

## PART ONE: YOU AND YOUR MONEY

# What is Money?

### Money comes in all shapes and sizes

Modern money is a combination of cash in your pocket, and money in the bank that can be accessed in various ways, including electronically. It is also your investments, like property, shares, pensions, policies, etc. — anything that can be converted into money! More and more deals are being done with credit and debit cards — and real paper money and coins don't ever change hands! Computers and cell phones are also used more and more by banks and businesses.

The easiest way to think of money is that you either own it, or you owe it.

**Cash** — real money in your purse — is easy to understand. You can have **lots**, **some**, a **little**, or even **none**. Your purse can be **full** or **empty**, but you can never have a **negative** (owed) amount in your purse. But in the modern world of property and investments and debts, money can either be a **positive** amount (+) or a **negative** amount (-). Remember, you either **own** it, or you **owe** it! Bookkeepers and accountants talk about **assets** and **liabilities**. In the modern world, we have assets and liabilities that we can't even see or touch. Your pension scheme at work, or an insurance policy . . . these are wonderful **assets**; while the bond on your house or the money we owe the furniture shop are **liabilities**. Everything in the modern financial world is governed by what we **own** and what we **owe**. This booklet, which is brought to you by courtesy of the **Financial Services Board**, helps explain the importance of **financial assets** and **liabilities** in our lives — and what we can do to manage them from day to day.



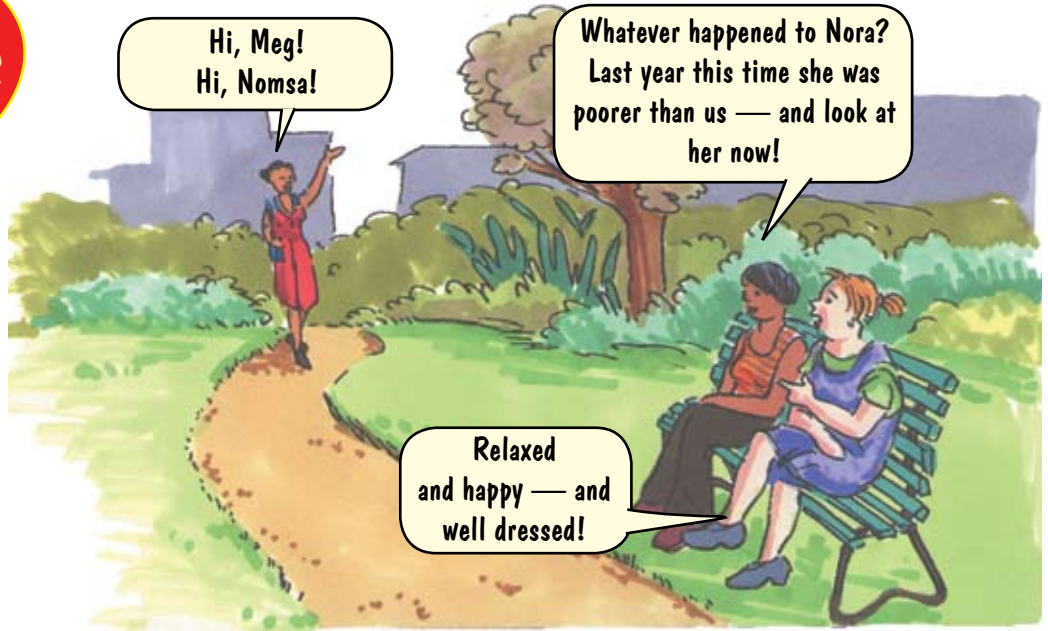
### Money and happiness

It is true that money can't buy happiness. But poor control over your finances can make you tense and unhappy — while good control over your finances can make you feel relaxed and happy with life.

Do you want to sleep well at night?  
Read in the following pages how to achieve real financial peace of mind!

**Whatever happened to Nora?**

Nora is the heroine of our story. She wasn't always a heroine. For many years she struggled ... often ready to give up in despair. But Nora was determined to overcome her financial problems, and to change a bad state of affairs into a good state of affairs!



Hi, Meg!  
Hi, Nomsa!

Whatever happened to Nora?  
Last year this time she was poorer than us — and look at her now!

Relaxed  
and happy — and  
well dressed!

**READ HOW NORA CHANGED HER LIFE ...**

Remember how they struggled when she lost her job? Her children were so neglected ... and then she and her husband got into trouble with that moneylender!

Then the furniture store took back their furniture. I didn't think she'd ever get out of that mess!



She must have found a rich boyfriend!

Nora? Never!  
She and Jack will never split up. Let's go and ask her how she did it.



No way!  
I'm too shy to talk about my money problems!



That's our problem, sister! Too shy to talk, too shy to get help!



Nora! Wait!  
Can we ask you something?

Of course you can!



What can I do for you?

Nora, look at us! We're struggling as much as ever. But you ... you look so good!

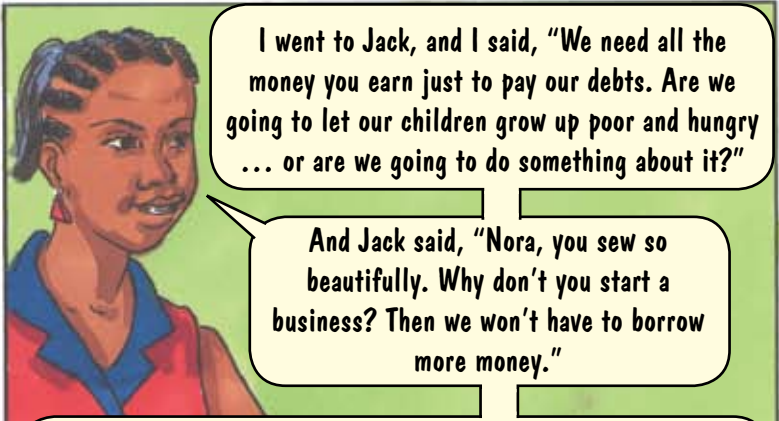
Oh, I'm so embarrassed!

Nora explains ...



How?

Do you remember when I lost my job? I thought I was going to die! Then I said, "No ... we owe everybody money! Our children are hungry! There must be a way to turn our bad fortune into good fortune!"



I went to Jack, and I said, "We need all the money you earn just to pay our debts. Are we going to let our children grow up poor and hungry ... or are we going to do something about it?"

And Jack said, "Nora, you sew so beautifully. Why don't you start a business? Then we won't have to borrow more money."

So I took my last wages and I bought 12 metres of good material. And that whole week I sewed ... four dresses in different sizes. Now I sew for three shops — and I have an assistant!



We call my business *Nora's Fabulous Fashions* — and people love it!

So that was how you changed your life!

No! That is only half the story. You can earn as much as you want — and still be in trouble!



You see ... we did what you are doing now. We asked for advice. we went to everyone — the bank too!

We learnt how to do the bookkeeping for my business ... and now I have my own bank account, and our debts are paid ... and we even have insurance!

But we have ordinary jobs! We don't earn as much as you do. So how can we improve things?

Meg, it's not about how much you earn. It's all about how well you control your money.


CONTROL?

Yes. And, besides, you're fortunate to have a job. Look after it.

If you really want to get out of trouble, friends, you must learn to control every cent. It's easier than it sounds!

**NORA'S ADVICE TO HER FRIENDS**

- BUDGET!
- PLAN!
- GET ADVICE!
- DON'T SPEND MORE THAN YOU HAVE!
- SAVE AND BUY FOR CASH!
- ONLY BORROW WHAT YOU CAN AFFORD TO REPAY!
- START PREPARING FOR YOUR OLD AGE NOW!



# How to Gain Control Over Your Money



We all have many needs — and wants! Personal needs ... family needs. Some are essential and some can wait.

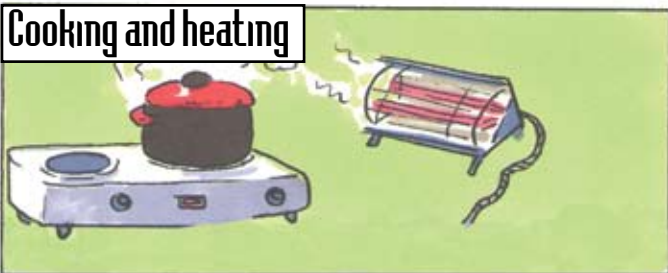
Clothing



Food (luxuries)



Cooking and heating



Municipal accounts... rates, rubbish removal, etc.



Furniture



## What are your needs and wants?

Shelter



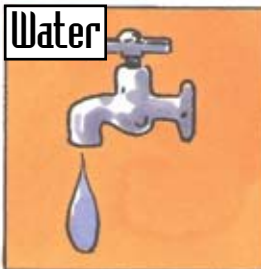
Food (basic)



Education



Water



Medical



Entertainment



Other luxuries



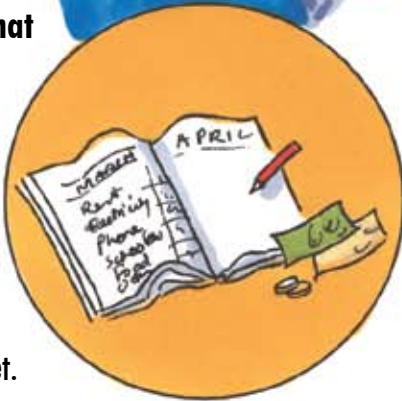
Sit down with your family and make a list of all your needs and all your wants.

Oh, no! Where do we start?

Yes, that is how one feels when one looks at the list of needs.

First of all, we have to decide what is essential and what is not.

When you have done that, it is easier to divide up your weekly or monthly money into a budget.

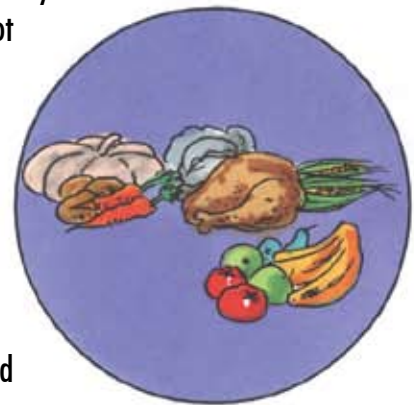


Things like **rent** (or paying off your bond) are essential.

And so is **food**.

But with food, many people have got themselves into money trouble by buying fancy tins of food or take-aways.

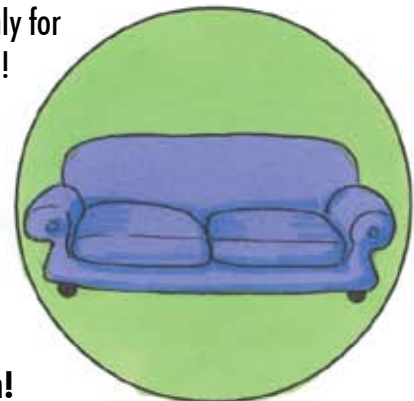
When you budget, budget for good, wholesome food that you can prepare at home. Use luxury or expensive foods only for special occasions!



**Clothing** is very important, but here, too, it is easy to waste money. **Buy what you can afford** — and be very careful before you open an account for clothes. With a clothes account, you will almost never have enough cash to buy good, inexpensive clothes at other shops or at sales.



We all love beautiful **furniture**, but don't buy new furniture if you cannot afford it. **Save up ... and buy for cash!**



## Saving for a rainy day

Some expenses (such as doctors' bills and car repairs) come when you don't expect them. Be wise! Save a little bit every month for those unexpected expenses!



# How to Budget



## Juha's budget lesson

### Step 1

Make a list of **fixed costs** or expenses. These are the things you **have to pay** and are the **same every month**: your rent or home loan repayments, school fees, etc. Add them up to get the total.

#### FIXED COSTS:

rent	R500
insurance	R150
school fees	R200
car repayment	R180
<b>TOTAL FIXED COSTS</b>	<b><u>R1 030</u></b>

## Step 2

Now write down your **variable** or changing costs. These are things that you pay or buy **every month**, but the **amount is not always exactly the same**; for example, electricity, groceries, telephone, account payments, entertainment, etc. Include an amount called "other" for unexpected expenses. Find the total.

### CHANGING COSTS

electricity/water	R250
accounts	R200
groceries	R500
petrol/repairs	R120
telephone	R110
entertainment	R200
medicine	R100
other	<u>R200</u>
<b>TOTAL CHANGING COSTS</b>	<b><u>R1 680</u></b>

## Step 3

Add the **total for fixed costs** and the **total for changing costs** together. Write down the answer.

### The Shabalala family budget

#### FIXED COSTS

rent	R500
insurance	R150
school fees	R200
car repayment	<u>R180</u>
<b>TOTAL fixed costs</b>	<b>R1 030</b>

## Step 4

Lastly, write down your total **income** for the month. This is the amount of **money you have available to spend** each month.

#### CHANGING COSTS

electricity/water	R250
accounts	R200
groceries	R500
petrol/repairs	R120
telephone	R110
entertainment	R200
medicine	R100
other	<u>R200</u>
<b>TOTAL changing costs</b>	<b>R1 680</b>

## Step 5

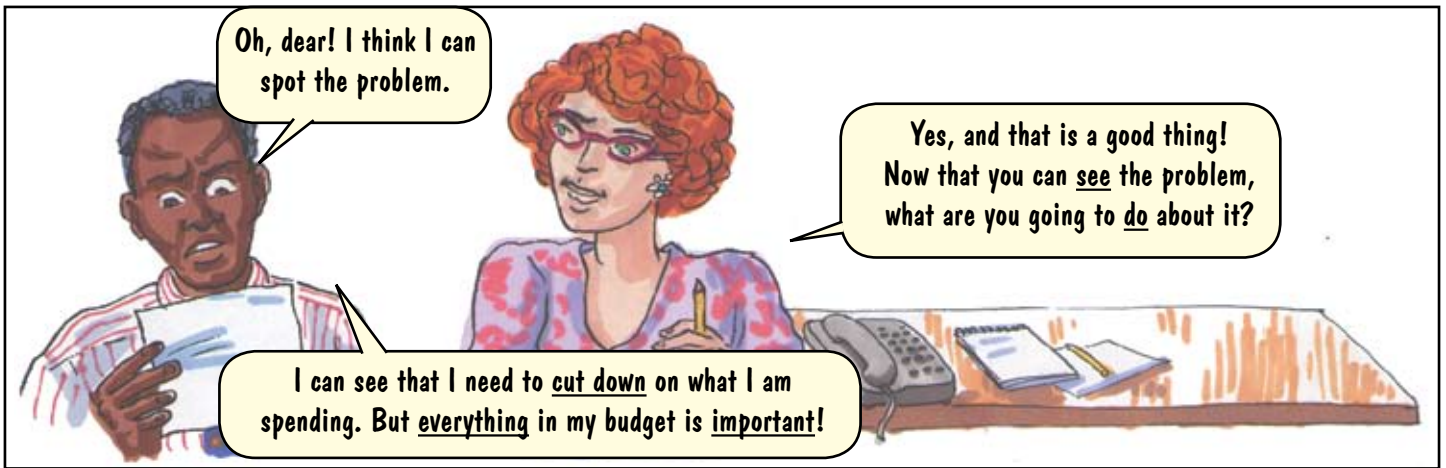
**Subtract** the smaller amount from the bigger amount. If **costs** are **bigger**, you have **spent more** money than you have. If **income** is **bigger**, you have **money over!**

<b>TOTAL COSTS</b>	<b>R2 710</b>
<b>TOTAL INCOME</b>	<b><u>R2 400</u></b>

**WE *STILL* NEED** **R 310**



**FOLLOW THESE STEPS TO DRAW UP YOUR OWN BUDGET. INVOLVE EVERYONE IN THE FAMILY AND MAKE SURE YOU INCLUDE ALL YOUR COSTS AND EXPENSES!**



## This is where you will find the lists of needs and wants that you made are useful.

- Look at your **budget**. **Tick off** the things on your “**needs**” list — those things that are **essential**, like rent, school fees, etc. Most of your fixed costs will be included. The things that are left are your wants — these are the things you can cut down on.
- Start with the **luxuries** like entertainment. These can be cut out **for a few months** until you are spending within your budget and are out of trouble. Cut down on a few different things rather than doing without any luxuries at all. This way you will still have “treats” to look forward to!

- If this does not give you enough to cover your shortfall, you will have to start looking at things that are **important, but that you can do without**, like new clothes and luxury groceries, too.



- **At the end of each month**, go through your budget carefully and make changes where necessary. Your problems will not disappear overnight, but don't give up. You **will** gain control of your money!

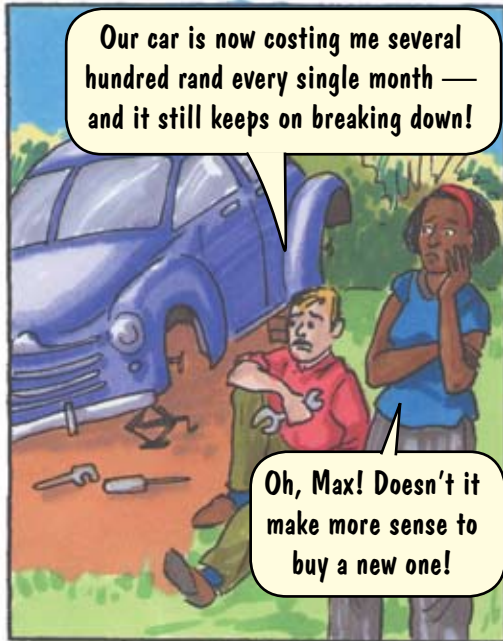
## Golden Rules

- **First** pay for the **things you need**, then buy the things you **want**.
- Draw up a **monthly budget** and stick to it. Learn from **your mistakes**.
- Use **credit** only to buy things that you will still be using **after** you have paid for them.
  - Borrow from **microlenders** only when you have no other choice.
  - **Save, save, save** — even if it is only a little every month.
  - Buy **insurance** only from someone you **trust**. Check that he or she is **registered** or licensed.
  - There is **no such thing as fast, easy money** — don't listen to anyone who promises to make you rich overnight!

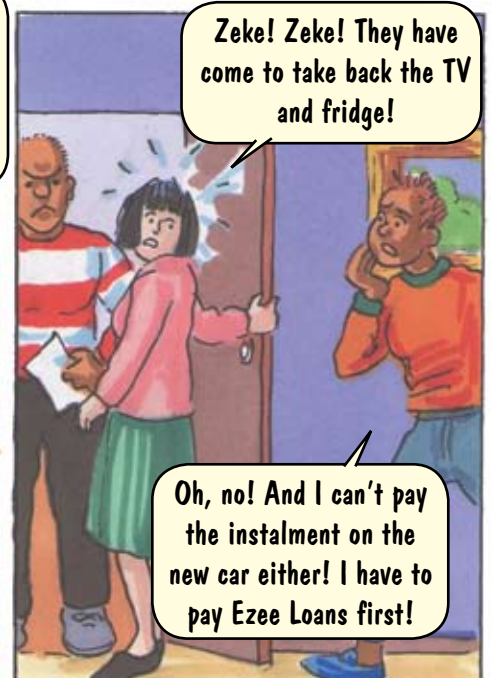


# Debt is a Two-edged Sword

Buying on credit can be part of good financial planning ...



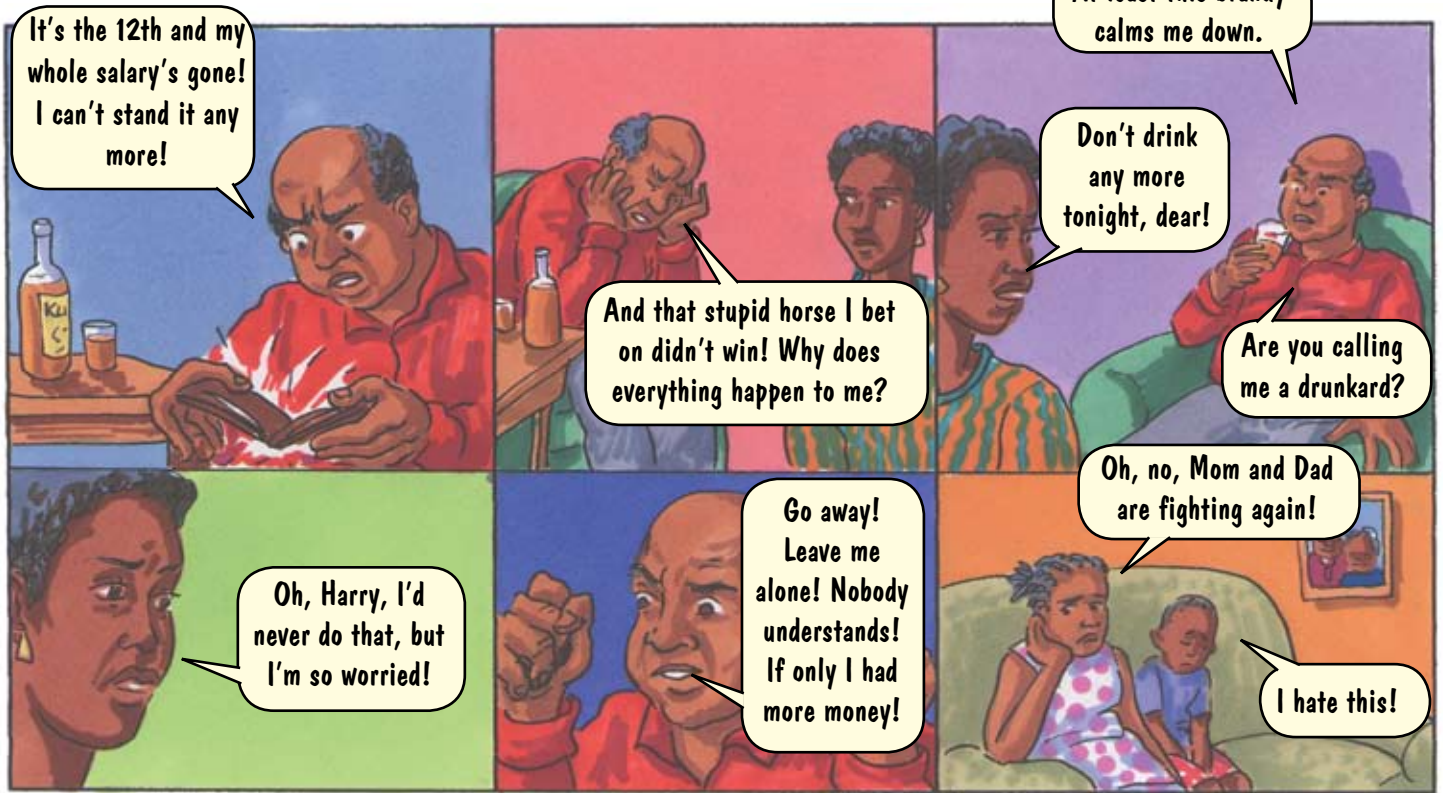
... or it can lead to disaster!



 The first step to gaining control over your money is to reduce your debt. Be very honest with yourself = most of our troubles come from fooling ourselves!

Gaining control over your money isn't just about rands and cents. It's about peace of mind, hope for the future ... and even good health!

## Let's look inside the Kani home.



## Now let's look inside the Mahlangu home.



Get out of debt. You will sleep much better at night!

# Entering into a Credit Agreement

Many people start off by borrowing a few hundred rand. They have to pay interest, so they end up repaying far more than they borrowed — and then they have less to spend on day-to-day expenses. As a result, they often take **another** loan to pay for the first one — and their repayments get even higher! Soon, they find themselves borrowing money just to put food on the table.

The National Credit Regulator (NCR) was established to register credit providers, credit bureaux and debt counsellors and to enforce compliance with the National Credit Act. The NCR does some of the work of the former MFRC (Micro Finance Regulatory Council), but its role is greatly expanded beyond dealing with microlenders.

Please note that there is no cooling-off period under this Act. When entering into a credit agreement, the credit provider must provide a quotation as to the full costs of the agreement. This quotation will be in effect at the price quoted for five days. This provides an opportunity for the consumer to decide on whether the cost will be affordable and whether the transaction is appropriate to the need. Therefore, the cooling-off period falls away.

## Our Rights and Responsibilities

### When you enter into a credit agreement with a credit provider:

- shop around for the lowest interest rate
- the credit provider may not discriminate against you on the basis of race, age, religion, etc.
- deal only with credit providers that are registered with the National Credit Regulator (NCR). Call the NCR at 0860 627 627 to check for registration.
- never sign a contract that has blank spaces in it
- make sure that you receive a copy of the signed contract and ensure that it shows the interest rate clearly and sets out a payment plan
- know what is in your contract and never sign anything you don't understand. Make sure everything is explained to you clearly in a language you understand.
- make sure that you can afford to make the repayments
- pay back the amount you agreed to pay and in the time that you agreed to pay it
- do not borrow from one credit provider to pay another
- never give the credit provider your ATM card, bank pin number, debit or credit card. This is illegal!
- the credit provider must first notify you in writing of the status of your account before taking any legal action or enforcing a debt
- you have a right under the Act to pay off your loan more quickly.

## If you are in too much debt

Debt counselling is when a debt counsellor registered with the NCR works with a consumer who cannot pay his or her debts. The debt counsellor will talk to your credit providers to make an arrangement so that you can pay a smaller amount of money each month until you pay off your debts. When you have paid off all your debts with the help of the debt counsellor, you will receive a Clearance Certificate from the debt counsellor. When you take this certificate to the credit bureau, the credit bureau may clear your negative record.

Please note that while you are under debt counselling your name will be listed with the credit bureau. You may also not get any further loans until you have repaid all your debts. It is always best to talk to your credit providers first to make an arrangement to pay off your debts before you decide to go through a debt counsellor. For further information, contact the National Credit Regulator (NCR) at 0860 627 627.

# Dangers and Pitfalls

## Watch Out!



Managing money is like taking a journey filled with risk, danger and difficult choices. We can make that journey, ignorant and uninformed — and fall prey to every danger. Or we can learn, recognise the dangers and pitfalls and avoid the common disasters that trap so many. We want to sleep well at night!

### PYRAMID SCHEMES

A friend told Naresh about a scheme where each person pays R100, and finds four friends to do the same. Each friend would then bring in four more friends, and so on. He was told he could make R4 800 in one year!

**Naresh lost all his money — the scheme failed.**



### WATCH OUT!



Pyramid schemes come and go. They have many names, many disguises and some variations. **But they are all very dangerous!** Pyramid schemes tempt us with the idea of fast, easy money. But there are just not enough people to make it work. Only the people at the very top get rich — at your expense. Avoid these “Get rich quick” schemes. **They are against the law!**

### BUYING INSURANCE

Patrick believed in providing for the future. An insurance salesman sold him expensive policies that he did **not fully understand.**



### WATCH OUT!



We all need insurance, but many people buy too many policies or wrong type of policy because they do not fully understand what each one means. Too many policies, and too little understanding — the result is that you pay more money than you can afford every month. Get to know your policies well. Keep the papers in a safe place. Read them and change them only when your circumstances change.

## BUYING ON HIRE PURCHASE (HP)

Tony earned R2 900 a month. His wife, Nan, did not work, but they managed all right. They needed a dining room suite and decided to buy one for R2 000.



## WATCH OUT!

Buying on HP can get you into trouble!

Tony and Nan had to pay R75 a month for 36 months. R75 seems very little — but  $R75 \times 36 = R2\,700$  — R700 more than the advertised price of R2 000!

Tony could avoid paying the extra money if he saved up first and then paid **cash** when he was ready!



## CLOTHING ACCOUNTS

Nan opened an account at a clothing store. They gave her a credit limit of R1 000. She was so excited that she spent the full R1 000 in two weeks!



## WATCH OUT!

Clothing accounts can be **dangerous** if you don't plan for them. Accounts

mean credit and credit is a **loan** which has to be paid back. We may be tempted to buy without thinking of the future or spend more than we can afford — especially if we can buy on credit. But it always catches up with us! If we miss a payment, **interest** costs go up — and we get a bad credit record too. Lay-bys are much safer!



1 At Arty Stores, I have to pay off my account in six months — or pay interest.

If I pay less, I am charged interest. Then I must pay the monthly R100, plus the interest on what I still owe!

2 I bought clothes worth R600.

And if I buy more clothes in that time, the total goes up.

3 That means I must pay back R100 for six months.

4 I am safe as long as I can pay the full monthly amount every month.



The next month, Tony owed R1 810 on his accounts. This was over and above the R900 he had to pay on his home loan. This left him and Nan with R190 for all their monthly expenses.

Tony and Nan are worried ...



Tony, how will you pay your debts next month?

I don't know.



## Does this sound familiar?

All of these problems can be avoided if we are **aware** of the dangers and pitfalls, and begin to **manage** our money **properly**!



**THERE IS A WAY! NOBODY HAS TO STAY IN DEBT FOR LIFE.**

# Getting Out of Trouble



It is possible to get out of financial trouble. **It can be done**, but it takes:

- determination
- self-discipline
- honesty
- co-operation among all the members of the family.

## Face the problem

The first thing to do is to stop avoiding the problem. If you receive letters from people you owe money to (called creditors), **open** them. Read them. You must know where you stand with each creditor.



## Draw up a budget

Sit down and make a list of all your creditors and how much you owe each one.



Make it your goal to pay off your creditors! Work out how much you can afford to pay each one, leaving you just enough to live on. Avoid all unnecessary spending.

## Discuss the problem with your family

If you have adult family members who depend on your income, discuss the situation with them. If your family is to get out of debt, everyone in the family must co-operate. You must all agree on the way forward and stick to the plan.



## Contact your bank

If you have a housing loan (bond), a cheque account or a credit card, your most important creditor is your bank. Keeping the bank happy has to be your first priority to prevent serious problems. Explain your situation to your bank manager. Ask what the lowest possible repayment is that is acceptable to the bank. Repayments can be temporarily reduced until you are on your feet again.



## Contact all other creditors



Phone or visit the accounts departments of all your other creditors. Ask to be allowed to pay a smaller monthly amount for a limited time. Remember that the less you pay each month, the longer it will take to pay off the debt. If the creditor agrees, **confirm the agreement in writing**. A telephone agreement is not enough. Immediately follow up with a letter.

## Live within your means

Keeping your creditors happy is the first step. Living within your means is the next step! Until your debts are down to a manageable level, **don't buy on credit at all**.

Get your family to cut down on all unnecessary expenses. Life does not have to become unbearable — but buy **only** what you **need**.





Once you have taken the first steps to financial control, you will feel a lot better. Money problems have a way of making us depressed, anxious and hopeless. But life does not have to be that way. If you face the problem head on, work out a plan that you can realistically stick to, and **then stick to it**, you can get out of debt and regain control of your money.

The Bester family did it.

Look, Maria. I've made a list of all our monthly expenses. If we stop buying on credit for six months, and pay all our instalments in full, we'll be out of trouble by June. Let's do our best!

OK, let's try to be more careful.

Helen Tshona did it.

My clothing accounts are killing me! Why do I buy so many clothes? Do I really need them? If I pay off my clothing accounts and close the accounts, I could be R300 per month richer this time next year. That's it! I'm closing my clothing accounts.

Peter Dixon did it.

If I stop buying take-aways, I can save R40 a week. That's R160 a month. In three months' time I can save R480! Think what I could do with that money!

**You can do it!**  
**Get financial advice!**

Do not be tempted by promises of **debt mediators**. They may fail to distribute your money to creditors, causing you further financial difficulties. And remember, it is **illegal** to charge an upfront fee.



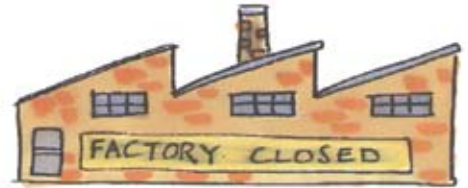
# What about Tomorrow?

If you have a job or a steady income, you have some financial security in your life — a home, a warm bed, food on the table.

## BUT WHAT ARE YOU DOING ABOUT THE FUTURE?

### Ask yourself these questions ...

- *How safe is my job?*
- *What will happen if I lose my job?*
- *What will happen if I die?*
- *Am I prepared for emergencies?*
- *Do I have a retirement plan?*



### These are important questions.

No matter how much or how little you earn, you have to answer them.

#### Here are some answers:

- No employment is totally safe. **Look after your job!** Do your work as **well** as you can. If possible, **improve** your education and/or training. This will also be important if you ever have to look for another job.
- Many people who retire or are retrenched start their own businesses. This can be wonderful, but it can also be dangerous! Read about becoming your own boss — and **plan** very, very carefully!
- The breadwinner in the family should have a **retirement plan** and/or **life insurance policy**. Even a small policy will help your family to survive until they have come to terms with the situation and made new plans.
- **Draw up a will.** A lot of hardship and heartache can be avoided if you draw up a simple will. (See page 37 to find out how.)
- Make sure you **spend less than you earn**. Then you can **save** regularly, even if it is only a small amount. **Start today!**

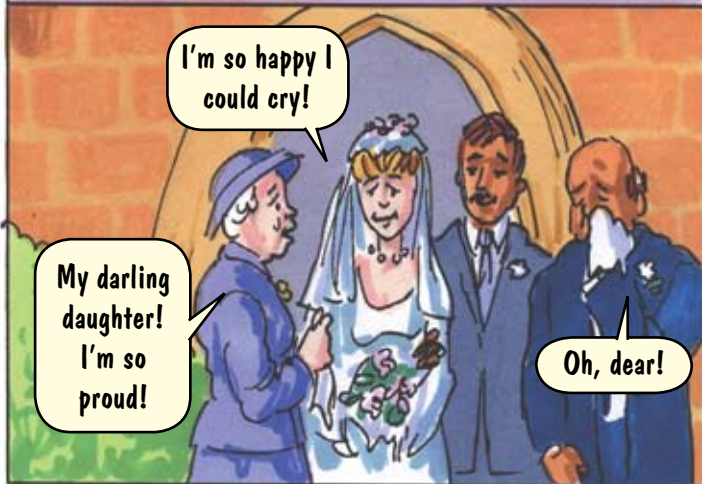


You can do a lot today to make the future better !

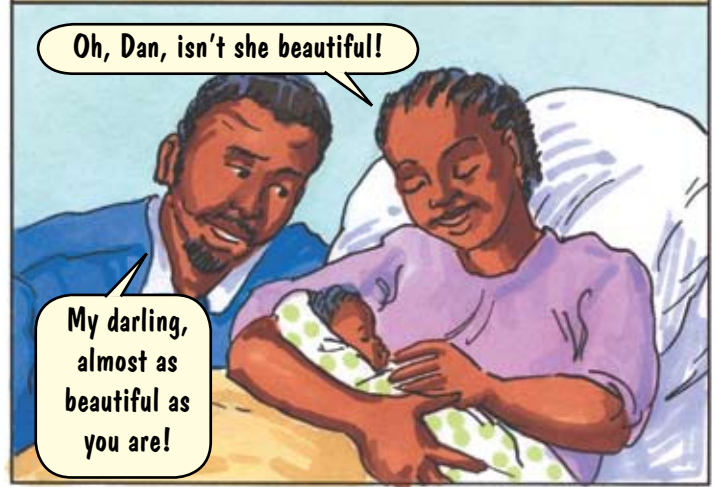
# The Milestones of Life

Different households ... different events ... but we all need to plan for them

The Andersons are celebrating their daughter's wedding ...



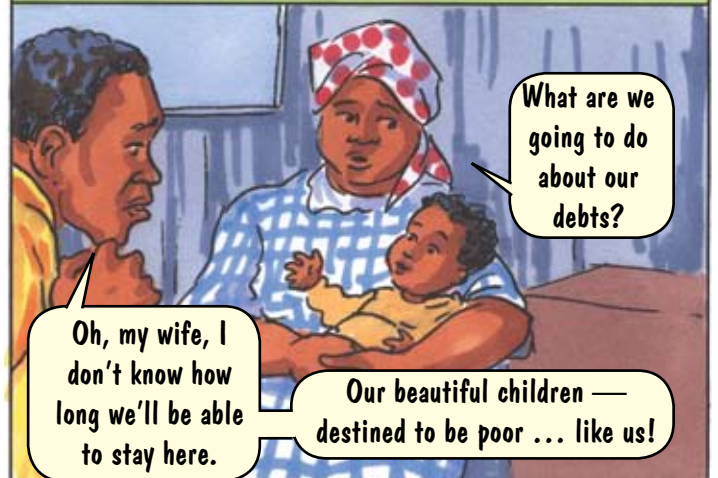
Joan and Dan Madima have their own reason to celebrate ...



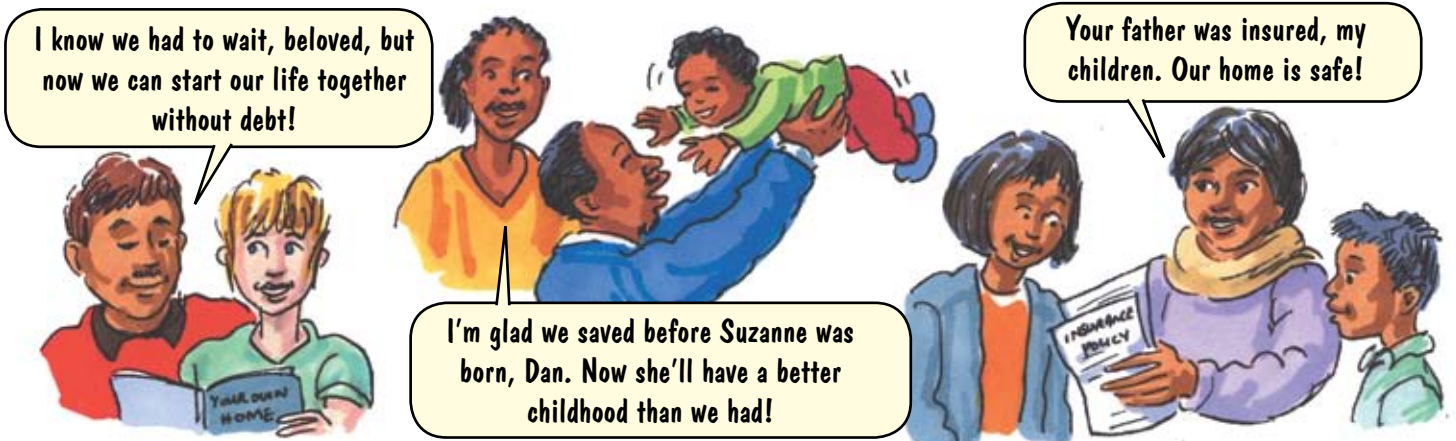
But life is often difficult and sad. In the home of Adiola Solomons, there is no laughter ...



Births, deaths, retrenchment ... are we prepared for them?



**We must prepare now for the major events of life!**



# The most important milestones in our lives



The day Nina matriculated was the proudest day in our lives. She's our best investment.



The birth of a child is a blessed event — but a big responsibility. Be prepared!



Sadly, we must all prepare for death too. Funeral policies, life insurance ... Plan today!



My savings made this possible! My literacy diploma **proves** you're never too old to learn!



When my son graduated from university, I knew he would have a better life than I did.



Our first home! We saved for five years for the deposit — and look at our reward!



I'm buying my own car at last! Two years of saving — and I don't have to borrow anything!



Sarel and I planned carefully for our retirement. Our house is paid for and we have no debt!



These events are some of the most important in our lives! And yet each one of them costs money. Don't tell yourself you'll start saving tomorrow! Start today!

# Why must we always plan for the future?



To plan is to **make preparations** for something. Even if your plans don't work out exactly as you want, they still help you to deal better with the future.

People who do not plan for the future are people who have given up! They are at the mercy of life! When bad things happen to them they **cannot fight back** — because they have no plan.

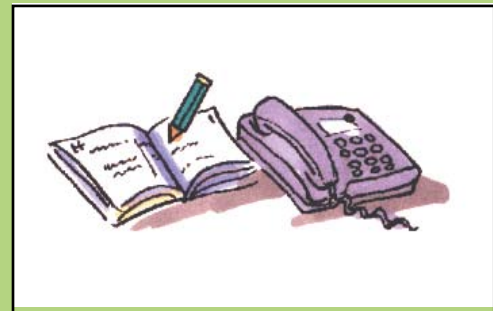


**Many people think that if they start their own business (big or small), it will be the end of their troubles. That can be true, but your own business can also create more problems.**

## Should I become my own boss?

**Starting your own business can sound very glamorous, but is it really the answer for you? If you do not have personal experience of running your own business, be very careful!**

- Analyse your **temperament** and **skills**. Be honest! Do you have what it takes to be your own boss?
- Look for a line of business where you can provide a **better** service or product than the opposition.
- Draw up a **business plan**. Get help if you can ... **This is very important.** A good business plan will show you problems you may have to face — so you can **plan** and **be prepared** for them!



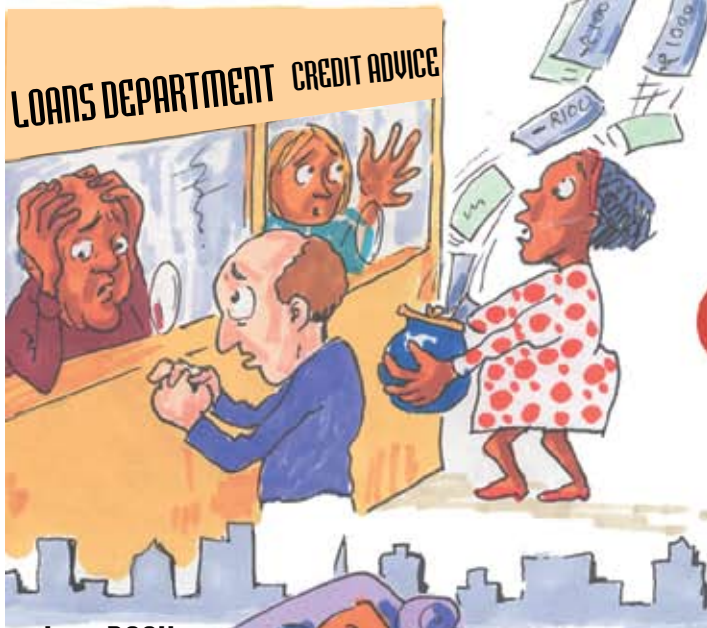
- Learn basic **bookkeeping**. This is very important!
- Be sure you have enough **capital** to keep the business running until it begins to show a profit.
- Be sure you are **disciplined** enough not to spend all your profits, once you make them.
- Ask advice from people who know! See the back cover for contact numbers and addresses.

**If you are retrenched, don't be tempted to use your whole pension payout to start a business. Invest some of the money for the future!**

# The World

If you are serious about achieving **success** in your own **financial** way. In accounting, there are two important elements, **liabilities** and **assets**. What you **borrow**, and what you **invest**. Both liabilities and assets are a part of your everyday **money management**, you will learn some useful tips to the **liabilities** side in your life, you could have **problems** month after month, you will create **security** and **prosperity**.

## Borrowing Loans How ...



Look on **BACK COVER** for contact details!



## Liabilities

### Sources of Finance

- Bank loans
- House loans
- Motor finance
- Hire Purchase
- Credit account
- Credit Providers



# of Money

Financial affairs, you have to learn to think in a financial terms of liabilities and assets ... what you owe and what you own. All assets must be managed. As soon as you make saving decisions, you have to control your finances. You will learn that if the scale tips in your favour, you will be able to control your finances. And if you manage to tip the scale to the asset side, you will have a surplus of money around you.

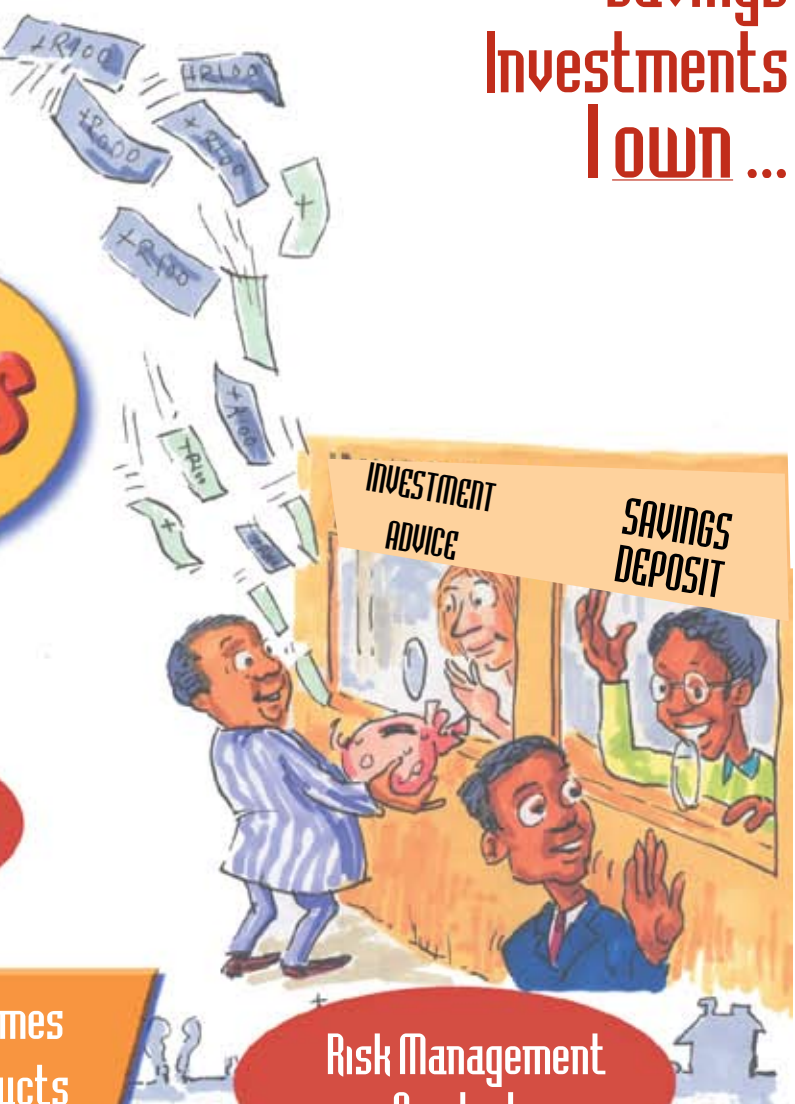
Savings  
Investments  
I own ...



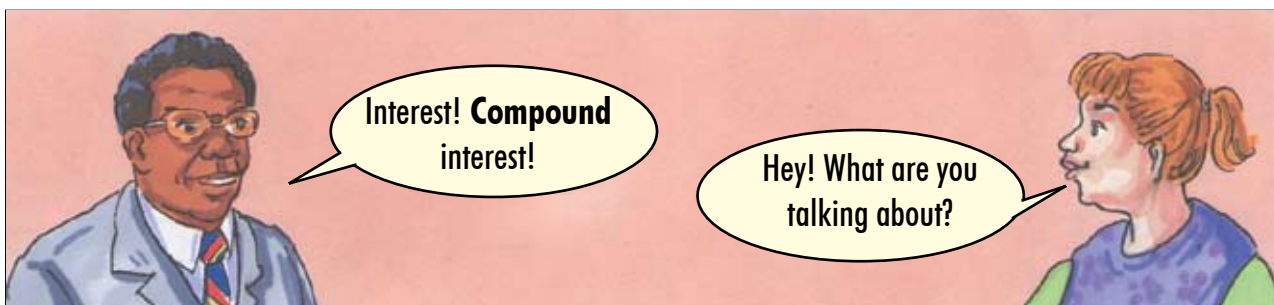
- Collective Investment Schemes
- Insurance investment products
- SACCOs and Stokvels
- Stocks and shares
- Retirement funds
- Bank savings
- Retail bonds
- Annuities



- Short-term insurance
- Life (death cover) insurance
- Funeral policies
- Disability policies



# Interest and Compound Interest



- In the business world, if **you lend** someone something, **he or she has to pay** for it.
- If you have a tool hire shop, your customer has to **pay you a fee** to borrow your electric drill or saw.
- Interest can be calculated on a simple or compound basis. If you lend money to someone, he or she has to pay you for the use of your money.

- If you **borrow** money **from** someone, **you** have to **pay** for it.
- This extra money that the borrower pays to the lender is called **interest**.
- If I **borrow R100** from a credit provider for three months, and **he or she charges me R25 interest**, then I have to pay back R125 at the end of the three months. This is **25%** extra over three months. If you multiply the three months by four, you get one year. If you now multiply the 25% by four, you get a simple interest rate of 100%. Can you now see what **interest rate** per year the credit provider is charging you? 100% per year! This is terribly high compared with other kinds of borrowing.



**What is a 'percentage'?**

A percentage ("per cent" or %) is a fraction just like  $\frac{1}{2}$  or  $\frac{1}{4}$ . But it is always written over 100 like this:  $\frac{\quad}{100}$

$\frac{1}{2} = \frac{50}{100} = 50\%$	$\frac{1}{4} = \frac{25}{100} = 25\%$
$\frac{1}{20} = \frac{5}{100} = 5\%$	$\frac{1}{50} = \frac{2}{100} = 2\%$

**Watch out!**  
Interest rates vary greatly! Shop around for the lowest rate when you borrow money.



Interest rates on loans are controlled, but they may change from time to time.  
*Check what the rate is before you borrow money.*

Here's a nice trick! Don't borrow money! Don't pay interest. Lend money to someone. Earn interest! Get rich!

Oh, get serious, Mr Moneywise, who will pay me interest?

The bank, Mrs Smith. The bank!

Really, how does it do it?

First, you lend money to the bank.

How do you lend money to the bank?

You put it in a savings account or a call account or a fixed deposit account or one of the bank's other accounts.

But doesn't the bank just stick my money into a safe or something?

No — the bank uses your money to earn more money. That is why it can afford to pay you interest!

I understand! If I save or invest money in the bank, I will earn interest ... and my money will grow and grow!

But **COMPOUND INTEREST** is even better!

Compound interest is when your money starts to earn interest on the interest it has already earned!

Wow! If I save a bit of my salary every month for as long as I live, I will never be broke again!

**THIS IS HOW COMPOUND INTEREST WORKS!**

Let us say the R1 000 in your fixed deposit earns 12% interest per year. If it is simple interest, that will be 1% of R1 000 per month = R10 per month, or R120 for the year.

**BUT** if the bank calculates your interest every month on the new balance, you'll earn 1% of R1 000 after the first month, 1% of R1 010 after the second month and so on — a "tiny bit" of interest more every month, giving R127 for the year!

Oops — did I say tiny bit? If you save the same amount month after month for many years, you earn compound interest ... and your money grows faster and faster! People who invest regularly all make use of compound interest to prepare for a secure future.

**Mrs Smith has spotted the magic of COMPOUND INTEREST!**

# What do Banks Do?



## BANKS PROVIDE THREE MAIN KINDS OF SERVICES



Banks do a very special job. Very simply, they bring together people who want to **save** money and people who want to **borrow** money.

They receive **deposits** (savings) from us and invest our money. Then they pay us interest on our money.

They do banking **transactions** for us. We pay "bank charges" for these transactions — such as cashing cheques, transferring payments, etc.

They **lend** us money. Then we pay **them** interest.

## HOW DO THE BANKS KNOW THEIR BORROWERS WILL REPAY THEIR LOANS?

Banks are very **strict**. They check up to see if a person or a company has a good **credit record** before they **approve** a loan!

## The Financial Sector Charter: Access to Financial Services

The Financial Sector Charter was drawn up to make sure that the financial sector introduces easily available and affordable financial products and services. For example:

- the Zimele brand for long-term insurance products
- the Mzansi short-term insurance standards
- the Fundisa fund, which is a savings product for students.

These products meet certain standards according to the charter. If you are interested in accessing these products, talk to your bank or insurance intermediary.

# What Services do Banks Offer?



South Africa has one of the best banking services in the world. But **different customers have different needs**, and so you must find the bank that suits **your** needs best. When you decide to open your first bank account, go to two or three **different** banks. Ask to speak to someone who can give you **advice** ... and then decide which bank **feels** right for you. Does the bank **understand** what you need? Does it make you feel **comfortable** and **special**? What are the service fees? Ask bank staff about their different accounts and find out which account suits your needs best. Investigate the cheapest way of banking since you may be able to save on charges (e.g. Internet, telephone, cell phone and ATM banking).

## Here are some of the services that banks offer you

### Savings accounts

This is mainly for saving, but you can also use it to make other transactions. You need only a small amount of money to open a savings account — and you are paid **interest** on your money. Some banks allow you to make a certain number of cheque withdrawals from your savings account. **ATMs (Automatic Teller Machines)** give you access to your savings 24 hours a day.



### Debit cards



A debit card gives you the benefits of “electronic banking” without the danger of spending money you do not actually have. Managing your finances is **easy** — you can only spend money that you have in your account and it comes out of your account immediately! You also get a printout once you have finished your transaction, showing how much money is left in your account. You can now pay for your shopping with a debit card at more and more businesses.

### Credit card accounts

With a credit card, you can pay for your shopping without having to own a cheque book or carry cash. All your purchases go onto your **account** (you buy “on credit”) and you pay the bank once a month. You will only qualify for a credit card once you have a **good credit record**. If possible, avoid using a credit card for term purchases (on your budget account) as interest rates are very high.



### Notice deposit accounts

Notice deposit accounts earn you higher interest, but there are **restrictions**. The minimum amount needed to open the account is higher than for an ordinary savings account. The main difference is that you have to give the bank an **agreed period of notice** (e.g. 32 or 60 days) before you can access money in your account.

### Fixed deposit accounts

This account offers a **fixed interest rate** over a **fixed period of time** (say 12 or 24 months). The money must remain in the account for the specified period of time. This protects you from the temptation of drawing the money, and is a good form of saving for a **particular goal**, such as education or a new car.



### Collective Investment Schemes

Banks do offer collective investment schemes as part of their service. See page 39 for more information.

## Society or group accounts

Designed for a group of people who want to **save together**, this type of account is similar to a stokvel. Bank costs are low and your savings earn **interest**. A minimum amount has to remain in the account to keep it open.



## Cheque accounts

With a cheque account (or **current** account) you receive a cheque book, and you can pay people by cheque. But there is a **fee** for every transaction. Your cheque account will pay you no **interest**, but your bank may allow you an **overdraft** (a type of loan) on it, depending on your **credit record**.



## Personal loans

When you have a good track record with your bank, it may allow you to take out a personal loan.

## Retail bonds

Buying retail bonds is an alternative to depositing your money in a bank account. Retail bonds are issued by the Government and are a safe and risk-free way of investing your money. The interest rate of retail bonds is fixed for the entire period of investment, which guarantees the steady growth of your money.



## Home loan account (bond)

A home loan account, or bond, is probably the most important contract, apart from marriage, that you will sign in your life. It is a **long-term agreement** between you and your bank. If you qualify, the bank lends you money to buy or build a home. The loan, with **interest**, is repaid over 20 or 30 years. By repaying it sooner, you can save on interest. Your home is the bank's security. If you fall behind with your repayments, the bank may repossess your home to cover any money that you still owe.



## Hire Purchase (HP) accounts

Certain **banks** specialise in hire purchase loans which are registered over the items you buy. If you don't pay your instalments, the items you have purchased are repossessed. Usually the dealer negotiates the loan with the bank on your behalf, but you can talk to the bank direct to try to get a slightly lower **interest rate**. Before you take out an HP, the company usually checks your **credit record**. A bad credit record will usually mean the HP application is turned down.

## Internet, telephone and cell phone banking

If you have a **computer** (and you subscribe to the **Internet**) or your own **touch-tone phone**, you can do a lot of your banking from home or from your office. Certain banks have facilities for cell phone banking.



Some accounts have no upper or lower limits, as long as you keep them open and you use them regularly. When an account has been **dormant** (not used) for a certain period, the banks have the right to close it and keep your money in a special reserve fund until you claim it one day.

**Talk to your bank. Find out more about the different services it can offer you.**



**Remember the golden rule: money that you save *makes* you money. Money that you borrow *costs* you money = at higher interest rates than you earn on your savings!**

# Plastic Money



Everybody knows about **Credit Cards!** But now the **Debit Card** is becoming even more popular. With this card you can only spend money you have in your bank account.

It can replace cash and cheques — and you'll never spend more than you have!

## The debit or ATM card

This offers safe and quick access to your money. If you **have money in your account** and you know your **PIN**, you can **draw money** and do all your **transactions** electronically. Thanks to microchips, a new kind of **debit card** (one of the **smart cards**) can be used to make transactions off-line (without being connected to the bank's network) as long as the ATM or business has the new type of card scanner.



## The credit card

The basic **credit card** lets you buy on **credit** and **pay** the bank **later**. There is an annual charge for the use of the credit card, and overdue accounts attract high interest rates. This is why you should **avoid** paying only the **minimum** amount due — always pay the full amount owing, or the highest amount you can.

## The garage and petrol cards

These cards are issued specially for use at **garages** and **petrol stations**. They are an easy and convenient way to pay for your **petrol** and/or **car repairs**.



## How do you get a bank card?

You automatically get an ATM card when you open an account. Speak to your bank if you want to apply for any other kind of card. Smart cards are only available from certain banks. An ATM is an *Automatic Teller Machine* at which you can draw cash, ask for a balance on your account or transfer money from one account to another. It is very convenient, but you have to know how to use it and be aware of security risks. Choose an ATM where there are security guards on duty, if possible!



## Our rights ...

When you borrow money from a bank, it has certain responsibilities towards you.

### It must:

- give you a **written contract**
- **explain** in simple language exactly **how much** you owe, and **how long** you have to pay it off
- charge **legal interest rates**
- use **legal collection methods**.

## ... and our responsibilities

- Develop a **long-term** relationship with your bank so the staff get to know you and your particular needs.
- Open a savings account and make **regular** monthly deposits — even if it is only a small amount. People who do this will build a good track record and get the best support from their bank in times of need.
- Never exceed your financial **limit**. Don't draw more than you have in your account.
- Ask about bank charges.
- Don't wait until you are in trouble before you ask for help or advice.
- Respond immediately to telephone calls or letters from your bank. A good financial record at your bank is valuable. Protect it.

# Savings and Credit Co-operatives (SACCOs)

**Savings and Credit Co-operatives (SACCOs)** are similar to banks, but are **owned and run by the members** who all have a **common bond**, such as working for the same employer. **Anyone** who belongs to the group can become a member. SACCOs are **democratic** organisations with **formal management structures**. They offer members most of the same **services** as banks do and **members** decide how their money will be used.

## SACCOs:

- usually offer better **interest rates** than banks do
- **inform** members on financial issues
- pay members **dividends** on shares
- offer **savings, loan and investment** services
- insure shares and loans to **protect** members' money.



**All SACCOs must be run according to certain rules. They are regulated by SACCOL (Savings and Credit Co-operative League of South Africa).**

# Stokvels (burial society, lekgotla, gooi-gooi)



**Traditionally** stokvels refer to any of the **informal co-operative rotating savings schemes** used by millions of people to save money for occasional expenses. Stokvels are known by many different names, and have slight differences, but the basic **principle** remains the same.

- A group of people with something in **common** (e.g. the same church) meets **regularly** and puts a **fixed amount** into a group account.
- Members take turns to **draw** the savings.
- There are **no administrative costs**.
- You are regularly offered a **lump sum**.

Traditional stokvels are **social clubs with rules**, based on **friendship and trust**. Like a book club or sports club, they are often used as an excuse for friends to get together and have a good time.

**Many stokvels are run as profit-making businesses**, where each member receives table money which is invested in food and drink. He or she invites (and charges) guests to come to a stokvel evening, and keeps the profit. Stokvels are one of the only ways for people in **poor** communities to save, but, more and more, people with higher incomes are forming their own stokvels and using them to branch into other investments — in collective investment schemes and on the stock exchange.



# Planning for your Future



## How do we prepare for the future • when we don't even know what it will bring?

Planning for a better future for you and your family is a difficult task. But if you don't do it, you risk your own happiness and your children's future!

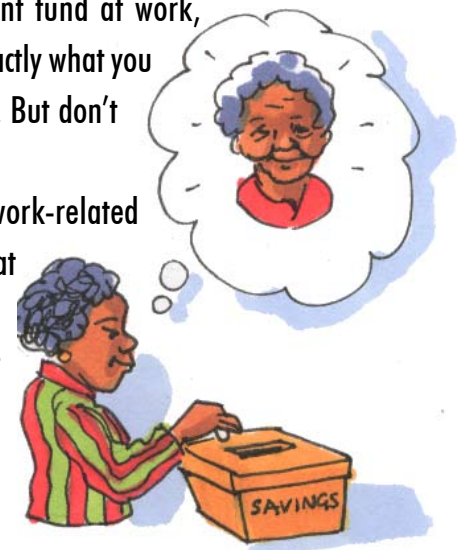
### Watch out!



- Jobs are scarce. What will happen if you lose yours, or your children cannot find employment?
- What will you do when you are 60 or 65? Will you have enough to live on? Or will you have to work until you die?
- How will you support yourself and your family if you are injured or become too sick to work?
- Things get more expensive every day. Will you have enough money to pay five times or 10 times more for bread and milk in 10 years' time?
- Think about providing for your old age **now**. Don't leave it until it is too late!

**Don't be one of the many! Don't depend on the government's old-age pension. It is not enough to live on comfortably! Whatever your age, *start planning today!***

1. Start saving today no matter how difficult it is! Get advice on the best way to save for your old age!
2. Talk to a financial advisor! Find out what policies are best in your circumstances.
3. If you have a retirement fund at work, make sure you know exactly what you can expect it to pay out. But don't rely on it alone!
4. If you do not have a work-related retirement fund, look at the different options. Decide what will be best for you. Start preparing for your old age today!



When most people start to worry about their old age, it is far too late to do anything about it. None of us wants to be poor when we are old and weak, and could need expensive medical care.



Yet most people will have to work for the rest of their lives just to keep body and soul together!

## *Preparing for the future = and old age*

It is very important to have a retirement plan to provide for you in your old age. Whatever you choose, it should provide a monthly income until you die, earn interest (so your money grows) and cover you for the rise in the cost of living.

### Work-related retirement funds

Do you pay into a **pension or provident fund** at work? Find out more about it and what **your** responsibilities are. When you retire, your retirement fund will be paid out to you. By law, at retirement only, up to **one-third** of a **pension fund** may be taken in **cash** (after tax) while the other **two-thirds** must be **invested** to give you a regular income. You may want to **invest** your one-third **lump sum payout** as well! If you belong to a **provident fund**, you may receive either a **monthly pension** or a **lump sum** which you should use to buy a monthly pension.

Even if you have a retirement fund which guarantees an income for the rest of your life, it is unlikely that you will have **enough** money to live on **comfortably** when you retire. **How do you make sure your retirement fund beats inflation and lasts as long as you do?** It is important to invest extra money while you are still working.



If your employer does not offer a retirement fund, it is even **more** important to plan for your retirement yourself, starting **TODAY**. The **younger** you are when you start, the **lower** your **premiums** will be and the more time you will have to build up your money (capital). Whatever your situation is, **retirement annuities** are a good type of investment — and there are many variations to suit different needs. Get advice from a professional advisor and choose a plan that suits your needs and that you can afford. Your decisions will affect the rest of your life! **Find out about the advantages and disadvantages of each!**

### Retirement annuities

A retirement annuity is nothing more than a safe long-term savings plan for old age. It is safe because you cannot take out the money before the selected maturity date — anywhere between the ages of 55 and 70.

### Retirement fund tips

- **Don't borrow** from your retirement fund. If you do, make sure you pay all the money back by the time you retire.
- If you **change jobs**, do whatever you can to preserve your fund. Get professional **advice**. Leave the money in the retirement fund if possible or put it into a **preservation fund**.
- Once a year, the company must give you a **benefit statement**. This tells you what



- you have paid, what the benefits are, etc. — in other words, the status of your retirement fund.
- As your circumstances change, you may want to change your beneficiaries. You and your beneficiaries must make sure the company where you have your retirement fund always has your most recent details. **Advise them immediately of any change of address, telephone number, etc.** You can get **information** on a **pension fund** you used to belong to from the FSB Call Centre (contact details are on the back cover).
- **Don't** pay anyone to get the information for you.

# Understanding Long-Term Insurance



Long-term insurance includes life insurance, funeral insurance and savings for events such as retirement, in cases of a health event or disablement. It is insurance that you would usually expect to pay over a very long period of time - until you die or the policy matures (for example, at a specified age). The benefits stated in the policy are in the form of sums of money. You can **buy** insurance policies from a registered insurance **intermediary** (broker, insurance advisor, or salesperson) or direct from insurance companies. Most financial services products are marketed and sold through intermediaries. Intermediaries include financial advisors, insurance brokers, bank officials and stockbrokers.

## DEATH OF THE BREADWINNER

You may die suddenly. What will happen to your family if you do? Who will pay for rent, food, schooling, etc.?

## LIFE INSURANCE / RISK

You insure your life, usually for a lump sum, such as R100 000, which is paid to your family if you die. Your monthly payment is called a premium. Some life insurance policies include disability cover. This means that if you become unable to work, a lump sum or a monthly amount may be paid out as specified in your policy.

## LIFE INSURANCE / INVESTMENT

Other long-term insurance products provide a means of savings.

## Things to watch out for

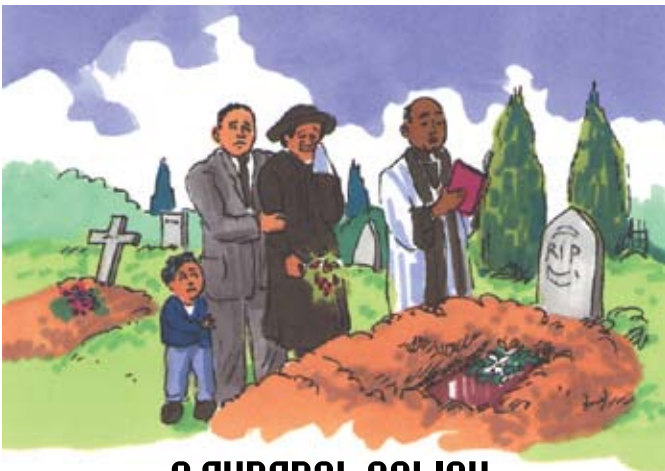
Because of inflation, our money is worth less each year. Check that the life insurance you have suits your needs:



- Some types of policy offer death cover only.
- Some types of policy have savings only and some have a combination.
- Some policies pay out a lump sum, others a monthly amount.
- Some insurance policies provide disability cover as well as life insurance.
- Make sure your premiums are paid. If your premiums are paid by debit order, make sure the company has your current bank details. Check your bank statements to make sure your premiums are being deducted.

## DEATH OF A FAMILY MEMBER

Someone for whom you are responsible may die and you will need the money for a funeral. Where will you find it?



## A FUNERAL POLICY

You pay a monthly premium and you may receive a lump sum or the benefit could be in the form of a funeral. Remember that you, as the policyholder, can ask for the benefits to be paid as cash rather than as a funeral.

## Things to watch out for

Funeral policies are very popular, since they allow you to give your loved ones a proper and fitting burial — or they prevent you from being a financial burden on your family when you die.



Unfortunately, many unregistered companies offer funeral insurance which may be worthless in the end. Check that your funeral policy is held with a company **registered** with the Financial Services Board (FSB). (See the back cover for contact details.) Check for any exclusions that may prevent the policy from being paid out, e.g. no pay-out within the first year.



## DISABILITY INSURANCE

You pay a monthly premium, and are paid out either a lump sum, or a monthly amount, or both, should you become disabled.

### DISABILITY

You could lose the use of your hands or legs, or suffer from chronic illness, forcing you to stop working. Who will keep your family alive and pay the bills?

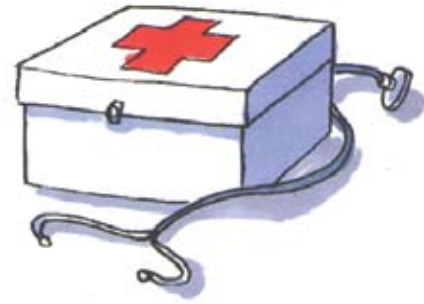


## Things to watch out for

It is not always necessary to have separate cover. Disability cover can be built into your life insurance.

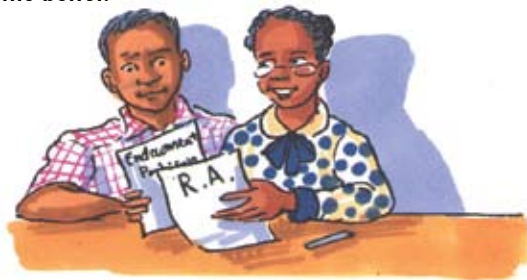


Check for health conditions that are excluded. Some health conditions are not covered by disability insurance. It is important to be **honest** about your medical history when you take out insurance.



## RETIREMENT

Many people fail to plan properly for a happy retirement. Very few people retire with a pension fund and the government's old-age pension may not be enough. The younger you are when you start to plan for retirement, the better.



### RETIREMENT ANNUITY OR ENDOWMENT POLICY

A **retirement annuity** is like having your own personal pension scheme. You pay a monthly premium and, in return, you get a monthly amount when you retire.

An **endowment policy** can have both a savings and a life cover element, and pays out a lump sum. Depending on how much it is, you can invest the money to give you a monthly income in your old age.

## Things to watch out for

**Retirement annuities** (sometimes called RAs) are wonderful if you can afford them because they ensure that you will be better off when you retire. But the benefit you receive when you retire needs to be managed carefully. Make sure you get good advice.



**Endowment policies** are more like a savings plan than a retirement plan. There is also the danger that you could be tempted to spend all the money at once when you are paid the **lump sum**.

You need to **reinvest** it to provide you with an income for the rest of your life. There are restrictions on benefits that can be taken from the savings part in the first five years.

**Ask your intermediary or salesperson for more information.**

**Many people get talked into buying insurance policies that they don't really need. You have rights when buying insurance policies — check what they are on page 36!**

# UNDERSTANDING SHORT-TERM INSURANCE

Short-term insurance is insurance that you take out on possessions such as your house, your car or your cellular phone, or for a health or disability event – any insurance policy that you can cancel either when you dispose of the insured article or no longer wish to insure it. But remember, **when you cancel the policy, your cover ends** and you **do not get a refund** even if you have never put in a claim. Short-term insurance can also cover you for legal liability to others. The purpose of short-term insurance is to protect you against losses that you have suffered as a result of events such as accidents, crime and powers of nature (floods or fires). The benefit is intended to place you in the same position you were in prior to the event.



## Home-owner's Insurance

**Home-owner's insurance** is very important when you buy a house. It insures your house against things like fire, storm or flood damage, but does not cover maintenance of your house.



## Things to watch out for

If you have a home loan, home-owner's insurance can be arranged by the bank. But **you** are responsible for checking regularly that your home is insured for the **correct replacement value**. Remember, when you do not have a home loan or have paid it off, insurance is **your** responsibility.



## Legal Protection Insurance

Legal insurance covers your legal expenses in cases where you have to fight for your rights. It protects you against problems related to labour, debt, tenants, home ownership and various other matters. Good policies cover you against the expense of **civil legal action** by or against you, as well as **criminal charges**.



## Things to watch out for

With legal protection insurance there are often exclusions – make sure you know what they are. Also make sure that your premium gets you access to a lawyer and pays for his or her fees. Beware of “helplines” and “free legal advice” which do not include or pay for a lawyer.



## HOUSEHOLD AND MOTOR CAR INSURANCE

Household insurance covers everything inside your home: furniture, TV and other electrical goods, clothes, and even the food in the deep freeze. Legal liability is often included. Car insurance protects you against damage to your car (including fire and theft). Remember, maintenance and deterioration through age (wear and tear) are not insurable.



## Things to watch out for

These policies pay out a certain maximum value for different items. Make sure anything of especially high value is included so you will be paid out its real value if it is stolen or lost. Most household policies offer an all risks section to cover things which are carried with you outside the home, e.g. cell phones, cameras and bicycles. But specific items may not be covered unless you list them and their insured values separately. Most policies have an excess (an amount of any claim which **you** must pay). Make sure you understand your policy.



## Your rights and obligations

Just as we have rights and obligations in other areas of life, we also have **rights** and **obligations** when entering into an agreement with an insurance company.



It is your responsibility to make sure that you understand the terms and conditions of any policies you have!

The intermediary must provide you with **documents** and **information**, including:

- A written quotation, showing all the costs;
- a copy of the policy document, which should be sent to you within 30 days;
- an explanation on how to submit a claim;
- a statement showing the cost of the insurance, the intermediary's commission, and the address and telephone number of the insurance company.

Read through the whole proposal carefully before signing. Don't feel rushed — ask to keep the document for a few days so that you can come back to the intermediary with questions. These should be answered in

a language which you can understand.

**Make sure you know how much the policy will cost each month and include it in your budget.** This way you are less likely to run into financial problems later.

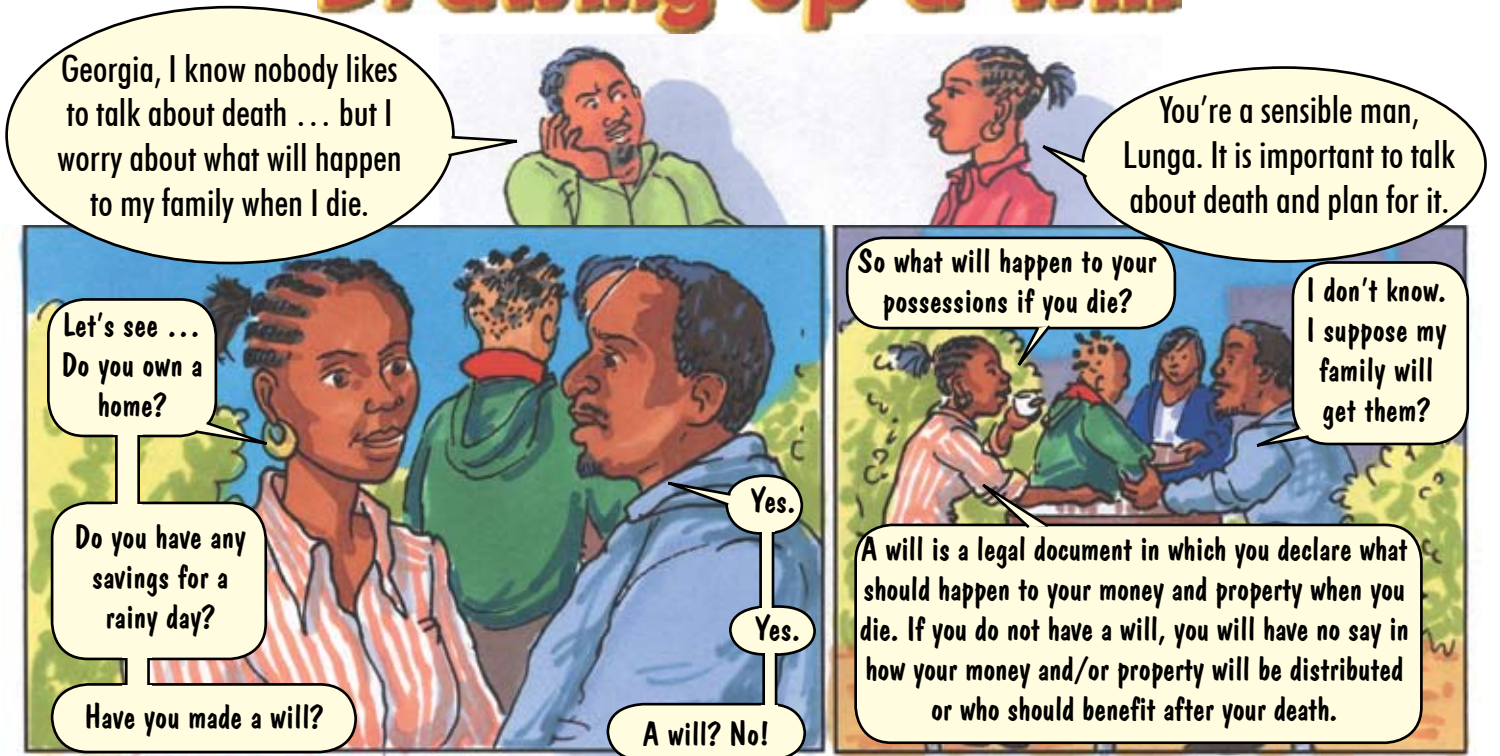
**You have a 30-day "cooling-off" period after signing the proposal for long-term insurance.** This means that even if you have signed, you can still change your mind and cancel the policy up to 30 days later.

**Only deal with an intermediary who is accredited (officially recognised) by an insurance company and who you have reason to believe is trustworthy.**

Just as you have rights, the insurance company has rights, too. **You, the buyer, have obligations to tell the truth and to disclose any information required.** If you claim and the details provided by you turn out to be untrue, your claim may not be paid out.

Remember, you *must* pay your premium. If you do not pay, you will not be covered!

# Drawing up a Will



**You** are responsible for what happens after your death!



It is therefore important that a will be drawn up by a person who possesses the necessary knowledge. If you die without leaving a will (intestate), the Master of the High Court freezes your **estate** — this includes any money you have and all your possessions. The Court then decides how to share this out. Everything you worked for in your lifetime could end up in the wrong hands, and the people you worked hard to provide for may end up with nothing!



Every person is encouraged to have a will. People who die without a will leave problems for those left behind. A will should be prepared by a person with the necessary knowledge. Your will must be signed in the presence of two witnesses in order to be valid.

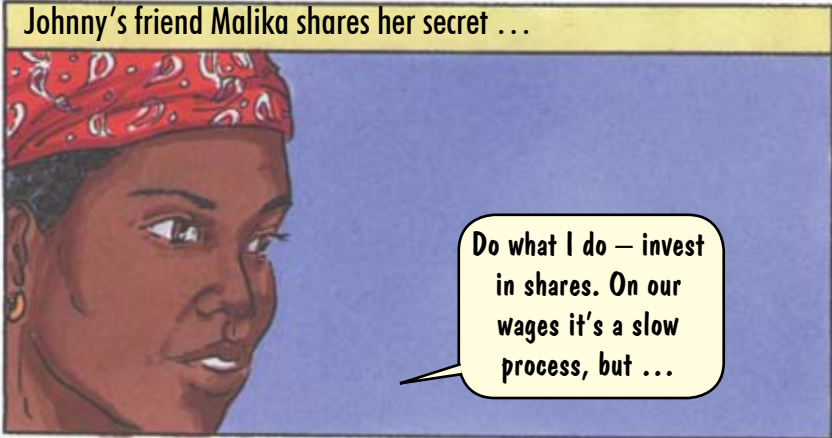
## Estate duty

Estate duty is a form of tax that the government levies on the estate after your death. If your estate is worth less than a certain amount (property, insurance and everything included), no estate duty has to be paid. You can find out what that amount is from the South African Revenue Service (SARS). But your estate will have to pay 20% estate duty on any amount over R1 500 000.

## Executor

When you draw up your will, you have to appoint an executor — the person who will do all the legal and administration work to settle your estate after your death. An executor charges a fee. If your bank has drawn up your will, it will probably name itself as your executor.

Johnny Getrich learns about the stock market



Malika explains ...

I opened a savings account a few years ago and used the money for collective investments because they seemed less risky. That was how I started! Then, after talking to someone who owns shares, I became aware of another way to invest. I decided to buy shares and consulted my advisor. They do go up and down, but I take a long-term view.



# Shares

Malika is setting a good example! If you want to prepare for a secure financial future, the stock market has an excellent track record, but you must be prepared to manage the investment.



Companies pay some of their profits to shareholders – these are called **dividends**. Companies issue shares to raise **capital**. Shares of most of the world's large companies are **listed** on a **stock exchange**, which means they can be **bought by ordinary people** who then have an **investment** in the company. If you own shares in Company X, it means you literally **own** part of that company. Successful companies usually grow stronger over the years — and then the **price** of their shares and their dividends goes **up**. If the company does well, your **investment** will **grow** in value — but if it does badly, your investment can **go down**. When you want to buy shares, you must choose the company very carefully and be prepared to invest your money for 3–5 years!

## BUYING SHARES

In South Africa, shares in companies are listed on the **JSE Limited South Africa**. If you want to invest in shares, you first have to open an account with a **registered stockbroker** at a stockbroking firm. You discuss how much you want to invest, etc. and he or she advises you. Once you have decided on which shares you want to buy, the stockbroker arranges for a dealer to buy them for you. After that, you can phone your stockbroker whenever you want to buy or sell shares. Remember, as the country develops, more and more people will become share owners.



## COLLECTIVE INVESTMENT SCHEMES



Investments in the stock market or collective investment schemes are a medium to long-term investment. There are risks, and shares and collective investment schemes do go up and down. Choose those that are expected to be successful over the years, and then manage your investment carefully!

## BUYING COLLECTIVE INVESTMENTS (UNIT TRUSTS)

- Buying collective investments are a convenient way for an individual to invest in the stock market and other types of securities. Collective investments consist of the pool of money from **many individual investors**, which has been invested in a variety of different assets, those that the **fund manager** believes will provide the best growth over the next 3-5 years.
- A number of different kinds of collective investments exist. You can choose between low, medium and high-risk funds.
- Collective investments allow one to invest in different types of assets. Therefore an individual can **spread** the **risk**, thereby reducing the chance of losses. In other words, should the value of one investment drop, the others may increase.
- When deciding to invest in a collective investment scheme, it may be advisable to consult a **financial advisor** or a **fund manager**. Make sure you understand the charges involved.

If you would like to find out more about shares, collective investments and exchange-traded funds, consult your financial advisor or intermediaries.

# How to Grow Financially Strong

Do you know that South Africa is a nation of people who save far too little? This is very bad for the country.

We are all keen to borrow (often too much!), but we hardly save at all. This means we have no “cushion” to fall back on when we suddenly need money. **Why** don't we save? The average South African spends half of his or her salary repaying debts. We borrow money so that we can have more to spend, and then we have to pay it back. Then we have nothing left to save!



But I do save! I have a funeral policy — that's saving, isn't it?

Yes, but it's long-term saving for a special purpose. You need to start saving for the months and years ahead.

What do you mean?

**PLAN!** Rather than borrow and spend today, save for the things you may need or want tomorrow! You shouldn't have to go to a bank — or a microlender — for that kind of money. Start planning **NOW!**



Many of us take care of our funerals — but nothing else — and have nothing put away for our needs in the next five or ten years. With good planning, you can save a fair amount in a few years.

One of the best ways to save is to put aside a fixed amount every month. That way you force yourself to be disciplined.



But where do I put that money?

Well, that's where banks and other financial institutions can help! They offer a whole range of choices! You can speak to a financial advisor, but here's what I do. You start with a savings account at the bank. Then when you have enough in your savings account, talk to your bank about a fixed deposit account. You can only get your money out after a fixed length of time, but it pays you a higher interest rate! Retail bonds are another method of saving. This you can do at the post office.

So ... if I save for a rainy day, I'll become financially strong. That sounds easy enough!



Well, it is a good start. I'm afraid that's just the beginning, Priscilla! Saving and staying out of debt is the first half of the story. The other half is preparing for your old age!

My old age? But what about my pension?

### Mr Moneywise explains ...

Priscilla, listen carefully. 90% of all South Africans will have too little money to live on when they are 60 years old. They'll be dependent on their children, or they'll grow old in misery!

You see, even a pension isn't enough any more. Inflation eats up our money ... and it is worth less every year. You have to save up and invest for your old age ... and the sooner you start, the better off you will be one day when you are old and frail!



Mr Moneywise — first I have to pay my debts, then I have to save and buy for cash, and then I have to save some more for my old age! It's impossible!

No, Priscilla, not impossible. But it will take practice, determination, discipline ... and some help from your bank!

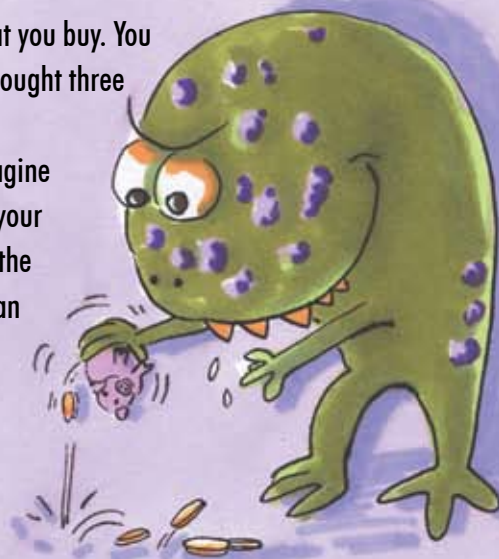
## INFLATION = THE MONSTER THAT EATS YOUR MONEY

**What is inflation?** Inflation causes **increases in the prices** of the things that you buy. You go into a shop to buy a litre of milk ... and what happens? The milk that you bought three months ago for R4,50 now costs you R5,25!

During the past few years inflation ranged between 6% and 12%. Can you imagine what this does to your savings? If you earned between 5% and 7% interest on your savings in the past year, and inflation was also between 5% and 7%, it means the **value** of your savings didn't grow! You can't buy any more with your money than you could a year ago!

To make our money grow, we really have to earn interest that is **higher** than the inflation rate.

**TALK TO YOUR BANK ABOUT WAYS TO SAVE OR INVEST THAT WILL REALLY MAKE YOUR MONEY GROW!**



# Who do I Complain to?



Wherever money is involved, there will be people who are tempted to be dishonest. The financial services industry — which includes banks, insurance companies and everyone else who provides a legal financial service — needs us to help them to fight dishonesty, or even just poor service.

All the **organisations listed on the back cover** are there for your protection and to help you. But **you** need to **contact them** whenever you are not satisfied. If you feel you haven't been treated fairly, please report it! Even if nobody has actually been dishonest, they still want to know. Financial services are important in all our lives so we must all **work together** to root out dishonesty and bad service. Problems are most often the result of dishonesty, poor service or misunderstanding.



In the financial world there are many opportunities for dishonesty. Even the clients often "bend the rules" — and every time someone does this, it costs innocent people money!



## WHAT TO DO IF YOU SUSPECT SOMEBODY HAS BEEN DISHONEST

### Insurance intermediaries

Be on the lookout for insurance intermediaries (advisors or salespersons) who put your premiums into their own pockets, or sell you a policy that you do not need just to earn the commission. Report them to the Financial Services Board Call Centre. (See the back cover for contact details.)

It is important to be sure that any intermediary that you deal with is trustworthy and is accredited. The FSB Call Centre or an intermediaries' association will confirm whether an intermediary or salesperson is accredited and in good standing. Ask for proof that they have been appointed by an insurance company. If you are not sure, you can check with the FSB. Only deal with someone you feel you can **trust**.



### Insurance clients

It is not only dishonest intermediaries who push up the cost of insurance. Many clients claim for more than they have lost, while some sub-contractors inflate the cost of replacing items or repairing damage when it is an insurance claim. Although it may not cost you any extra money, the insurance company will have to bear the cost. Don't be part of this type of dishonesty — report it to your insurance company. They will know what

to do about it, and you will help keep the cost of insurance down. The insurance industry has a special **Fraudline, 086 000 25 26**, which also covers fraud by intermediaries or financial institutions.

## Banks

Mistakes can happen, even in banks, and clever fraudsters sometimes find ways to abuse the system. Check your bank statements the moment you receive them. Check the cheques that are returned with the statement (your used cheques) to see that they have not been altered in any way, and that they correspond with your statement. Also check your debit orders. Debit orders are a cheap and convenient means of making regular payments, whereby you authorise a person or company to collect money from your bank account. However, there have been cases where dishonest companies give the bank debit orders for small amounts in the names of people who aren't even their customers. Imagine how much money they can make if they get even R5 per month from 10 000 customers who suspect nothing! Therefore, also check that debit orders you are asked to sign are for the correct amount.

If you have a complaint, take it up with your bank first. If you are not satisfied with the result, you can approach the Ombudsman for Banking Services. (See the back cover for contact details.)



## Salespersons offering high returns

Be very suspicious if anybody tries to get you to invest in schemes that promise to pay you very high returns in a short time. The average trustworthy investment is not likely to pay much more than everyone else is offering. The more the return offered exceeds the norm, the more careful you should be. When somebody promises you 100% per year on your money, or 25% per month, don't believe them! In the world of money there are no miracles — and it is surprising how many otherwise sensible people lose their life savings in this way.

So-called pyramid schemes can be very tempting, but are particularly dangerous — not to mention illegal. If you are approached to join one of these, report it to the Consumer Affairs Office! (See back cover for contact details.)

## WHAT TO DO IF YOU HAVE BEEN REFUSED CREDIT OR ARE NEGATIVELY LISTED



When you **pay** your accounts **regularly** and manage them properly, you get a **good credit record and rating**. This reassures a company that you are a reliable credit customer.

But if you do **not** pay your accounts regularly, or manage them badly, you will get a **poor credit rating**.

If a company takes legal action against you, **summons** will be issued, and then **judgement**, and you will be **negatively listed**. Once this happens, **you will not be able to open any account** anywhere or **take out a bank loan** (including a home loan).

Any company where you have an account will give your rating to another business that contacts them. Most companies send their customers' credit records to a **credit bureau**. This is a company that keeps a **record** of all consumers who use credit as well as details of their credit history, such as where and how often they have applied for credit, etc. and how well they repay their loans and accounts.

If you have been negatively listed, you can call the **Credit Information Ombud** to get a copy of your credit record from ITC (0861-482-482) or Experian (0861-105-665). If there is something on your record that is incorrect or that you disagree with, the credit bureau will **investigate** it for you and correct your record if necessary.

If you are not satisfied with the help given to you by the credit bureau, you can complain to the **Credit Information Ombud**. If you have been **negatively listed**, the Ombud will also be able to tell you what steps you can take to have your name cleared, and how long it will take. **The Credit Information Ombud: Tel: 0861 662 837 or e-mail: ombud@creditombud.org.za**



## WHAT TO DO IF YOU KNOW SOMEBODY HAS BEEN DISHONEST

If you are **sure** that somebody has broken the law — for instance, if someone has forged your signature on a cheque, or a broker has pocketed your premiums — it is your duty to **report** it to the police. State your case clearly to the police and then also report the matter to the right organisation. Strict action will help to discourage others from being dishonest too.



## Recourse

### WHAT TO DO IF YOU HAVE A PROBLEM OR COMPLAINT

If you feel you have been cheated or treated unfairly, it is your right to complain. The person to **start with** is your **financial products 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.

If you still feel dissatisfied, you may contact any **one of the organisations below**. These have all been created to protect the interests of the consumer. If you are not sure which organisation is the correct one, you can contact your provincial **Consumer Affairs Office** (listed below) or call the Financial Services Board Call Centre for advice. If you feel that your claim or complaint has been dealt with unfairly, you have the right to refer it to one of the **Ombudsmen** or the **relevant contact** on the back cover.

### PROVINCIAL CONSUMER AFFAIRS OFFICES

#### Eastern Cape:

Pick 'n Pay Bldg, Office 223, BISHO 5605  
Tel: (040) 609 3050/3063, Fax: (040) 635 2194/609 3231  
e-mail: thembakazi.ngxokela@deaet.escape.gov.za

#### Free State:

Tourist Centre, 60 Park Road, Willows, BLOEMFONTEIN 9300  
Tel: (051) 400 4854, Fax: (051) 400 9606  
e-mail: radikelt@dtea.fs.gov.za

#### Gauteng:

Ground Floor, Matlotlo Hse, 94 Main St,  
JOHANNESBURG 2001  
Tel: (011) 355 8012/8117, Fax: (011) 355 8110  
e-mail: fatim@gpg.gov.za

#### KwaZulu-Natal:

22 Gardiner St, 1st Floor, The Marine Bldg,  
DURBAN 4001  
Tel: (031) 310 5300, Fax: (031) 310 5442  
e-mail: pillayd@kznded.gov.za

#### Mpumalanga:

106 Ferreira Street, NELSPRUIT 1200  
Tel: (013) 752 3761, Fax: (013) 752 3729  
e-mail: nnkosi@nel.mpu.gov.za or n.lubisi@nel.mpu.gov.za

#### Northern Cape:

18–22 Stockdale St,  
KIMBERLEY 8300  
Tel: (053) 830 4835/08, Fax: (053) 830 4838  
e-mail: flouw@perm.ncape.gov.za

#### Limpopo Province:

Ismeni Towers, 46 Hans van Rensburg St,  
POLOKWANE 0700  
Tel: (015) 293 8529, Fax: (015) 295 7010  
e-mail: maboeak@ledt.gov.za

#### North West:

East Wing, Ground Floor, Agri Centre Bldg, James Moroka St,  
MAFIKENG  
Tel: (018) 387 7784, Fax: (018) 387 7900  
e-mail: ljlekalake@nwpg.gov.za

#### Western Cape:

142 Long Street, CAPE TOWN 8001  
Tel: (021) 483 5735  
toll-free: 0860 142 142,  
Fax: (021) 483 5872  
e-mail: asearle@pgwc.gov.za

