1. Retirement benefits based on total contributions made by members plus growth |
| 2. Employee bears the risk |
| 3. Favours young fund members |
| 4. Members get back what they invested |
| 5. Retiree receives 100% of benefits as a lump sum |
| 6. Members receive a lump sum only |



Advantages and disadvantages of a defined contribution provident fund

| Advantages | Disadvantages |
|--|---|
| 1. A member can take all benefits in the form of a lump sum | 1. Lump sum benefits may be squandered or invested unwisely |
| 2. Members are in control of their entire lump sum | 2. Contributions made by members are not tax deductible |
| 3. More flexible retirement and estate planning is possible | |
| 4. Members can make additional contributions in order to increase their retirement provision | |
| 5. The investment performance of the fund has a direct effect on retirement benefits | |

5.5. Short-term insurance

Beatrice now owns her own car. She recently bought a townhouse and took out some sort of insurance. Unfortunately she is involved in a car accident. She is under the impression that her insurance covers all her costs (she is the guilty party in the accident). Unfortunately her own car is not covered and she has to apply for a loan at the bank to have her car fixed. The repayment amount on the loan is just too high and she has to sell her car at a loss. Now she is without transport and considers selling her townhouse at a loss as well.

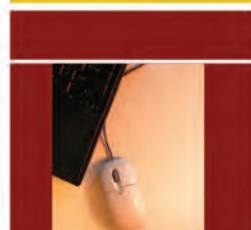
(a) Home owner's insurance

This type of insurance protects a house or dwelling (the building itself) against risks like damage or destruction by fire. If a financial institution (a bank) grants a mortgage bond, it usually requires that life cover be taken for the amount of the bond, so as to protect its interest in the property. As a property owner you are also covered against personal liabilities in terms of such a policy.



(b) South African Special Risks Insurance Association (SASRIA)

This additional insurance will also protect your house against political unrest. It can be included in your household insurance (next type of insurance).



(c) Household insurance

This type of insurance covers the contents of a dwelling, such as furniture and other personal belongings, against various types of damage (like fire) and theft. You must insure the contents of your dwelling for the full replacement value. If you underinsure your contents, the averaging insurance method of compensation will apply. This means you will be compensated (in the case of a loss) in the same proportion (of the actual replacement value) as your underinsurance.



(d) Motor vehicle insurance

You may insure your car in one of the following three ways:

Comprehensive insurance (covers your own car and another car in case of an accident, covers you against fire, theft and damage)

Third party (theft and fire) insurance (covers you against damage to another car and for theft/fire damage to your own vehicle)

Third party insurance only covers you against damage to another vehicle

TAKE OUT COMPREHENSIVE MOTOR VEHICLE INSURANCE. You should also know that in case of an accident in which you sustain injuries, you may claim from both your short-term insurance and the Road Accident Fund.

- Personal liability insurance covers you against becoming legally obliged to pay compensation for some act causing injury or financial loss
- Legal aid policies cover legal costs incurred by the insured party

QUESTIONS TO ASK THE INTERMEDIARY BEFORE SIGNING THE CONTRACT (POLICY)

- Are you registered with the Financial Services Board as a Financial Services Provider or are you an FSP representative?
- Do you have indemnity insurance?
- Which company's products are you licensed to sell?
- What products are you licensed to sell?
- What are your qualifications?
- Will you do a financial needs analysis for me?
- Will you provide me with my risk profile?
- How will you be paid and how much? What other incentives do you receive?
- How often will I see you?

**Liability
Insurance**

debt or financial obligations; what we owe
a way to protect yourself against any loss such as death, theft, accidents, etc.



Ask the intermediary for a copy of the **POLICYHOLDER PROTECTION RULES** for short-term insurers: this will provide you with information about:

- The intermediary
- The insurer
- The changes to existing policies
- Your rights regarding claims
- The nature of your premiums

You should receive your policy document within 30 days

Most insurance policies (long and short-term) contain certain **exclusions** (things that they do not cover). You need to know exactly what is covered and what is not covered when you take out any insurance policy.

Make sure you know the name, physical address and telephone number of the intermediary and the insurance company. Always tell the insurance company if you change your address or telephone number.

Confirm all verbal information in writing.

Note: long-term insurance premiums can also be deducted from your payroll



CHAPTER 6

STARTING YOUR OWN BUSINESS

John and Beatrice decided to start their own business (a nursery) two years ago. Their parents are poor and will not be able to retire financially independent. An intermediary contacted them and invited them to a talk on investments and insurance for business owners. Which types of investment and insurance do they actually need?

6.1 Investments for entrepreneurs

Employees and employers/entrepreneurs can make use of the same types of investment and insurance (section 3.4). Both will use short-term insurance as well. Only entrepreneurs will make use of business insurance. Know the difference between employees and entrepreneurs when it comes to investing for retirement.

- Employees make monthly contributions (in the form of payroll deductions) towards the pension- or provident fund of their employer
- Entrepreneurs cannot make these contributions to a pension- or provident fund
- Entrepreneurs should invest in retirement annuities to provide for retirement instead of a pension- or provident fund

6.2 Insurance products for entrepreneurs – business insurance

Anyone who is involved in a business should protect himself/herself against business risks.

(a) Buy-and-sell agreements

All the partners or shareholders of a business enter into a buy-and-sell agreement, which is supported by a life insurance policy. This agreement obliges each party to sell his or her share in the business to the remaining partner(s) or shareholder(s) in the event of his or her death. The remaining partners or shareholders are also obliged to buy the deceased's share. The purpose of this policy is to provide sufficient funds at the time of the partner's or shareholder's death so that the survivors can buy the deceased's share, thus ensuring the continuity of the business and building up a reserve fund for unforeseen circumstances.



Provident fund
Entrepreneur

a fund which pays out a monthly pension or a lump sum.
one who undertakes a business with a chance of profit or loss

(b) Partnership insurance

The purpose of this type of insurance is to enable the surviving partners to buy a deceased partner's share in the business. Various types of partnership insurance exist, namely:

- Joint insurance policy :
This policy is taken out on the lives of two partners. The policy pays up, and therefore, ends at the death of the first of the two partners. After that, a new policy must be taken out.
- Single life policy :
A partner may take out a policy on his or her life and cede it to the other partner(s)
- Life-of-another policy :
This type of policy is used where three partners : A, B and C are in partnership. Partners A and B take out a life policy on the life of C. B and C take out a policy on the life of A. A and C take out a policy on the life of B.

(c) Company insurance

When a shareholder dies, the business usually continues as before and the deceased's shares go to his or her heirs and the surviving shareholders. Conflict may arise between the surviving shareholders and the heirs for the following reasons:

- The shareholders wish to see future growth, while the heirs want an immediate income
- An heir may sell his/her shares to a stranger, even a competitor.
- Shareholders may use buy-and-sell agreements linked to a life policy, to solve the latter.

(d) Close corporation insurance

In the case of a close corporation, members should take out separate policies on each other's lives.

(e) Policies on the lives of employees

- To provide a benefit for the employer or the employee
- To provide a benefit for both employer and employee

**Business insurance
is for
entrepreneurs**

**Protect yourself
against business
risk**

**Confirm all
verbal information
in writing**

**POLICYHOLDER
PROTECTION RULES**

**Partnership Insurance
Company Insurance
Close Corporation Insurance
Business Insurance**

**Life policy
Business**

an insurance policy to protect a person's finances and assets in case of their death
an enterprise that organises resources such as knowledge, raw materials, land, labour and capital in order to accumulate money.



CHAPTER 7

RECOURSE

What To Do When You Suspect You Have Been Cheated

We are often very reluctant to complain. We don't want to "make a scene" or we don't want to cause trouble for anyone. As a result, we don't stand up for our rights.

In South African law, the consumer has many rights, and there are many ways to exercise these rights.

If you feel you have been cheated or treated unfairly, it is your right to complain. The person to start with is your intermediary. If this person does not resolve your problem immediately (or if you do not trust him or her) you should complain directly to the company you are dealing with. Should none of the above options succeed, you can approach one of the organisations listed below, depending on the nature of the complaint.

LIFE INSURANCE POLICY:

For complaints about life policies, funeral cover and other long-term insurance matters contact

The Ombudsman for Long-Term Insurance:

Private Bag X45, CLAREMONT 7735

Tel: (021) 657 5000 Fax: (021) 674 0951

Share call: 0860 103236

E-mail: info@ombud.co.za

BANK:

Should you have a particular problem regarding service from your bank and if your bank does not resolve the problem to your satisfaction, you may approach the office of

The Ombudsman for Banking Services

PO Box 5728, JOHANNESBURG 2000

Share call: 0860 800 900; Fax: (011) 838 0043

Financial Ombudsman Call Centre: 0860 662 837

E-mail: info@obssa.co.za

SHORT-TERM INSURANCE POLICY:

For disputes between members of the short-term insurance industry and consumers, contact:

The Ombudsman for Short-Term Insurance

PO Box 32334, BRAAMFONTEIN 2017

Tel: (011) 726 8900 Fax: (011) 726 5501

E-mail: info@osti.co.za

FINANCIAL SERVICES BOARD

PO Box 35655; Menlo Park; 0102;

Tel: (012) 428 8000 Fax: (012) 347 0221;

If you have any concerns regarding a financial product sold to you or financial advice you received

Email: consumer@fsb.co.za

website: www.fsb.co.za

PROVINCIAL CONSUMER AFFAIRS OFFICES

| Province | Phone | Fax |
|---------------|-------------------------------|----------------|
| Eastern Cape | (040) 609 3050 / 3060 | (040) 609 3231 |
| Free State | (051) 403 3575 | (051) 403 3437 |
| Gauteng | (011) 355 8008 / 8006 | (011) 355 8019 |
| KwaZulu Natal | (031) 307 6111 | (031) 305 6816 |
| Mpumalanga | (013) 752 3761 | (013) 752 3729 |
| Northern Cape | (053) 830 4835 / 08 | (053) 832 2564 |
| Limpopo | (015) 298 7000 | (015) 295 7010 |
| North West | (018) 387 7784 | (018) 389 5636 |
| Western Cape | (021) 483 9167 / 073 585 1406 | (021) 483 5872 |

Are you preparing for your retirement?

Get rich 'quick' schemes Do Not Work!

RETIREMENT FUNDS:

If you have a problem with your pension, provident, preservation or retirement fund that you have not been able to resolve with your employer, you may lodge a complaint in writing with the

Pension Funds Adjudicator:

PO Box 23005, CLAREMONT 7735

Johannesburg:

Tel: (011) 884 8454; Fax: (011) 884 1144

Cape Town:

Tel: (021) 674 0209 Fax: (021) 674 0185

E-mail: enquiries@pfa.org.za

FINANCIAL SERVICES PROVIDERS:

The **Ombud for Financial Services Providers** (FAIS ombud) was established by the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS Act) For complaints about financial service providers contact:

PO Box 74571, LYNNWOOD RIDGE 0040

Tel: (012) 470 9080 Fax: (012) 348 3447

E-mail: info@faisombud.co.za

CREDIT:

The National Credit Regulator (NCR) was established in terms of the National Credit Act No34 of 2005 to register credit providers, credit bureaux and debt counsellors. For complaints or more information:

No 127, 15 Road, Randjes Park, MIDRAND

Share call: 0860 627 627 or (011) 554 2600

Fax: (011) 554 2871

E-mail: info@ncr.org.za or complaints@ncr.org.za

Credit Information Ombud

For complaints about credit bureaux or credit providers and for information on the credit industry

Tel: 0861 662 837

E-mail: ombud@creditombud.org.za

PYRAMID SCHEMES OR MISREPRESENTATION:

Consumer Affairs Committee,

Department of Trade and Industry

Private Bag X84, PRETORIA 0001

Tel: 0861 843 384 Fax: 0861 843 888

E-mail: contactus@thedti.gov.za

The Office of Consumer Protection (OCP)

For complaints about unfair business practices, pyramid schemes and general complaints and information – contact the DTI Consumer Contact Centre at

Tel: 0861 843 384

have you
been cheated?

you have rights!

GLOSSARY OF TERMS

| | |
|-----------------------------------|--|
| AA inspection | a professional inspection of the physical condition of a car done by the Automobile Association |
| Account | -a method to buy something on credit -a book detailing expenses and income of a client |
| Accountant | somebody that records the expenses and income of a business |
| Action | an activity to start or undertake something |
| Additional savings | to save more than what is required |
| Administration | managing of processes |
| Application form | a form you fill in to apply for credit or to open an account |
| Assets | things you own that have value e.g. house, car, furniture |
| Attorney | a person qualified to represent another person in a court of law |
| Balance sheet | your financial statement showing your assets and liabilities |
| Budget | a plan that details how you are going to spend your income |
| Bond payments | monthly repayments you must make for the period of a bond (house loan) |
| Books/financial statements | books or statements drawn up by an accountant to show a financial situation |
| Business | an enterprise that organises resources such as knowledge, raw materials, land, labour and capital in order to accumulate money |
| Business broker | a person who buys and sells businesses on another person's behalf |
| Business insurance | insurance that covers business risks |
| Business plan | a plan that details how a business is going to operate |
| Cash flow problems | not having enough money to meet your financial commitments |
| Commission | a fee paid to an agent who buys or sells on another person's behalf |
| Conditions | requirements that must be followed in a transaction |
| Credit | trust in a person's ability and intention to pay at a later stage for goods or services purchased |
| Credit Information Bureaux | databases of all people with a credit record |
| Credit limit | the maximum amount for which you may buy |
| Creditors | people to whom you owe money |
| Credit record | your profile of paying or not paying held at credit bureaux |
| Customers | people who buy goods and services |
| Dealer | an agent who buys or sells a specific range of goods |
| Debt | an obligation to pay |
| Debtors | customers who owe money |
| Deficit/shortfall | when your expenses are more than your income |
| Delivery note | a document showing the number of goods the customer delivers or receives |
| Deposit | -the initial payment that one needs to make when purchasing goods or services -an amount you put in an account |
| Disabled | incapacitated from doing something |
| Disability insurance | insurance that will cover you in the event that you become disabled |
| Due date | the final date to pay an account |
| Endowment policy | an insurance policy that gives a fixed amount on a specified date |

| | |
|------------------------------------|---|
| Entrepreneur | one who undertakes a business with a chance of profit or loss |
| Estate agent | a person who facilitates the buying or selling of property on behalf of another person |
| Expenses | everything you have to pay |
| Financial adviser | a person registered with the FSB that is required to give sound financial advice |
| Financial analyses | thoroughly examine all financial implications |
| Financial responsibility | meeting your financial obligations to others |
| Financial risks | action that can lead to possible financial loss or gain |
| Financial statements | documents showing your financial situation |
| Financing | to provide or obtain money |
| Group insurance | a scheme that covers a number of people working for the same employer |
| Income | periodical money received from work, business, investments |
| Income statement | a document showing your net profit or loss |
| Installment sales agreement | an agreement to pay for your purchases on a monthly basis |
| Insurance | a way to protect yourself against any loss such as death, theft, accidents, etc. |
| Insurance products | different kinds of insurance for different kinds of risks |
| Interest | money paid to a consumer for storing money or money paid to a lender for borrowing money from them |
| Interest rate | the rate of interest paid on borrowed money calculated as a percentage |
| Invest/investing | placing money into a financial venture (shares, stocks, etc) |
| Investments | the different types of financial ventures |
| Invoice | a document showing the amount owed |
| Liability | debt or financial obligations; what we owe |
| Life policy | an insurance policy to protect a persons finances and assets in case of their death |
| Loan | an amount of money that has been borrowed |
| Long term insurance | insurance that provides cover for the major events in life, such as death, retirement and disability |
| Maintenance/service deal | a agreement that provides repairs to a vehicle for a period of time |
| Medical insurance | a cover that that protects you against major medical expenses e.g. hospitalisation |
| Medical scheme | a scheme that provides medical cover |
| Micro lender | a business where you can borrow small amounts of money over a short payback period at higher interest rates, now known as a credit provider |
| Money market fund | a type of investment that provides monthly income through interest |
| Needs | those things that you cannot do without e.g. shelter, food, education |
| Negative listing | a list at credit bureaux of people who did not pay their accounts |
| Negotiate | to discuss any issue with another party with the intention of reaching a settlement or agreement |
| Net profit | when the income of a business is greater than its expenses |
| Offer to purchase | a document in showing your willingness to purchase e.g. a house |
| Options | more than one way to do or get things |
| Order | a written request for goods or services from a supplier |

| | |
|--------------------------------------|--|
| Payback period | the number of months or years you have to repay your debt/loan |
| Period/term of loan | the number of months or years you have to repay a loan |
| Pension | periodic payment made by an employer or a fund in consideration of past service or on retirement |
| Pension fund | a fund where employer's and employees contributions are kept |
| Profit | when income exceeds expenses |
| Provident fund | a fund which pays out a monthly pension or a lump sum |
| Pyramid scheme | is an illegal system of making money, that for its success, requires endless streams of new investors |
| Recruitment agency | a business that facilitates the recruitment of new employees for other businesses |
| References | a person willing to testify to the character of an applicant for employment or of a would-be credit account customer |
| Resources | factors of production e.g. knowledge, money, machinery, labour, capital, etc. |
| Retire/retirement | when you reach a mandatory age as stipulated by government and stop working |
| Retirement annuities | an investment product that can only be cashed at retirement |
| Salary/wage | reward for labour or work done |
| Save/saving | when you put money away for future use |
| Saving accounts | an account mainly for saving, but you can use it for other transactions |
| Security | something deposited or pledged as guaranteed fulfillment of an undertaking or repayment of a loan |
| Sell | to exchange something for money |
| Sequestrate | to confiscate assets temporarily until creditors are satisfied or a court order is complied with |
| Short term insurance | insurance that provides cover for your possessions and liabilities against anything that may happen, like fire, theft or damage. |
| Skills | certain abilities you possess that enable you to do things such as making a living or managing your money wisely |
| Stock | goods bought for reselling |
| Stokvels | an informal way to save with a group of people |
| Study plan | a way to provide for the education of your children |
| Support | to get the help from other family members or friends or to be able to provide for your family's needs |
| Collective Investment Schemes | an investment in which money from various investors are pooled and invested in various assets. |
| Warranty | a written promise to repair goods purchased under certain conditions |
| Working capital | money or capital that will meet your daily operations in a business |

Personal Financial Planning

Financial Independence

YOUR FINANCIAL CHECKLIST

| | | YES | NO |
|-----|---|-----|----|
| 1. | Do you know what is meant by "personal financial planning" | | |
| 2. | Can you explain the importance of early personal financial planning? | | |
| 3. | Do you know the meaning of "compounding"? | | |
| 4. | Do you know how to do personal financial planning? | | |
| 5. | Can you explain the importance of budgeting | | |
| 6. | Are you currently budgeting? | | |
| 7. | Do you know how to draw up a budget? | | |
| 8. | Do you know what to do if your budget does not balance? | | |
| 9. | Do you know how to plan and manage your debt? | | |
| 10. | Can you explain actions to follow to get out of a debt crisis? | | |
| 11. | Do you plan to be financially independent after retirement? | | |
| 12. | Can you explain the costs associated with studying? | | |
| 13. | Do you know how to get and keep a job? | | |
| 14. | Do you know what to do before you can start your own business? | | |
| 15. | Do you know how to choose between different banks? | | |
| 16. | Do you know how to open a bank account? | | |
| 17. | Can you explain the functioning of different banking products and services? | | |
| 18. | Are you currently using a bank account? | | |
| 19. | Do you know why it is important to save? | | |
| 20. | Do you know how to choose an intermediary (broker)? | | |
| 21. | Are you currently making use of an intermediary? | | |
| 22. | Can you explain the functioning of different types of investment and insurance? | | |
| 23. | Do you have any investments or insurance? | | |
| 24. | Can you explain the protection South African investors are entitled to? | | |
| 25. | Do you know the steps to calculate your income tax payable? | | |
| 26. | I know the difference between a credit and debit card. | | |
| 27. | I know the difference between short term and long term insurance. | | |
| 28. | I understand all pay-roll deductions. | | |
| 29. | I understand how a provident fund works. | | |
| 30. | Are you making use of short-term insurance? | | |
| 31. | I know which questions to ask before signing any policy or contract. | | |
| 32. | I know who to contact if I feel I've been cheated. | | |
| 33. | Can you explain the different types of business insurance for entrepreneurs? | | |

THIS BOOK TEACHES YOU HOW TO:

- Plan your financial future
- Plan your personal finances
- Retire financially independent
- Draw up your budget
- Balance your budget
- Plan your debt
- Find, apply for and keep a job
- Choose a bank and open a bank account
- Make use of the different banking services and products
- Choose between different types of investment and insurance

- Choose an intermediary
- Distinguish between SITE, PAYE and provisional tax
- Calculate your income tax payable
- Interpret some payroll deductions for employees
- Benefit from a defined contribution provident fund
- Use short-term insurance
- Differentiate between different types of business insurance

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