

KNOW your CASH

LEARNER GUIDE

Contact information:

Name	
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TABLE OF CONTENTS

Contact information:	2
TABLE OF CONTENTS	3
TOPIC TO BE COVERED	7
Outcomes:	8
ENTRY REQUIREMENTS:	9
ASSESSMENT REQUIREMENTS:	10
1. SECTION1: CONSUMER PURCHASING BEHAVIOUR.	11
1.1. Controls impulsive buying behaviour	11
1.1.1 What is Consumer Buying Behaviour?	11
1.1.2 Stages of the Consumer Buying Process	12
1.1.3 Types of Consumer Buying Behaviour	13
1.1.4 Categories that Effect the Consumer Buying Decision Process	14
1.1.5 Types of Shopping Addictions	16
1.1.6 The Signs of Shopping Addiction	16
1.2 Plans for big item purchase	17
1.3 Sticks to budget and considers affordability	18
2. SECTION 2: BUDGETING.	20
2.1. Importance of budgeting and saving	20
2.1.1. What is Budgeting? What is a Budget?	20
2.2. Why is Budgeting so Important?	20
2.2.1. Be smart with your food shopping	21
2.2.2. College Expenses to Expect	22
2.2.3. Example of a College Student's Budget	23
2.3. Financial decision process when spending their allowances	25
2.3.1. Develop a Spending Plan	25
2.3.2. Develop a Savings Plan	26
3. SECTION 3: CREDIT AGREEMENTS.	27
3.1. What credits agreement mean	27
3.1.1. Credit agreement	27
3.1.2. Credit facility	27
3.1.3. Pre-agreement disclosure	28
3.1.4. Form and contents of credit agreements	28
3.2. What information to provide (National Student Aid Scheme Agreement)	29
3.3. How it impacts your credit profiles	31

3.3.1 NSFAS	32
3.3.2. What the banks offer.....	33
3.3.3. Absa.....	35
3.3.4. FNB	36
3.3.5. Nedbank	36
3.3.6. Standard Bank.....	37
3.3.7. ADVICE FOR STUDENTS	37
3.4. Rights and responsibilities in a credit agreement	38
4. SECTION 4: Awareness of types of insurance	45
4.1. Types of life insurance	45
4.1.1. The different types of life insurance in South Africa.....	45
4.1.2. Credit Life Insurance	45
4.1.3. Term Insurance	46
4.1.4 Whole Life Insurance	46
4.1.5. Universal Life Insurance	46
4.1.6. Which One Do You Choose?	46
4.2. Types of non-life (short term) insurance products.....	47
4.2.1. What is Short Term Insurance?	47
5. SECTION 5: SAVING AND INVESTING	48
5.1. The power of compound interest	48
5.1.1. Simple Vs Compound Interest	48
5.1.2. How compound interest can make you wealthy.....	48
5.1.3. What it takes to make compound interest work.....	49
5.2. Saving for long term goals	49
5.3. Different types of saving vehicles	50
5.3.1. Goal-Oriented Savings Accounts.....	53
5.3.2. How to use Savings vehicles	54
5.3.3. Investment vehicles	54
6. SECTION 6: CREDIT AND DEBT MANAGEMENT	56
6.1. What is good and bad debt	56
6.1.1. Understanding good debt vs. Bad debt	56
6.1.2. What is considered good debt?	57
6.1.3. What is considered bad debt?.....	57
6.2. Managing a good credit profile	58

6.2.1. Why Do I Have a Credit Profile?.....	58
6.2.2. What is the Purpose of a Credit Profile?	58
6.2.3. What are Important Components of a Credit Profile?	59
6.3.1. What does so-called “blacklisting” then actually refer to?.....	60
6.3.2. What steps should someone or a company take if they want to blacklist someone?	61
6.3.3. Consequences of being blacklisted in South Africa	63
6.3.4. What does it mean to be blacklisted in South Africa?.....	63
6.3.5. What does it mean to be in Arrears?	64
6.3.6. What does Default mean?	64
6.3.7. Our options once you’re blacklisted	65
6.4. Garnishee orders	67
7. SECTION 7: Engaging with the financial sector	68
7.1. Saving	68
7.2. Transacting.....	68
7.3. Borrowing	71
7.3.1. Borrowing money.....	71
7.3.2. Types of borrowing	71
7.3.3. Savings Accounts	71
7.4. Insuring.....	72
7.4.1. Importance of Insurance	72
7.4.2. Domestic College Student Insurance	72
8. SECTION 8: Tax and Payslip.....	75
8.1. Tax	75
8.1.1. Who has to pay tax in South Africa?	75
8.1.2. Standard Employment	76
8.1.3. Filing your South African tax return.....	77
8.1.4. Provisional tax in South Africa	77
8.1.5. VAT in South Africa	77
8.1.6. Capital gains tax.....	79
8.1.7. Dividends tax.....	79
8.1.8. Donations tax rates.....	79
8.1.9. Transfer duty	80
8.1.10. Company taxes in South Africa.....	80

8.1.11. Turnover tax	81
8.1.12. Skills Development Levy (SDL)	81
8.1.13. Unemployment Insurance Fund (UIF)	81
8.1.14. Indirect South African tax rates	82
8.1.15. Excise duties and levies.....	82
8.1.16. Fuel tax.....	82
8.1.17. Air passenger tax	82
8.1.18. South African tax rates on industry.....	82
8.1.19. Withholding tax on interest or royalties.....	83
8.2. Payslip	83

TOPIC TO BE COVERED

- Consumer purchasing behaviours
- Budgeting
- Credit Agreements
- Awareness of types of insurance
- Saving and Investing
- Credit and Debt Management
- Engaging with financials sector
- Tax and payslip

Outcomes:

- What types of purchasing behaviour each student has and how it impacts decision making
- Importance of managing their finance, budgeting and saving
- Understanding the terms and conditions in credit management and their legal implications
- Using insurance product to reduce financial losses
- Are you too young to plan for retirement?
- Using debt productively
- Elements of financial inclusion
- Tax and payslip

ENTRY REQUIREMENTS:

It is assumed that learners are competent in Communication and mathematics

ASSESSMENT REQUIREMENTS:

Assessment practices must be open, transparent, fair, valid and reliable and ensure that no learner is disadvantaged in any way whatsoever.

1. SECTION1: CONSUMER PURCHASING BEHAVIOUR.

Learning Outcome

At the end of this section, learners should cover:

- Controls impulsive buying behaviour
- Plans for big item purchase
- Sticks to budget and considers affordability

1.1. Controls impulsive buying behaviour

1.1.1 What is Consumer Buying Behaviour?

Buying Behaviour is the decision processes and acts of people involved in buying and using products.

Need to understand:

- Why consumers make the purchases that they make?
- What factors influence consumer purchases?
- The changing factors in our society.

Consumer buying behaviour refers to the buying behaviour of the ultimate consumer.

A firm needs to analyse buying behaviour for:

- Buyer's reactions to a firm's marketing strategy has a great impact on the firm's success.
- The marketing concept stresses that a firm should create a *Marketing Mix* (MM) that satisfies (gives utility to) customers, therefore need to analyse the what, where, when and how consumers buy.
- Marketers can better predict how consumers will respond to marketing strategies.

1.1.2 Stages of the Consumer Buying Process

Six Stages to the Consumer Buying Decision Process (For complex decisions). Actual purchasing is only one stage of the process. Not all decision processes lead to a purchase. All consumer decisions do not always include all 6 stages, determined by the degree of complexity...discussed next.

The 6 stages are:

1. *Problem Recognition* (awareness of need)--difference between the desired state and the actual condition. Deficit in assortment of products. Hunger--Food. Hunger stimulates your need to eat

Can be stimulated by the marketer through product information--did not know you were deficient? I.E., see a commercial for a new pair of shoes, stimulates your recognition that you need a new pair of shoes.

2. *Information search*--

- o Internal search, memory.
- o External search if you need more information. Friends and relatives (word of mouth). Marketer dominated sources; comparison shopping; public sources etc.

A successful information search leaves a buyer with possible alternatives, the *evoked set*.

Hungry, want to go out and eat, evoked set is

- o Chinese food
- o Indian food
- o burger king

Evaluation of Alternatives--need to establish criteria for evaluation, features the buyer wants or does not want. Rank/weight alternatives or resume search. May decide that you want to eat something spicy, Indian gets highest rank etc. If not satisfied with your choice then returns to the search phase. Can you think of another restaurant? Look in the yellow pages etc. Information from different sources may be treated differently. Marketers try to influence by "framing" alternatives.

3. *Purchase decision*--Choose buying alternative, includes product, package, store, method of purchase etc.
4. *Purchase*--May differ from decision, time lapse between 4 & 5, product availability.
5. *Post-Purchase Evaluation*- outcome: Satisfaction or Dissatisfaction. Cognitive Dissonance, have you made the right decision. This can be reduced by warranties, after sales communication etc. After eating an Indian meal, may think you really wanted a Chinese meal instead.

1.1.3 *Types of Consumer Buying Behaviour*

Types of consumer buying behaviour are determined by:

- Level of Involvement in purchase decision. Importance and intensity of interest in a product in a particular situation.
- Buyer's level of involvement determines why he/she is motivated to seek information about a certain products and brands but virtually ignores others.

High involvement purchases--Honda Motorbike, high priced goods, products visible to others, and the higher the risk the higher the involvement. Types of risk:

- Personal risk
- Social risk
- Economic risk

The four type of consumer buying behaviour are:

- Routine Response/Programmed Behaviour--buying low involvement frequently purchased low cost items; need very little search and decision effort; purchased almost automatically. Examples include soft drinks, snack foods, milk etc.
- Limited Decision Making--buying product occasionally. When you need to obtain information about unfamiliar brand in a familiar product category, perhaps. Requires a moderate amount of time for information gathering. Examples include Clothes--know product class but not the brand.
- Extensive Decision making/Complex, high involvement, unfamiliar, expensive and/or infrequently bought products.
- High degree of economic/performance/psychological risk. Examples include cars, homes computers and education. Spend a lot of time seeking information and deciding. Information from the companies MM, friends and relatives. Go through all six stages of the buying process.
- Impulse buying, no conscious planning.

1.1.4 Categories that Effect the Consumer Buying Decision Process

A consumer, making a purchase decision will be affected by the following three factors:

1. Personal
2. Psychological
3. Social

Personal

Who in the family is responsible for the decision making. Unique to a particular person.

Demographic factors-Sex, Age, etc

Psychological factors

Psychological factors include:

- **Motives--**

A motive is an internal energizing force that orients a person's activities toward satisfying a need or achieving a goal. Actions are affected by a set of motives, not just one. If marketers can identify motives then they can better develop a marketing mix.

MASLOW hierarchy of needs!!

- Physiological
- Safety
- Love and Belonging
- Esteem
- Self-Actualization

Impulse buying is a common behaviour today. Our culture of consumption enables us to succumb to temptation and purchase something without considering the consequences of the buy. Is that a bad thing? In my view, yes, it can be. Impulse buying is related to anxiety and unhappiness, and controlling it could help improve your psychological well-being. To control something though, it's important to first understand it. To understand impulse buying from a psychological perspective, we should ask the question "What motivates us to impulsively buy products?" There are in fact a number of answers to this question, and knowing them will help you make smarter, more rational decisions the next time you're shopping or the next time you just catch yourself wanting to buy something.

Some people possess a personality trait called an impulse buying tendency, which as you may have guessed means they have a habit of making impulsive purchases. That might sound innocent, but there are a number of behaviours that go along with this trait that reflect its detrimental influence. First, impulse buyers are more social, status-conscious, and image-concerned. The impulse buyer may therefore buy as a way to look good in the eyes of others. Second, impulse buyers tend to experience more

anxiety and difficulty controlling their emotions, which may make it harder to resist emotional urges to impulsively spend money. Third, impulse buyers tend to experience less happiness, and so may buy as a way to improve their mood.

Last, impulse buyers are less likely to consider the consequences of their spending; they just want to have it.

People who like to shop for fun are more likely to buy on impulse. We all want to experience pleasure, and it can be a lot of fun to go shopping and imagine owning the products we see that we like. Once we start experiencing pleasure as a result of this sense of vicarious ownership, we're more likely to buy those products so that we can continue to experience that pleasure.

1.1.5 Types of Shopping Addictions

According to Shopaholics Anonymous, a support group to help shopping addicts recover; there are several different types of shopaholics. They include:

- Compulsive shopaholics who shop when they are feeling emotional distress
- Trophy shopaholics who are always shopping for the perfect item
- Shopaholics who want the image of being a big spender and love flashy items
- Bargain seekers who purchase items they don't need because they are on sale
- Bulimic shoppers who get caught in a vicious cycle of buying and returning
- Collectors who don't feel complete unless they have one item in each colour or every piece of a set

1.1.6 The Signs of Shopping Addiction

Like those addicted to other substances and behaviours, shopping addicts often become addicted to the behaviour because of the way they feel while shopping. For these people, the act of shopping releases endorphins and dopamine in the brain, creating pleasurable sensations that becomes addictive.

Because shopping is an activity that everyone must engage in, to some extent, it can be difficult to tell when shopping has crossed the line into addiction. Many people love to shop and even spend more than they should, but these traits don't make them addicts. To tell whether you're shopping or someone else's shopping has spiralled out of control, pay attention to these signs:

- Hiding shopping or the amount spent during shopping
- Spending more than you can afford
- Shopping to console yourself when feeling angry or depressed
- Shopping to avoid feeling guilty about a previous shopping spree
- Distressed relationships due to spending or shopping too much
- Losing control during shopping sprees
- Declining financial health or high amounts of credit card debt

1.2 Plans for big item purchase

When Making a Big Purchase, How to Decide What to Buy

Thinking about a major purchase such as a new washer and dryer or computer? You'll want to clearly identify your needs to stay within your budget.

Use the DECIDE steps to make a plan.

Define Your Goal

What do you want to achieve with this purchase? Be as specific as possible. For example, "We need a new refrigerator to store the food for a family of four that eats a lot of frozen meals."

Establish Your Criteria

What are the features you absolutely must have and which features would you like it to have? Separating wants from needs is an important step in making any purchase.

Choose Two to Three Good Options

It's elimination time. Remove any options without your must-have features. Narrow down your list to just two or three different choices.

Identify the Pros and Cons

Make a chart so you can quickly compare the features and prices of each of your top two or three choices. Decide What's Best

Choose the purchase option that best matches your criteria.

Evaluate the Purchase

Did you stay within budget? Do you feel good about the purchase? Begin saving for your next big-ticket item as far in advance as possible.

1.3 Sticks to budget and considers affordability

Why It's Important to Stick to Your Budget

We're all adults, right? No one can tell us to make our beds in the morning or wash the dishes before we crash at night. And no one can force us to budget. We budget for a reason. Around here, we call it our **budgeting why**. And the why looks different from person to person. Finding your why is the key to helping you make the best decisions with your money. Maybe you love the feeling of peace and security you get when you budget. Perhaps you want to teach your kids the best way to manage money. Or you might even have some big money dreams you want to fulfil. Tap into

your personal why and keep those reasons close as you work to stick to your budget this month and in the future.

Know why you are budgeting.

If you're developing a budget just because someone says it's a good idea, it probably won't help very much. Similarly, if you're just following the steps in a

personal finance workbook because it suggests this is a great way to move towards financial success, budgeting won't help much at all.

Know how much you actually make.

The correct answer here is not just your annual salary, nor is it dividing your annual salary into twelve parts for a monthly budget. Instead, you should be basing your budget on your take-home pay per month.

Have some accurate data when it comes to your spending, both monthly and irregularly.

Similarly, when you go to plan a budget, it works best if you plan it based on real numbers. This means pulling out your bills and your receipts for the last month or two – all of them – and figuring out what you're actually spending. Your first “budget” shouldn't actually be a budget at all – it should instead reflect your spending in an average month.

Be realistic.

Budgeting is like diet planning – it's not going to work if you make huge, unrealistic assumptions right off the bat. If you're trying to diet, moving to a lettuce and tofu diet might work for a few days, but eventually you'll crack. A much better solution is to be realistic – instead of drinking a sugar and fat-heavy coffee in the morning, cut down to a low fat version, and instead of eating a double cheeseburger for lunch, bring your own cold cut sandwich. Small steps work; big steps result in failure.

2. SECTION 2: BUDGETING.

Learning Outcome

At the end of this section, learners should cover:

- Importance of budgeting and saving
- Financial decision process when spending their allowances

2.1. Importance of budgeting and saving

2.1.1. *What is Budgeting? What is a Budget?*

Budgeting is the process of creating **a plan to spend your money**. This spending plan is called **a budget**. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do.

Budgeting is simply balancing your expenses with your income. If they don't balance and you spend more than you make, you will have a problem. Many people don't realize that they spend more than they earn and slowly sink deeper into debt every year.

If you don't have enough money to do everything you would like to do, then you can use this planning process to prioritize your spending and focus your money on the things that are most important to you.

2.2. Why is Budgeting so Important?

Since budgeting allows you to create a spending plan for your money, **it ensures that you will always have enough money for the things you need** and the things that

are important to you. Following a budget or spending plan will also keep you out of debt or help you work your way out of debt if you are currently in d

Keep track of your spending

It might not be the most exciting job, but keeping track of your finances is the best way to make sure you don't overspend and land yourself in trouble.

As a starting point, you could create a spread sheet showing your income from student loans, scholarships and bursaries, parents and any part-time job you have, and note down regular outgoings such as your rent and mobile phone contract. You'll then be able to see exactly how much you have available to spend each month.

Sticking to your limits has never been easier, now you can check your balance at any time using your mobile banking app. If you do go overboard, the interest-free overdraft offered with the majority of student bank accounts will help tide you over.

2.2.1. Be smart with your food shopping

Food will be one of your biggest costs, so it's worth finding ways to reduce your bills. Buying supermarket value products rather than well-known brands, and shopping at the end of the day when many items are discounted, are some of the simplest ways to save money.

Where it's possible, you might look into cooking with your housemates or planning your meals in advance. Either way, you'll be able to do a cost-effective 'big shop' at the start of each week and avoid the need for too many expensive takeaways, working on your culinary skills at the same time. You'll also be saving money by making your own packed lunches rather than buying a sandwich or going to a coffee shop every day.

Don't overpay for transport

Most universities are either city-based with excellent public transport links, or campus-based with everything you need on your doorstep. You probably won't require a car while studying, which will save you a lot of cash.

Take advantage of student discounts

Many shops and food outlets offer student discounts. Even where they aren't advertised, it's worth asking as they are sometimes still available.

Buy course books second-hand

Course textbooks can be expensive, but luckily there's no need to purchase every item on your reading lists. You can usually borrow set texts from the library whenever you need them. Only buy the most important books, and even then you'll be able to find cheap second-hand copies online or through your university. Sell them on when you're finished with them to recoup some of the costs.

Books aren't the only course essential you can save on. Depending on how much your university charges for printing, it might be more cost-effective to buy your own printer.

Pay your bills on time

When you're living in halls of residence utility bills will usually be included in your rent, making budgeting a little easier. However, if you're sharing a student house you'll normally be responsible for paying for your gas, electricity, water and internet. Use comparison websites to ensure you get the best deal and keep costs down by saving energy. Put an extra jumper on instead of turning the heating up a notch, and don't use the tumble dryer every day if you've got one.

2.2.2. College Expenses to Expect

Determining what your expenses will be is a valuable step for any budget, and students are likely to have several fixed and variable expenses each month. When creating a budget, it's important to consider which (if any) expenses are covered by a parent or guardian and subtract those from your monthly expenses. Following are common expenses students may expect to be responsible for:

- **Housing:** Whether students live in dorms or in off-campus accommodations, this is likely to be one of their largest monthly expenses.

- **Books:** Usually purchased at the beginning of the semester, books can add up to a little or a lot depending on whether students purchase them used or new.
- **Utilities:** Electricity, gas, water, cable and internet bills typically are covered for students living in on-campus housing, but those with their own accommodations off campus should tack these onto their list of monthly expenses. All students should also include that monthly cell phone bill.
- **Transportation:** Students with vehicles must consider costs related to auto loan payments, insurance, maintenance and repairs, fuel and parking, while those who rely on public transportation need to think about monthly bus, light rail or subway passes. Anyone who may take advantage of ride-sharing services (cabs, Uber, Lyft, etc.) or who shares costs as part of a carpool also should consider those occasional expenses.
- **Savings:** The image of poor college students is a pervasive one, but it need not be true. Those who plan and budget wisely actually can save money while in school. Even if it doesn't seem like much, it does add up.

2.2.3. Example of a College Student's Budget

Expenses for college students vary significantly based on where they're enrolled, how much their institutions cost, whether they receive money from parents or guardians and whether they have solid budgets in place to rein in their spending. Some monthly costs — such as housing, transportation, utilities and groceries — are unavoidable, while others — such as entertainment, travel or trips to the mall — are more about wants than needs. By finding a balance between needs and wants, students can enjoy a happy medium that allows them to spend time with friends and have fun without blowing their budgets.

To help college students better understand the expenses they are likely to incur while in school, the College Board provides an annual living expenses budget according to a national average as well as for specific regions of the country in which students may be enrolled

MONTHLY BUDGET	
Expense	Cost
Room and board (when living on campus, these fees typically include dorm room, activities and some food)	
Books and supplies (includes textbooks, notebooks and lab materials)	
Public transportation (bus, train, light rail, underground, etc.)	
Private transportation (includes auto loan payment, parking fees, car insurance, maintenance and repair and fuel)	
Utilities (includes gas, electricity, water, cable and internet)	
Savings	
Groceries	
Dining out	
Child care	
Entertainment (includes concerts, lectures and music/television subscriptions)	
Medical care (includes health insurance, doctor visits, prescriptions and other common pharmacy purchases)	
Health (includes gym or health center memberships)	
Cell phone (phone plus contractual fees)	
Clothing	
Laundry/dry cleaning	
Furnishings (includes things like tables, chairs, couches, beds, etc. for students living off campus in unfurnished apartments or houses)	

Technology (includes laptop, tablet and other electronic devices used at school)	
Greek life (fraternity or sorority) dues	
Studying abroad (this price is based on a semester-long experience paid for over the span of one year)	

2.3. Financial decision process when spending their allowances

2.3.1. Develop a Spending Plan

Now that you have set goals, examined the evidence from your past spending habits, and thought about why you spend the way you do, it's time to find the money to meet your goals.

If you're wondering, "Where can I find more money?" don't be discouraged. It's estimated that the average family wastes 30 percent of its money through unexamined spending. You are taking the first step by simply paying attention to your own habits.

Locate your most recent monthly bank and credit card statements or use a spending record that best reflects your regular monthly finances. Begin at the top of your bank statement (if you have more than one statement, repeat this process for all your accounts and combine them into one list).

1. One by one, look at every item that took money out of your account — every bill you paid, every check, purchase, debit, cash withdrawal, etc., and put it in one of these three columns.

2. Don't overlook fees or other charges from your bank. Put these in the "Regular Bills" or "Needs" column.

3. If you know you got cash back on a purchase, consider the cash as a separate transaction. For example, if you got R40 in cash on top of a R50 grocery bill, you might list the R50 groceries as a "Need," but the R40 cash as a "Want."

4. Make calculations easier by rounding up or down to whole rand amounts (for example, R45.36 would be R45; R11.75 would be R12).

2.3.2. Develop a Savings Plan

Use these strategies to help you get started saving:

- **Pay yourself first.** List savings as a fixed item in your spending plan. You are less likely to spend money you already have earmarked for savings.
- **Use automatic savings methods.** Set up an automatic transfer from your checking account to a savings account each month.
- **Save all or part of a certain type of income.** Designate your tax refund, annual bonus, tip money or proceeds from garage sales to savings.
- **Establish savings buckets** and watch these goals get closer as savings grow:
 - Things you want
 - Holiday shopping
 - Vacation
 - Retirement
- **Create an emergency fund.**
 - Start with a goal of R500 (then build it up to the recommended guideline of three to six months' expenses).
 - Keep it separate from other savings.
 - Use it only for emergencies, and replenish it after you get back on your feet.

3. SECTION 3: CREDIT AGREEMENTS.

Learning Outcome

At the end of this section, learners should cover:

- What credits agreement mean
- What information to provide (National Student Aid Scheme Agreement)
- How it impacts your credit profiles
- Rights and responsibilities in a credit agreement

3.1. What credits agreement mean

3.1.1. Credit agreement

An agreement is a credit agreement if it provides for a deferral or delay of payment, and if there is a fee or interest charged for the deferred payment. The Act does not require that a credit agreement be in writing and signed by both parties, although this is implied throughout the Act. A credit agreement may be a credit facility, a credit transaction or a credit guarantee (or a combination of these). These three terms are defined in section 8 of the Act.

3.1.2. Credit facility

A credit facility is an agreement in terms of which a credit provider supplies goods or services, or pays an amount to the consumer. The consumer's obligation to pay the price or repay the money is deferred, in exchange for which the consumer pays interest and fees. Examples of a credit facility are credit advanced

- on an overdrawn cheque account in terms of an overdraft facility; or
- on a credit card account; or
- clothing accounts

Conclusion of credit agreement

3.1.3. Pre-agreement disclosure

Before concluding a credit agreement, the credit provider must give to the consumer, free of charge, a statement and quotation in the form prescribed by the

Regulations (Form 20 to the Regulations, in the case of small credit agreements). No agreement is entered into at this stage; the consumer does not have to sign anything or pay any fee. This is a new development in the law, designed to protect consumers. This document must contain the financial details of the proposed agreement (like the amount of credit provided, the number and amount of instalments payable, interest and other fees, deposit required and credit insurance). Consumers must accept or reject the quotation within five days, giving them a chance to shop around for better or cheaper credit. Once the consumer has accepted the quotation, the credit agreement itself can then be concluded.

3.1.4. Form and contents of credit agreements

The form of the document that records the credit agreement is prescribed by regulation, and varies for different-size credit agreements. The details required for a small credit agreement (a principal debt of less than R15 000) are set out in Form 20.2 to the Regulations. This is not really a form, but rather a framework for the minimum contents of the agreement. These details include

- the parties' personal particulars;
- the financial details of the agreement (similar to those required for the pre-agreement disclosure above); and
- certain of the consumer's statutory rights and duties (discussed below).

The credit provider must give to the consumer, free of charge, a copy of the signed credit agreement (in paper form or printable electronic form).

Credit agreements may be altered only in very specific circumstances, most importantly in relation to the reduction or increase in credit limits.

3.2. What information to provide (National Student Aid Scheme Agreement)

Establishment of National Student Financial Aid Scheme

(1) The National Student Financial Aid Scheme (NSFAS) is hereby established as a juristic person.

(2) The NSFAS is managed, governed and administered by the NSFAS board.
Functions of NSFAS 4.

The functions of the NSFAS are:

- To allocate funds for loans and bursaries to eligible students;
- To develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister;
- To raise funds as contemplated in section 14(1);
- To recover loans;
- To maintain and analyse a database and undertake research for the better utilisation of financial resources;
- To advise the Minister on matters relating to student financial aid

Composition of board. (1) Subject to subsection (4), the board consists of—

- 13 members appointed by the Minister of whom-
- (i) one member must be employed by the Department;
- (ii) one member must be nominated by the Minister of Finance;
- (iii) one member must be designated by the Minister as chairperson of the 50 board; and

Funds of NSFAS 14.

The funds of the NSFAS consist of—

- (a) Money appropriated by Parliament;
- (b) Donations or contributions;

- (c) Interest;
- (d) Money repaid or repayable by borrowers; and
- (e) Any other income received by the NSFAS.

NSFAS must keep a record of all funds received and spent and of all assets, liabilities and financial transactions; must in each financial year, at such time and in such

manner as the Minister may determine. Submit a statement of its estimated income and expenditure for the ensuing financial year to the Minister for his or her approval granted with the concurrence of the Minister of Finance may in any financial year submit adjusted statements of its estimated income and expenditure to the Minister.

LOANS AND BURSARIES

Application for loan or bursary

Any student may Subject to the provisions of this Act, apply in writing to the NSFAS for a loan or a bursary on an application form determined by the board.

Conditions of loans and bursaries:

- (1) Loans or bursaries granted by the board may be subject to such conditions as it may determine, either generally or in respect of a particular loan or bursary.
- 2) A loan or bursary is granted in respect of a particular course of study, which must be specified in the loan or bursary agreement in question and may not be used for any other purpose.
- (3) A written agreement must be entered into between the NSFAS and every borrower or bursar.
- (4) The board must impose a condition in respect of any loan or bursary to the effect that if the borrower or bursar does not perform satisfactorily in his or her studies, the board may terminate the granting of finance in terms of the agreement and that the borrower or bursar must comply with any obligation as a result of the granting of the loan or bursary on or with effect from the date specified by the board.

(5) The amount of the loan or bursary is paid by the NSFAS to the designated higher education institution concerned by way of allocations in respect of amounts payable to the institution by the borrower or bursar.

(6) A right to obtain a loan or bursary from the NSFAS cannot be construed from any provision of this Act.

3.3. How it impacts your credit profiles

Accentuate the Negative

Any time you fail to make a student loan payment on time, this is going to have a negative impact on your credit.

But making your student loan payments on time every month can strengthen your credit. You're showing that you're managing your debt correctly and are able to pay your loan as agreed. Student loans are often treated as instalment plans on your credit report.

Does a Student Loan Deferment Affect Your Credit?

A loan deferment, in which payments are temporarily postponed, might hurt your credit. Or it might not. That's because each person, each loan, and each credit report is a different story.

Loans that are unsubsidized, with interest, can grow during a deferment. A growing student loan debt can deter a lender, such as for a mortgage

In any situation, putting a loan in deferment is better than not making payments. Deferments aren't an option for every loan or every situation, but if you're experiencing an economic hardship, it's something to explore. Another thing to note

about deferments and loan repayment is that if your student loan becomes delinquent, you may no longer be eligible for a deferment.

3.3.1 NSFAS

The NSFAS programme is aimed at students from disadvantaged backgrounds and low-income families. It provides loans for study at any of the 25 public universities and technical vocational education and training (TVET) colleges in South Africa. The loan includes money for tuition, campus or private accommodation, food, books and travel costs.

Students must apply for a NSFAS loan through the university or college that will host their studies. Each institution is allocated a certain amount of money for these loans, with the allocation formula taking into account its fees and the number of black, coloured and Indian students enrolled. The institutions then apply the rules set down by the NSFAS to determine which students will be funded.

The scheme can accommodate only a limited number of students. "There are always more students applying for financial aid than the NSFAS can fund. Even though the budget for financial aid has increased significantly, there is still a massive shortfall," the NSFAS website says.

Only students from households earning less than R350 000 a year are eligible. The actual amount of the loan is determined on a sliding scale. Students whose families can't afford to pay anything towards their education receive full funding, which is up to R71 800 a year for a university degree. Students must repay their loans when they finish studying and find a job. However, if the student passes all his or her required courses each year, up to 40 percent of the loan may be converted into a bursary, which does not have to be repaid.

Repayment of the loan begins once the student gets a full-time job and earns R30 000 or more a year. The repayment amount begins at three percent of gross annual salary, increasing to a maximum of eight percent once the annual salary reaches R59 300 or more. For example, this means you will repay R900 on a salary of R30 000 a year, or R75 a month. Once your salary reaches R59 300, your repayment will be

R4 744 a year, or R395 a month.

"You can select to pay more than this, so that you can pay your loan off faster, and reduce the amount of interest you will be charged on your loan," the NSFAS website says. Interest is charged at 80 percent of the repo rate (the repurchase rate at which the Reserve Bank lends to commercial banks, which was seven percent in November 2016).

Students who drop out of their studies are liable for loan funding received to that point. Unemployed people are not expected to pay, according to the NSFAS

website, but must start paying as soon as they begin earning R30 000 or more a month.

The NSFAS budget for the 2016/17 financial year is R10 billion. The scheme assisted over 400 000 students at universities and colleges across the country in 2016. This number has doubled since 2009, when the NSFAS provided loans and bursaries to just under 200 000 students.

3.3.2. What the banks offer

Absa, FNB, Nedbank and Standard Bank all offer loan packages for students. The products for full-time students are structured so that the interest charges do not compound over the entire period of study, which could be four years or more. This means that, although the capital may be repaid only once you have completed your studies, the interest on the loan and the loan administration fees must be serviced as you study. This is done either by you, if you are earning an income, or by a sponsor (someone who takes responsibility for the loan, alternatively referred to as the principal debtor, guarantor or surety), such as a parent.

For example, a student is loaned R60 000 a year for four years, the interest rate is 10 percent and the administration costs are R50 a month. Interest is therefore R6 000 and administration charges are R600 a year, which means an annual repayment by the sponsor of R6 600, or a monthly repayment of R550 in the first year. In the second year, the interest, now on a loan of R120 000, will be R12 000, which, plus the administration charge, will mean a monthly payment by the sponsor of R1 050. In the third year, on a loan now of R180 000, the sponsor will have to pay R1 550 a month,

and in the fourth year, on a loan of R240 000, the sponsor will have a monthly payment of R2 050.

At the end of the study period, the student will owe a capital amount of R240 000, which, if paid off over time, will attract its own interest and administration charges. If the interest is not paid and allowed to compound during the study period, the total amount owing by the end of the four years, excluding the administration charges over that time, would be about R330 500.

The loan packages offered by the banks have the following additional features in common:

- They finance one student per loan, covering tuition and accommodation expenses, as well as money for books and study-related equipment. The loans typically do not cover living expenses.
- Loans are granted for a specific year of study and students must re-apply for each year of registration.
- Fees may be paid directly to the educational institution and place of residence, with money for books or equipment paid into the student's bank account. Typically, the banks offer a student transactional account with the loan, which may have features such as preferential rates. Alternatively, as in the case of Absa, all transactions are through the sponsor.
- Proof of identity, address, income (payslips and/or bank statements), acceptance or registration at the relevant tertiary institution and course fees, among other things, are needed on application.
- The banks usually require you or your sponsor, or both, to take out credit life assurance to cover the outstanding balance on your loan in the event of death, dread disease or disability.
- The course and institution you choose for your studies must be accredited by an authority such as the Department of Higher Education. You must be studying for a recognised certificate, diploma, degree or postgraduate degree or diploma.
- The bank will perform an affordability assessment of whoever is responsible for the loan, taking into account his or her income and credit record.

- A once-off initiation fee and a monthly service fee are charged on the loan.
- The bank needs to know how you are progressing with your studies, so you have to send proof of registration and the results you achieve in your courses.
- Full-time students must start repaying their capital on completion of their studies. The banks do offer a grace period, however, if you do not immediately find employment or have to complete your articles, internship or community service. Part-time students have to repay their loans while they are studying.

3.3.3. Absa

Absa study loans are usually opened in the name of a sponsor, who requests finance on behalf of a student. Loans can be from R15 000 to R250 000, although higher amounts are considered in exceptional cases. Funds must be repaid between 12 and 60 months after your studies have been completed.

Absa offers discounts of up to 15 percent on study-related equipment.

You may opt to make capital and interest repayments as soon as your application is approved, or you may repay interest only for 12 months while studying full-time and thereafter capital and interest. When topping up an existing loan, you may repay interest only for a further 12 months. You or your sponsor must earn a monthly income of at least R3 000.

Rheka Ramcharan, the head of personal and business lending at Absa, says: "Our study loan product has also been designed to cater for difficulties a student may have in finding immediate employment in the job market after studying, and they are allowed to apply, on a case-by-case basis, for a repayment extension. On average, the annual loan requested is R55 000. The average duration of study is 35 months, with an average pay-back (post-study) period being between 40 and 45 months."

Interest rate: all loans are at the prime rate.

Bank charges: R1 197 (including VAT) initiation fee (on first loan only) and R68.40 (including VAT) monthly administration fee.

3.3.4. FNB

All transactions are done through the sponsor ("principal debtor"), and the sponsor remains responsible for the loan, even once the student has finished studying and is employed.

At FNB you have access to loans between R4 000 and R80 000 per year of study. You must be over 18 years of age and your sponsor must be employed, with a minimum income of R6 000 a month. The bank provides a six-month grace period on completion of studies to allow time for the student to find employment. Loans are repaid over a term of 60 months after completion of studies.

Interest rate: Corne Jordaan, the head of credit at FNB Personal Loans, says the interest rate is linked to prime and based on the risk profile of the sponsor and the nature of studies. Rates offered to FNB customers are between prime and prime plus six percentage points.

Bank charges: An initiation fee of R165 per credit agreement, plus 10 percent of the amount in excess of R1 000, but not exceeding R1 050 plus VAT, or R1 197. The initiation fee is charged once; not repeated for subsequent years of study. The monthly administration fee on the loan is R68.40 (including VAT).

3.3.5. Nedbank

The bank says anyone of sound financial standing may stand as sponsor ("guarantor") and all full-time students must be supported by a guarantor, who must also have his or her main transactional account with Nedbank. The loan is taken out in the student's name, and the student must open a Nedbank transactional account. During the period of study the guarantor is expected to service the interest due on the loan, and once the student has graduated and is employed, the student repays the full amount over an agreed period (up to 18 months per year of study funded).

Interest rate: prime plus two percentage points.

Bank charges: R75 initiation fee and no monthly administration fee. There is a R65 initiation fee for subsequent years of study. (Charges exclude VAT.)

3.3.6. Standard Bank

The banks requirement is that somebody will need to sign surety on your loan. Your surety will need to earn a minimum of R3000 per month. While you're studying, your surety pays the monthly interest and service fees. You start repaying the loan once you've finished studying. If it takes you a while to find a job, you can ask for a grace period. Grace periods can be extended for articles, internships or community service. Your loan can be insured, so that any amount owed can be settled in the event of disability, dread disease or death. Tuition and accommodation are paid to the institution or residence. Loans are granted for one year of study at a time. You submit your marks and proof of registration on fulfilment of the loan.

A once-off initiation fee R1207.50 and monthly service fee R69 are charged on your student loan. The interest rate that is charged is dependent on qualification studied and banking relationship surety has. The interest rate may fall by 1% per every year, if the surety is a standard bank client. The surety needs to service the interest every month.

Courses must be accredited by the Department of Higher Education, SAQA, SETA or Umalusi.

3.3.7. ADVICE FOR STUDENTS

First National Bank has the following advice for students who apply for a study loan:

- Make sure you apply for your student loan early, well before registration, so that you have adequate time for planning if you need to find alternative sources of funding. Remember that the loan will be based on your parent's or sponsor's risk and credit profile, because he or she will be the principal debtor.
- Make sure you communicate with your sponsor, to ensure that he or she plans well in advance and budgets for the money needed to pay the monthly interest instalments.
- Only borrow what you need for your studies. If you have another source of funding, such as financial aid, a bursary or scholarship, or upfront savings, use those sources first.

- Budget carefully, knowing that, for each new year of study, you may need additional funding. You will need to apply for a new loan for each New Year of study. Careful planning and budgeting will help you to avoid a situation

where you need more funds to complete your studies, but you or your sponsor cannot afford to borrow further.

- Consider working part-time, so that you can cover some of your expenses. This will help to reduce the amount you need to borrow, or contribute to paying off your student loan.
- If you can afford to pay more than the required monthly instalment on your student loan, you should do that. The more you pay and the quicker you settle your loan, the more you save on interest.
- Make sure you understand the terms of the agreement, including:
 - The total cost of the loan;
 - The monthly repayments expected of you or your sponsor;
 - Whether the interest rate is fixed or variable;
 - The fees on the loan; and
 - Whether you need credit life assurance.

3.4. Rights and responsibilities in a credit agreement

3.4.1.1. Legal remedies provided by the Act

The Act provides only a relatively short list of offences that attract criminal penalties. By contrast, the Usury Act provided that any person who contravenes any provision of the Act commits an offence. Thus, for example, it was a criminal offence to charge interest higher than the Usury Act maximum, which is no longer the case.

However, the Act does provide a number of civil legal remedies for consumers, some of which are drastic departures from previous law. The most important of these remedies are outlined below.

- Unlawful credit agreements

Section 89 lists a number of credit agreements that are unlawful, including

- an agreement with a consumer who is a minor unassisted by a guardian;
- an agreement with a person who has been declared mentally unfit;
- an agreement with a person under an administration order without the administrator's consent;
- an agreement resulting from negative-option marketing (explained above);
- an agreement with an unregistered credit provider who was supposed to be registered (unless application for registration is made within thirty days after the credit agreement was concluded);^{[\[6\]](#)} and
- an agreement with a credit provider who was subject to a notice by the NCR to stop extending credit.

If a credit agreement is found to be unlawful, a court must order

- that the credit agreement is void;
- that the credit provider refund to the consumer any monies paid by the consumer, with interest; and
- that the credit provider's rights to recover monies paid or goods delivered to the consumer be cancelled or forfeited to the State (if the court is of the view that the consumer would otherwise be unjustifiably enriched).

The credit provider will not get back the money lent or property sold, and the court does not have discretion to order this. This is a drastic remedy and a departure from the common law. It was not previously available in the case of unregistered micro-lenders, and is a significant new remedy readily available to consumers.

Thus, for example, a court will be able to declare a loan from an unregistered micro-lender to be void (if the Act requires the micro-lender to be registered), and order the micro-lender to refund all instalments paid, with interest. Furthermore, the court must order that the loan amount paid to the consumer be retained by the borrower or

forfeited to the State. The amount loaned is therefore lost to the unregistered micro-lender altogether.

3.4.1.2. Unlawful provisions of credit agreements

Section 90 lists numerous provisions of credit agreements (as opposed to the entire agreements that are unlawful and not permitted. They are too many to list here. The list is broadly-worded and far-reaching; many of the provisions will probably be open to a wide range of interpretations, which is likely to lead to uncertainty. For example, a provision is unlawful if its general purpose or effect is to defeat the purposes or policies of the Act, or to “deceive” the consumer. Further, a provision is unlawful

- if it avoids a credit provider's obligation or duty in terms of the Act;
- if it sets aside or overrides the effect of any provision of the Act;
- if it authorises the credit provider to do anything that is unlawful in terms of the Act, or to fail to do anything that is required in terms of the Act;
- if it waives or deprives a consumer of a right afforded by the Act;
- if it waives any common-law rights applicable to the credit agreement;
- if it expresses the consumer's consent to a pre-determined value of costs of enforcement of the agreement;
- if it expresses the consumer's consent to the jurisdiction of the High Court, or any court that would normally not have jurisdiction for reasons of its geographical location;
- if it provides for the consumer's depositing an identity document, credit or debit or access card, or providing a PIN;
- if it authorises a person acting on behalf of the credit provider to enter premises to repossess goods; or

- if it contains an undertaking to sign in advance any documentation relating to the enforcement of the agreement (like a consent to judgment or emoluments-attachment order).

An unlawful provision is void. Whenever a court has a matter before it which concerns a credit agreement that contains an unlawful provision, the court may

- sever (remove) the unlawful provision from the credit agreement;
- alter the provision to render it lawful; or
- even declare the whole credit agreement unlawful and make orders similar to those provided for unlawful credit agreements, set out above (another major departure from the common law).

The consumer alleging the unlawful provision is entitled to apply to court for orders in these terms.

Thus, for example, if a credit agreement for the sale of furniture provides for interest or fees in excess of the maximum amounts permissible, a court must declare the offending provisions to be void and enforce the remainder of the agreement. However, it seems that the court may be able to declare the entire agreement void, order the furniture shop to refund all amounts paid, and order that the furniture sold be retained by the borrower or forfeited to the State

3.4.1.3. Dispute settlement

If the Act has been contravened, a person has one of two options:

1. to lodge a complaint with the NCR; or
2. to make use of one of the other dispute-resolution mechanisms established by the Act.

3.4.1.4. Lodging a complaint with the NCR

The Act contains detailed provisions regarding the role of the NCR. Complaints to the NCR must be lodged by completing and submitting to the NCR Form 29 to the Regulations. The NCR may resolve complaints lodged with it; the resolution may

become a consent order by a court or the Tribunal. The NCR may also refer the dispute to a debt counsellor, an ombud with jurisdiction or a consumer court. After investigating the matter, the NCR may refer the matter to a provincial consumer court or the Tribunal for an order allowed by the Act.

3.4.1.5. Debt enforcement

The Act limits the credit provider's common-law rights to enforce debt: that is, to claim what is due in terms of the credit agreement. This is in line with international consumer legislation, but the Act's provisions have been criticised as being unusually cumbersome and detrimental to credit providers.

3.4.1.6. Default notice to the consumer

If a consumer is in default, the credit provider must notify the consumer of his default in writing. This is effectively a letter of demand. The notice must do more, however: The credit provider must propose to the consumer that the consumer refer the credit agreement to, among others, a debt counsellor to resolve the dispute or agree on a plan to get payments up to date.

As regards the method of delivery of the written default notice, the consumer may choose to be informed in one or more of these ways:

- in person at the credit provider's business premises;
- at any other place chosen by the consumer, at the consumer's expense; or
- by ordinary mail fax or email or printable web-page.

Must the default notice actually reach the consumer to be effective? The Constitutional Court held in *Sebola v Standard Bank* that the Act, although it gives no clear meaning to "deliver," requires that the credit provider, in seeking to enforce a credit agreement, must aver and prove that the notice was delivered to the consumer. Where the credit provider posts the notice, proof of registered despatch to the address of the consumer, together with proof that the notice reached the appropriate post office for delivery to the

consumer, will constitute sufficient proof of delivery (in the absence of contrary indication).

3.4.1.7. Debt procedures in court

A credit provider may go to court to enforce a credit agreement only if

- the consumer has been in default for at least 20 business days;
- at least ten business days have elapsed since the credit provider delivered the default notice;
- the consumer has not responded to the notice or responded by rejecting the proposals in the notice;
- the consumer has not surrendered to the credit provider the goods subject to the credit agreement him/herself (in the case of an instalment agreement, secured loan or lease agreement).

The twenty days and ten days referred to above may run concurrently: that is, the ten-day period may occur during the 20-day period.

Where a case has been referred to the National Consumer Tribunal, debt counsellor, ombud, alternative-dispute-resolution agent or consumer court, or the credit agreement is subject to a debt review, the court will adjourn the case.

A much larger number of requests for default judgment on credit agreements now have to be referred to a magistrate, rather than being dealt with by the clerk of the court. This will greatly increase the workload of the magistrates, and could cause debt enforcement procedures to take much longer, resulting in frustration for credit providers.

3.4.1.8. Attachment and sale of goods

If a credit provider properly cancels a credit agreement, the court may order the attachment of the goods, allowing for the sale of the goods to settle the account.

This procedure follows the usual common law.

If the proceeds of the sale are not sufficient to settle the account, the credit provider may approach the court for an order to recover the outstanding balance. This applies in the case of the instalment agreement, secured loan or lease. Strangely absent from this list is the mortgage agreement. This implies that the mortgagee (a bank, usually) will be able to rely only on the proceeds of the sale of the property to settle the account—even if this is insufficient and even if the mortgagor (the debtor) is very wealthy and has other assets that could be attached.

4. SECTION 4: Awareness of types of insurance

Learning Outcome

At the end of this section, learners should cover:

- Types of life insurance
- Types of non-life (short term) insurance products

4.1. Types of life insurance

4.1.1. The different types of life insurance in South Africa

Death is a traumatic event for the people closest to the deceased. Its emotional implications are obvious, but the financial implications can be just as devastating. The deceased might have been the only breadwinner amongst his wife and three children, for instance. Or the deceased had unpaid debt, of which the payment responsibility then falls to the immediate family.

Purchasing life insurance is considered by most to be a good idea. It enables you to live with the peace of mind that your loved ones will be financially stable after your death, or at the very least have a certain period of time in which they can get back on their feet.

There are many different types of life insurance on the market, and choosing the one that suits you best can sometimes be a hard task. Below is a breakdown of the four main types we see in South Africa:

4.1.2. Credit Life Insurance

Credit life insurance is specifically life insurance that pays either a single debt or multiple specified debts upon the death of the insured party.

Most financial institutions in South Africa force consumers with approved loans to take out credit life insurance on the loan, to avoid non-payment upon the death of the consumer. Although it is perfectly legal for these institutions to insist upon a credit life insurance policy, the choice of the service provider is up to you.

Credit life insurance should not be confused with Income Protection Insurance, as that will pay a predetermined amount of money into your bank account should you be retrenched or left disabled to the degree that you cannot to your job anymore.

4.1.3. Term Insurance

You get two types of Term Insurance: Fixed Term Insurance and Decreasing Term Insurance.

Fixed term life insurance is not very popular anymore. It is a policy that you purchase to cover you for a set period of time at a set monthly rate. This option is mostly replaced by whole and universal life insurance these days.

Decreasing term life insurance is still quite popular. Your monthly payment decreases over time, and so does your cover. This type of life insurance is popular with large loans like bonds and vehicle HP.

4.1.4. Whole Life Insurance

Whole life insurance is simply what it says. It is life insurance that you contribute to for the duration of your life. Some policies allow you to stop paying when you reach retirement age without forfeiting the policy. Whole life insurance is without profit, though and has no cash value.

4.1.5. Universal Life Insurance

Universal life insurance is like whole life insurance, differing only in the fact that some of the money goes into an investment account. At some point during your lifespan the amount of money in the investment account will mirror the amount you are insured for and you will no longer have to make monthly payments. This is thus a for-profit life insurance scheme.

4.1.6. Which One Do You Choose?

Honestly, there is no correct or incorrect type of life insurance to go with. You need to look at your situation and weigh up the pros and cons of each one in order to fully be able to make an informed and smart decision.

What is for certain, however, is that it is a risky venture to not have life insurance in place at all. There are many websites that offer free online quotation comparisons from ten or more service providers in the industry.

4.2 Types of non-life (short term) insurance products

4.2.1. What is Short Term Insurance?

Any type of insurance, other than **life insurance**, can be referred to as *short-term insurance*. This is because life insurance is, as the name suggests, for life. Short term policies, on the other hand, are only taken out for the period of necessity.

For example, you aren't likely to own and insure just one car for your entire lifetime. A short term policy thus refers to the length of time you own that specific vehicle, however long that might be.

A **short term policy** is an agreement between the **insurer** and the policy holder that covers a limited amount of time. It can also be flexible, based on the circumstances of the policy holder.

The phrase '*short term*' may not be short in the strictest sense, but it describes the dynamic nature of the insurance of possessions as opposed to one's life.

Examples of Short Term Insurance

Short term policies basically apply to the possessions you might want to **insure** for limited periods of time. Some *examples of short term insurance* are:

- **Homeowners or Buildings Insurance** : Insurance of your home (the building itself) against damage
- **Motor Vehicle Insurance**: Insurance of your motor vehicle against damage, fire and theft
- **Household Contents Insurance**: Insurance of the contents of your home against damage and theft
- *All Risks Insurance*: Insurance of the belongings you carry around, such as cell phones, cameras, jewellery, etc.

5. SECTION 5: SAVING AND INVESTING.

Learning Outcome

At the end of this section, learners should cover:

- The power of compound interest
- Saving for long term goals
- Different types of saving vehicles

5.1. The power of compound interest

5.1.1. Simple Vs Compound Interest

To understand compound interest, you first need to understand simple interest, and that's, well... simple. If you put R500 into a savings account and earned 10% interest for 2 years without reinvesting the interest you earn, you'd earn R100 rand in interest – R50 in interest at the end of the first 12 months and then another R50 at the end of the second 12 months.

Compound interest, on the other hand, occurs when you reinvest the interest you earn in the first 12 months. In this case your savings at the start of your second year would be R550, so you would not be earning 10% interest on your initial deposit but on R550 (your deposit plus the interest earned in the first year). That would give you a total R55 interest for the year and a total of R105 at the end of the second year.

5.1.2. How compound interest can make you wealthy

An extra R5 is not much, but what would happen if you then reinvested your interest for another 10 years. You'd earn 10% on R55, then 10% on R60.50, (R55 + 10%) then 10% on R66.55 (R60.50 + 10%), then 10% on R73.20 (R66.00 + 10%) until you were earning interest on R142.40 and had accrued a total of R950 in interest. Compare this to the R500 in interest that you would have accrued if you had not reinvested your interest.

Now, imagine that you didn't stop at a single deposit, but continued to make monthly deposits for 10 years. All of a sudden, you're looking at a very different figure: a balance of R104, 630, of which R44, 130 is interest. The following calculations were generated by the [calculator site](#).

5.1.3. What it takes to make compound interest work

To make compound interest work for you, you really need only three things, an interest rate that beats inflation, money to deposit into your account, and time.

It's important to look around for the highest possible interest rate as this will ensure that your interest outpaces inflation and gives your savings real growth. And it's equally important that you leave earned interest in your saving account, so that you earn interest on your interest. Better yet, keep making monthly deposits to build a nest egg.

And then of course, you need time. The longer your money sits in a savings or investment account, the more interest it accrues. At times you'll need to practice great self-discipline to stop yourself from reaching into your savings, but in the end your hard work will be worth it.

5.2. Saving for long term goals

There are short-term goals, long-term goals, and some goals that fall in between. Usually, the differences can be boiled down to time and money. Short-term goals are achievable sooner while intermediate goals take longer and are more of a financial commitment.

5.2.1.1. Long-term goals usually take more than five years to reach.

If they involve money, they need a disciplined saving and investing strategy. The most important long-term financial goal for almost everyone is to save for retirement. For most people, this is a priority over saving for anything else.

The first step to reaching your retirement goal is to develop good saving and investing habits. Establishing a financial plan when you're young can help with this.

You can become a disciplined saver and investor several ways:

- Set up automatic contributions to your retirement plans and investment portfolio from each pay check. When you don't see money in your bank account, you won't spend it. Instead, you'll save for your goals and your investment account will grow over time.
- Try not to be emotional about your investments. Don't jump in and out of your holdings based on what's going on in the markets.
- Watch your investments and risk tolerance, and adjust your portfolio when needed.

Time value of money.

The time value of money, a key concept in finance, is the increase in the amount of money because of interest earned over time. Basically, the earlier a person starts to invest, the greater the chance is for the money to grow and for interest to compound.

5.2.1.2. Track your investments.

It's important to check in on your investments. We recommend reviewing your portfolio quarterly. Manage your risks by making sure your asset allocation is still in line with your goals — but adjust your investments only when needed. Also, remember to revise your financial plan if your goals change or you identify new goals.

5.3. Different types of saving vehicles

A savings account is a great place to keep cash that you don't plan to spend immediately. These accounts keep your money safe and accessible while paying you interest, but there are several different types of savings accounts to choose from. Each variation (and bank or credit union) has different features, so it's important to understand your options.

We'll dig into the details for each of these common places to stash your cash:

1. Basic savings accounts
2. Online savings accounts
3. Money market accounts

4. Certificates of deposit (CDs)
5. Interest checking
6. Specialty accounts (student savings and goal-oriented accounts, for example)

Earning interest: All of the accounts described on this page pay interest, which helps you grow your savings — although the rate of growth may be slow. As you compare options, evaluate the interest rate, which is often quoted as an annual percentage rate (APY) to decide which account is best. You don't necessarily have to choose the account with the highest interest rate — just get a competitive rate. Especially with smaller account balances, the interest rate is not as important as other account features like liquidity and fees.

Paying fees? Fees are harmful to your savings account's health. With relatively low interest rates, any charges can wipe out your annual earnings or even cause your account balance to decrease over time. Examine your bank's fee statement carefully before depositing money.

Basic Savings Accounts

In its simplest form, a savings account is just a place to hold money. You deposit into the account, earn interest, and take money out when you need it. There are some limits on how often you can withdraw funds (up to six times per month for preauthorized withdrawals – but unlimited in person), and you can add to the account as often as you like.

There's nothing wrong with using one of these plain-vanilla accounts, but there are *other* types of savings accounts that might be a better fit for you. Those other accounts are all variations on the traditional savings account. That said, if your needs are fairly simple, you can probably just open a savings account at a bank you're already working with and be done with it.

Online Savings Accounts

Highlights of online bank accounts include:

1. High interest rates on your deposits
2. Low (or no) monthly fees

3. No minimum balance requirements
4. Leading-edge technology

Self-service: Online savings accounts are best for self-sufficient tech-savvy consumers. You can't walk into a branch and get help from a teller — you'll do most of your banking online by yourself. However, managing your account is easy, and you can always call customer service for help (note that some brick-and-mortar banks limit how often you can call customer service, and they may charge fees for getting help from a human being). Fortunately, you can complete most requests yourself — when and where it's convenient for you.

Linked accounts: To use an online account, you usually also need a brick-and-mortar bank account (almost any checking account will do). This is your “linked” account, and that's typically the account you'll use for your initial deposit. Once your online account is up and running, you can make deposits from other sources as well — you can probably even deposit checks to the account with your mobile phone.

Spending money: If there's no physical branch, you may wonder how to spend your money if you need it quickly. Fortunately, some online banks also offer online *checking* accounts that allow you to write checks, pay bills online, and use a debit card for purchases and cash withdrawals. If you need to move the money to your local bank account that transfer typically takes happens within a few business days. Plus, some online banks allow you to order cashier's checks that go out by mail.

Money market accounts (MMAs): Money market accounts look and feel like savings accounts. The main difference is that you have easier access to your cash: You can usually write checks against the account, and you might even be able to spend those funds with a debit card. However, as with any savings account, there are limits on how many times per month you can make withdrawals. Money market accounts often pay more than savings accounts, but they may also require larger deposits. They are a good option for emergency savings because you have access to your cash, but you still earn interest.

Student Savings Accounts

With the exception of online banks, savings accounts can be expensive if you don't keep a large balance in your account. Banks charge monthly fees, and they pay little or no interest on small accounts. For students (who spend most of their time studying — not working), that's a problem. Some banks offer "student" savings accounts which help students to avoid fees until they get a job and can qualify for monthly fee waivers.

If you're a student, a student savings account at a brick-and-mortar bank or credit union is a great option for your first bank account. Be aware that the account may convert to a "regular" account at some point, and you'll need to be mindful of fees after that conversion.

5.3.1. Goal-Oriented Savings Accounts

You can save for anything — or nothing in particular — in a savings account, but sometimes it's helpful to earmark funds for a specific purpose.

For example, you might want to build up savings for a new vehicle, your first home, a vacation, or even gifts for loved ones. Some banks offer savings accounts that are specifically designed for those goals.

The main benefit of these accounts is psychological. You generally don't earn more on your savings (although some banks and credit unions offer perks to encourage regular saving), but you might be more likely to reach savings goals if a specific account is tied to something you value. If that sounds like something you'd benefit from, look for "savings club" (or similar) programs. You can also design your own program

To make your money work for you, you need to differentiate between savings vehicles and investments vehicles.

5.3.2. *How to use Savings vehicles*



Savings vehicles are relatively safe in protecting the principal capital in addition to offering a low to a modest return on interest payment. Saving accounts are mostly liquid (you can get to them as needed) so a cash withdrawal is easily accessible.

Here are a few examples of a saving vehicle:

- Saving account (for goals and emergencies)
- Checking account
- Money market account (requires a higher deposit and limited withdrawals)
- Certificates of Deposits or CD's (can earn a higher interest than an MMA, but they are not liquid or easily accessible)

5.3.3. *Investment vehicles*

Investment vehicles are usually non-liquid. Investors have to relinquish their control over the cash and sometimes risk losing a part or even the entire investment.

Here are a few examples of an investment vehicle:

- **Bonds** (could be government, municipal, state, or corporation) earn interest while protecting the initial capital. Bonds are considered the least risky of investment vehicles.
- **Stocks** are equivalent to owning shares in a corporation. This ownership is proportional to a number of stocks out of the total available stocks in a given company. Buying a variety of stocks from different companies, in addition to buying secure bonds, is known as diversification and can hedge against high risk.
- **Mutual funds** are inherently less risky because they apply the principle of diversification over a wide variety of investment. Mutual funds are normally managed by investment experts who understand the financial markets and can lessen the risk and increase the return over time.
- **Real estate** can be for personal or commercial use. It could be a basic rental property or real estate trading. It is a costly investment and is much more complicated than buying stocks or bonds.
- A **commodity** is a basic good used in commerce that is interchangeable with other commodities of the same type; commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. These are considered the riskiest investments because prices fluctuate constantly and are susceptible to market daily uncertainty.

6. SECTION 6: CREDIT AND DEBT MANAGEMENT

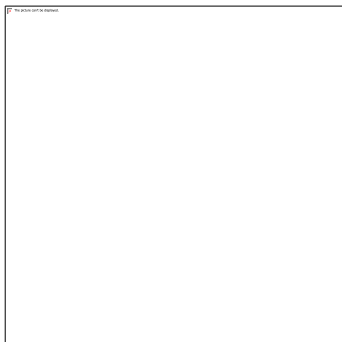
Learning Outcome

At the end of this section, learners should cover:

- What is good and bad debt
- Managing a good credit profile
- Backlisting
- Garnishee orders

6.1. What is good and bad debt

6.1.1. Understanding good debt vs. Bad debt



Debt is all the same, in the sense that we borrow money now and pay it off later. What sets good debt apart from bad debt are the positive or negative consequences that arise from the particular type of debt that is taken out. It is important to have a good understanding of what type of debt is going to benefit you and stand you in good financial stead, provided that you can realistically afford to pay it off. It is also important to understand the type of debt that should be avoided, and that may lead you into unnecessary financial distress.

6.1.2. What is considered good debt?

Good debt is debt that is going to have a positive impact on your financial status by increasing your net worth and/or adding value to your financial situation in the future. Some examples of good debt are as follows:

- Taking out a bond or a home loan: borrowing money to finance a home will allow you to pay for your home over an extended period of time. If you make a wise property purchasing decision, and all goes according to plan, your home should increase in value over time. Investing in property that you can realistically afford to pay off will increase your net worth and add value to your financial situation.
- Investing in an education; taking out a student loan is considered a wise option as you will be investing in increased skills and knowledge and provide you with future earning power. The loan can be considered an investment in yourself that will benefit you in the long run.

6.1.3. What is considered bad debt?

Bad debt is debt that does not increase your net worth or wealth and is used to buy non-essential goods or services that do not increase in value. This type of debt is dangerous because it is easy to get yourself into unmanageable debt by giving into the temptation of buying luxuries that you don't really need and cannot realistically afford. Bad debt can also be any type of debt with a very high interest rate and fees. Some examples of bad debt are as follows:

- Payday loans: these loans often have very high interest rates attached to them, meaning you will end up paying back a lot more than you borrowed. It is also very easy to get stuck in the cycle of taking out more loans to keep up with the previous ones.
- Retail store credit cards: store credit cards can be considered bad debt if they are not used responsibly. Store cards make it easy to indulge in non-essential luxuries and can create a snowball effect.

If you are considering taking out any type of debt, it is important to complete a financial assessment to ensure that you can afford the repayments. It is also

Important to make sure that you do not miss monthly payments and that you are responsible and practice self-control with credit and retail store cards.

6.2. Managing a good credit profile

Your credit profile — also known as your credit report — can impact whether you're approved for new credit cards or loans, and at what terms. It could even be a factor in where you can rent a house or apartment or, in some industries, find a job. For these reasons, it's clear that your credit profile has a significant influence in your life.

Here's a look at what credit profiles are, what they include, and a few simple ways to make sure yours is in tip-top shape.

6.2.1. Why Do I Have a Credit Profile?

If your name is associated with a credit-based financial product like a credit card, loan, or an account with credit terms like a utility bill or rental agreement, the lender may report monthly account activity to the credit bureaus. As a result, you have a credit profile.

While many people do not have a credit profile until they turn 18 years old and open their first credit card (or a similar account that reports to the credit bureaus), you could have a profile before then if you're an authorized user on a parent or guardian's credit account.

6.2.2. What is the Purpose of a Credit Profile?

Essentially, credit profiles are based on the notion that "past performance predicts future behaviour." For example, the information in a consumer's credit profile can show a lender whether a potential customer consistently pays bills on time and as agreed, and how much of their credit they rely on each month. For consumers, credit profiles can represent their financial responsibility, and indicate that they should be able to access credit that's offered at competitive rates and on reasonable terms.

6.2.3. What are Important Components of a Credit Profile?

Many factors can impact your credit profile, but there are a few pieces of information that most influence it, and in turn, your credit score:

- **Payment history.** This is a critical component of how your credit score is calculated,. Make sure you pay at least the minimum amount owed on all credit card and loan accounts by the payment due date each month. Should you accidentally miss a payment due date, contact the credit issuer and make the payment as soon as you realize your error.
- **Manage how much you charge.** The relationship of how much you owe to how much total credit is available to you is your credit utilization ratio. Generally, all else being equal, the less of your credit line(s) you use, the better your credit profile (and score).
 - **Prioritize your oldest cards.** The length of your credit history also impacts your credit score. Keep your oldest accounts open and in good standing.
 - **Credit Mix.** Ideally, your credit profile should contain a mix of revolving accounts, like a credit card and instalment accounts that have a fixed monthly payment, like a mortgage or auto loan.
 - **Don't apply for too many credit accounts too fast.** If you apply for new credit too often, it could make you appear to be a risky borrower who is overly reliant on credit.

6.3. Backlisting



CLIVE had a loan he was paying off in monthly instalments until he lost his job and was no longer able to pay.

He contacted the loan company and told them he didn't earn an income and would not be able to pay.

They told him the best that can be done was to have his instalments reduced, but that payment was still necessary.

The loan company kept on calling him for a payment he couldn't afford to make.

Clive kept applying for jobs, but was unsuccessful in his applications.

Eventually, he found out that it was because he had been blacklisted.

No one had informed him that he would be blacklisted, and he didn't understand how it had happened.

6.3.1. What does so-called "blacklisting" then actually refer to?

The term blacklisting is also a bit of a misnomer as it can be interpreted in many ways by different organisations and people. Generally, the term is attached to negative information contained in a consumer's credit report. These types of listings can include:

- **Overdue account** – this is an account which has not been paid on time according to the credit agreement. They are usually overdue by 30 days or more.
- **Default** – a credit provider can list a consumer as defaulting on a credit commitment if they have not met the agreement terms – usually when they are overdue by 90 days or more.
- **Judgments** – a credit provider can take further steps on an overdue credit account by applying for a court judgment against a defaulting consumer.
- **Notices** – in addition, a credit provider may take legal action in the form of a notice, which can include an administration order against a defaulting consumer.

6.3.2. What steps should someone or a company take if they want to blacklist someone?

As previously stated, blacklisting is a misnomer and an organisation or consumer cannot be “blacklisted” as such.

In the case of applying a negative listing against a consumer or organisation, this process is more complex and strictly regulated by the National Credit Regulator under the National Credit Act.

Only registered credit providers, the courts, and utility providers can make a negative listing against a consumer. But they cannot do this in isolation and are also required to list all applicable credit data, both positive and negative, that they may have for the consumer.

This credit data submission process is governed by the South African Credit & Risk Reporting Association and the Consumer Bureau Association.

If you find that you have been unfairly received a negative listing, what can you do about it?

If the consumer has not already done so, they should contact a credit bureau, such as Trans Union, to get a copy of their credit report. By law, every credit active consumer is entitled to one free credit report every 12 months from the credit bureaus.

If the credit report reflects a negative listing, which in the consumer's view is inaccurate, the consumer can log a dispute with any of the active credit bureaus in South Africa.

The bureau will ask them to submit the relevant documentation supporting the claim. This dispute is then logged for verification with the organisation that made the negative listing. This process is legislated and takes 20 working days.

Consumers are cautioned not to take chances with this process, as in the case where the dispute is found to be invalid, this is recorded on their credit report for a period of 12 months.

If you find that you have fairly received a negative listing, how can you improve the situation?

The type of negative listing will determine the correct course of action. **Defaults** and **judgments**, if paid up, can be removed with the help of a credit bureau like Trans Union. Once paid-up, these may be automatically removed.

However, if a consumer wishes to expedite this process they can log a dispute with the credit bureau. They will need to submit the relevant documentation including the paid-up letter, from the organisation that listed them originally. Again, this process can take up to 20 working days.

A **notice** will however require the submission of a rescission court order, in order for the credit bureaus to remove the record. Overdue accounts cannot be removed and will remain on a consumer's credit report for 24 months. A default will remain on a consumer's record for 1 year.

Paid-up **defaults** are removed once confirmation of paid up status is received from the credit/service provider, while **judgements** remain for a 5-year period, or until it is paid in full. **Notices** include administration orders, provisional sequestration, sequestrations and rehabilitation orders.

- Administration orders remain on your credit report for 5 years;
- Rehabilitation orders remain for 5 years; and
- Sequestration orders remain for 5 years, if no rehabilitation order is granted.

If the negative listing can't be removed, what should you do?

You can focus on improving other areas of your credit report to try and offset the impact of the negative listings. Broadly speaking, there are 4 things a consumer should focus on:

- Pay your accounts in full and on time in accordance with the credit agreement. This is usually monthly, and credit providers view a long history of up-to-date credit accounts positively.
- Keep the utilisation of available credit low, especially for unsecured credit accounts. In general, maintaining balances at around 35% of available credit is considered prudent.
- Try to show a good mix of secured and unsecured credit accounts. A variation of credit types shows credit providers the consumer is able to manage different types of credit commitments.
- Lastly, don't shop around for more credit at the same time, too many applications in a short space of time signal to credit providers that the consumer's financial status has changed recently, and is a leading indicator of financial distress.

6.3.3. Consequences of being blacklisted in South Africa

So you've heard the dreaded term before, blacklisted, but what does it mean to be blacklisted in South Africa. In the current financial climate in South Africa, many people are under some form of financial stress. You may even have fallen behind on some of your credit payments and tried to open up an account at a clothing store and found out that you are now blacklisted.

Being blacklisted was in full effect approximately 30 years ago when a debtor only had a credit record once the debtor was under administration, declared insolvent or had judgments against him/her. Today the term is used loosely to describe a debtor's inability to meet payment obligations to creditors.

6.3.4. What does it mean to be blacklisted in South Africa?

If you are blacklisted the chances that a credit provider will extend you further lines of credit is highly unlikely. Their basic reason for rejecting your credit application is that if you were unable to pay your previous debts, what guarantee is there you will be able

to service this new debt if it is granted, you are what the credit provider would consider high risk and unless you get your credit history back on track you will keep struggling to get a decent paying job and any sort of future credit.

6.3.5. What does it mean to be in Arrears?

If you have failed to make scheduled payments and fallen behind, then your credit record will show this, but no legal action has been taken yet. At this stage, you are able to approach your credit provider and make an arrangement to settle the debt and catch up on back payments. Usually, you will have to pay some sort of administrative “fine” but it's worth it.

If you are really sinking under debt and have a number of accounts in arrears, then it would be in your interest to contact the National Debt Mediation Association, a non-profit organization that can assist you with negotiating terms of the settlement with your existing creditors.

If you have fallen into arrears with a large asset such as a car or house, then approaching a registered debt counsellor would be smart as they can then assist in protecting your assets from seizure. What is very important to bear in mind, is that even if you manage to pay off your debt after falling into arrears, your record will reflect the adverse information for a period of five years. What this means for the consumer applying for credit in future is that they may be seen by the credit provider as being high risk and therefore be subject to higher interest rates or stricter payment terms. Generally, a person with an adverse on their credit profile will struggle to get credit over someone who does not have one.

6.3.6. What does Default mean?

When your credit profile reflects you are in default, this will usually mean that your debt has been handed over to attorneys. What will be visible on your credit report is that the debt in question has been “handed over” or “written off”.

If you have a debt written off, it is usually due to the fact that the creditor feels the chances of recovery are low or the costs of recovery too high, either way, the debt is written off and this is visible on your credit report for a period of two years.

6.3.7. Our options once you're blacklisted

The mildest form of not meeting your payment obligations, but the easiest to overcome, is being in arrears. Skipping payments of a month or 2 will result in your credit profile being tarnished a bit as a slow payer. This can be easily resolved by paying extra on your account and avoid missing payments in the future. Some credit providers who are quite stern in the application process and might not grant you credit or would grant you less due to their understanding of you being a slow payer. Being recognized as a late payer could result in you having a default listing on your credit profile which is valid for a year.

Things can escalate if you are in arrears for longer than 3 months. Failing to pay your creditors for this long can result in your credit provider handing the matter over to their collections department. The collection agent would make contact with you to arrange some form of payment. Having a debt collection agency handle your case is even more damaging to your credit profile as you would be rejected when trying to apply for loans or a credit in the future. To avoid being hounded by debt collectors, make contact with your creditors to fill them in on your situation and they might be able to meet you halfway in solving your dilemma.

You might be advised to undergo debt review whereby a registered debt counsellor serves as a mediator, through a magistrate's court, to negotiate on your behalf with creditors for a new repayment plan. The downfall of being under debt review is that you are limited in a number of assets that you can have. You are also forbidden to enter into credit agreements until your debt is settled.

Another form of having a third party involved in negotiating your debt repayments is to be under administration. This process involves having lawyers distribute your money to your creditors every 3 months. However, choosing to undergo administration can prolong the settlement of your debt as the majority of your income pays for their fees and legal costs.

If you refuse to cooperate with the collections department or agency your credit profile will be stained for 2 years by a default listing. You will be sent a final letter of demand to settle your accounts. Credit providers will reject any application for credit such as accounts or loans. This type of default listing could make it impossible for you to send your child to a decent school because most private schools do credit profile checks to ascertain the affordability of the parent. Getting a nice apartment to rent will also be a challenge while being on a default listing. This not only affects your lifestyle but hurts your finances deeply because your outstanding debt only accumulates by the addition of legal fees, collection fees and interest.

After the final letter of demand has been sent and you still make no effort to resolve your debt situation, your creditors will issue a summons by taking a judgement against you. This judgement makes it possible for your creditor to get the court to grant a garnishee order on your employer to arrange that a portion of your salary contributes to settling the debt.

If you are unemployed, a sheriff can produce a writ of execution to write up all your movable possessions. The sheriff can, by all means, have those possessions removed at a later stage after failing to make payments. Your possessions will be auctioned off and the proceeds will be used to settle your debt. However, your goods will be sold for a fraction of its worth and you would run at a major loss while probably still owing your creditors a balance. This results in a sequestration order being taken out against you which declares that your liabilities exceed your assets. A judgement against you will remain on your credit profile for 5 years but under the court of law for 30 years.

These scenarios have devastating consequences to your life. Having a bad credit profile can even ruin your chances of becoming employed. Many companies run background checks on candidates and require future employees to have a positive credit profile. They would not accept candidates who have been through any of the scenarios mentioned. The inability to keep up with payments shows that the candidate lacks commitment and is not trustworthy. Also, employers try to prevent

being approached by credit providers if the candidate fails to make payments.

Another downfall of having a poor credit profile is the struggle that you will face to get any sort of financing in the future. Whether its vehicle financing or a home loan; credit providers would not consider your application if you have been contacted by a debt collector, been placed under debt review or administration or have a

judgement against you. These types of financing have long repayment terms, therefore, credit providers would not risk borrowing such high amounts to an individual with a tainted credit profile.

6.4. Garnishee orders

Garnishee orders are a huge source of financial stress for millions of South Africans. If you have one, you need to know your rights and how to enforce them, or you may find yourself paying one that is either invalid or deducts from your income more than what is due by you.

A garnishee order - the common name for an Emoluments Attachment Order (EAO) - is a court order instructing an employer to deduct money from an employee's salary in instalments to pay one or more creditors.

This means that before you get your salary, your employer pays a chunk of it to a debt collection attorney or creditor until the debt is repaid.

7. SECTION 7: Engaging with the financial sector

Learning Outcome

At the end of this section, learners should cover:

- Saving
- Transacting
- Borrowing
- Insuring

7.1. Saving

Saving is income not spent, or deferred consumption. Methods of saving include putting money aside in, for example, a deposit account, a pension account, an investment fund, or as cash. Saving also involves reducing expenditures, such as recurring costs. In terms of personal finance, saving generally specifies low-risk preservation of money, as in a deposit account, versus investment, wherein risk is a lot higher; in economics more broadly, it refers to any income not used for immediate consumption.

Saving differs from *savings*. The former refers to the act of increasing one's assets, whereas the latter refers to one part of one's assets, usually deposits in savings accounts, or to all of one's assets. Saving refers to an activity occurring over time, a flow variable, whereas savings refers to something that exists at any one time, a stock variable. This distinction is often misunderstood, and even professional economists and investment professionals will often refer to "saving" as "savings" (for example, Investopedia confuses the two terms in its page on the "savings rate").

7.2. Transacting

A **financial transaction** is an agreement, or communication, carried out between a buyer and a seller to exchange an asset for payment.

It involves a change in the status of the finances of two or more businesses or individuals. The buyer and seller are separate entities or objects, often involving the exchange of items of value, such as information, goods, services, and money. It is still a transaction if the goods are exchanged at one time, and the money at another

7.2.1.1. Purchases

This is the most common type of financial transaction. An item or goods are exchanged for money. This transaction results in a decrease in the finances of the purchaser and an increase in the benefits of the sellers.

7.2.1.2. Loan

This is a slightly more complicated transaction than others in which the lender gives a single large amount of money to the borrower now in return for many smaller repayments of the borrower to the lender over time, usually on a fixed schedule. The smaller delayed repayments usually add up to more than the first large amount. The difference in payments is called interest. Here, money is given for not any specific reason.

7.2.1.3. Mortgage

This is a combined loan and purchase in which a lender gives a large amount of money to a borrower for the specific purpose of purchasing a very expensive item (most often a house). As part of the transaction, the borrower usually agrees to give the item (or some other high value item) to the lender if the loan is not paid back on time. This guarantee of repayment is known as collateral.

7.2.1.4. Bank account

A bank is a business that is based almost entirely on financial transactions. In addition to acting as a lender for loans and mortgages, banks act as a borrower in a special type of loan called an account. The lender is known as a customer and gives unspecified amounts of money to the bank for unspecified amounts of time. The bank agrees to repay any amount in the account at any time and will pay small amounts of interest on the amount of money that the customer leaves in the account for a certain period of time. In addition, the bank guarantees that the money will not be

stolen while it is in the account and will reimburse the customer if it

is. In return, the bank gets to use the money for other financial transactions as long as they hold it.

7.2.1.5. Credit card

This is a special combination of a purchase and a loan. The seller gives the buyer the good or item as normal, but the buyer pays the seller using a credit card. In this way, the buyer is paying with a loan from the credit card company, usually a bank. The bank or other financial institution issues credit cards to buyers that allow any number of loans up to a certain cumulative amount. Repayment terms for credit card loans, or debts vary, but the interest is often extremely high.

In order to collect the money for their item, the seller must apply to the credit card company with a signed receipt. Sellers usually apply for many payments at regular intervals. The seller is also charged a fee of normally 1–3% of the purchase price by the credit card company for the privilege of accepting that brand of credit card for purchases.

Thus, in a credit card purchase, the transfer of the item is immediate, but all payments are delayed. The credit card holder receives a monthly account of all transactions. The billing delay may be long enough to defer a purchase payment to the bill after the next one.

7.2.1.6. Debit card

This is a special type of purchase. The item or good is transferred as normal, but the purchaser uses a debit card instead of money to pay. A debit card contains an electronic record of the purchaser's account with a bank. Using this card, the seller is able to send an electronic signal to the buyer's bank for the amount of the purchase, and that amount of money is simultaneously debited from the customer's account and credited to the account of the seller. This is possible even if the buyer or seller use different financial institutions. Currently, fees to both the buyer and seller for the use of debit cards are fairly low because the banks want to encourage the

use of debit cards. The seller must have a card reader set up in order for such purchases to be made. Debit cards allow a buyer to have access to all the funds in his account without having to carry the money around. It is more difficult to steal such funds than cash, but it is still done

7.3. Borrowing

7.3.1. Borrowing money

Most people will need to borrow money at some stage to tide them over in an emergency, to buy larger items or to fund a special event. Before you borrow money, it's important to make sure you will be able to keep up the repayments, otherwise you could be taken to court and might even lose your home or other valuable possessions.

Find out about the different ways to borrow money, how to borrow sensibly and how to avoid some of the pitfalls of borrowing which can lead to problems with debt.

7.3.2. Types of borrowing

- Payday loans
- Plastic cards
- Loans
- Hire purchase and conditional sale
- Bank overdrafts

7.3.3. Savings Accounts

There are many categories of savings accounts to choose from. You can use one savings account or multiple ones to organize your money for various purposes. Many people don't limit their savings to just one kind of account, but use different accounts based on when they'll want to withdraw funds and what they want to use them for. Here are a few different savings accounts to fit particular needs.

- Basic bank savings accounts offer the lowest interest rates, usually less than 1 percent. They come with few restrictions on access to your money, and they don't usually have required minimum balances. These accounts associated with brick-and-mortar banks also can be accessed online.

- Money market accounts are high-yield accounts that pay interest based on the current market rates. They are likely to require a higher minimum balance than a basic bank savings account.
- Online savings accounts are typically similar to basic bank savings accounts, but they offer higher interest rates because they operate online and don't involve the overhead that standard banks have.
- Credit unions are like banks, but they're owned by their members and may offer higher interest on savings.
- Automatic savings plans are options you can set up for your savings account. You can choose to automatically transfer a set amount from your checking account to your savings account every month.

7.4. Insuring

7.4.1. Importance of Insurance

The world we live in is full of uncertainties and risks. Individuals, families, businesses, properties and assets are exposed to different types and levels of risks. These include risk of losses of life, health, assets, property, etc. While it is not always possible to prevent unwanted events from occurring, financial world has developed products that protect individuals and businesses against such losses by compensating them with financial resources. Insurance is a financial product that reduces or eliminates the cost of loss or effect of loss caused by different types of risks.

7.4.2. Domestic College Student Insurance

Looking for college student health insurance but aren't sure what to look for? Here are some helpful articles that can help explain college student insurance and help you find a plan that is best for you.

7.4.2.1. Why College Student Health Insurance is Important

With the rising costs of health insurance and the high possibility of unexpected illnesses, insuring the quality of your health is not an item on a laundry list to be overlooked, but a very necessary factor to be considered. Whether you're starting your college career

or preparing to study abroad, there are insurance plans for

students available to you. Not only will student health insurance keep you healthy on campus and help you save money, most colleges and universities require proof of student health insurance.

7.4.2.2. The Risk of Illness on Campus

Going off to college is a big step! The anticipation of new experiences can sometimes lead to allowing important details to fall through the cracks, but student health insurance should not be one of them. The appeal of being out of your comfort zone, your first taste of living on your own, and a new sense of freedom can easily make you forget that becoming sick is not the same when you are far away from home.

Studies have shown that the most common forms of illness that befall college students include: cold & flu, sleep, stress, stomach flu, conjunctivitis (pink eye), and allergies. Several of the above mentioned are sicknesses that are easily contagious and in an institutional setting may be difficult to avoid. Living in the dorms in such close quarters, sleeping less do to studies, and exploring the nightlife can easily lead to a weaker immune system if not properly balanced with a healthy diet and lifestyle. Stomach problems and allergies may also be due to the fact that you may have to adjust to the new foods and vegetation of their new environment.

Although these common illnesses do not tend to be severe illnesses, they can often develop into worse conditions or lead to additional ailments if left untreated. This is a very typical case for those who are uninsured; because they generally receive less health care.

The appeal of being out of your comfort zone, your first taste of living on your own, and a new sense of freedom can easily make you forget that becoming sick is not the same when you are far away from home. Being without the care of your family when you feel weak and vulnerable can be a very difficult experience, but have financial peace-of-mind to visit a doctor or hospital to get yourself checked out and treated without any hassle can ease the process.

7.4.2.3. The Importance of Being Insured

In general, young adults ages 18 to 34 tend to have the highest rates of being uninsured. As previously mentioned, those who go uninsured have a higher chance of dealing with more severe illnesses due to the lack of healthcare that is sought out and received. Being that unexpected sickness is one of the leading factors for causing family debt, student health insurance should be seen as an essential investment.

Obtaining college student health insurance can be compared to purchasing a type of warranty. Although in the beginning it may seem like just another monthly bill, what you are paying for is a long term safeguard and future relief and satisfaction for any medical incidents that may occur. With student health insurance, the financial stress that may come with a doctor's visit can be made easy. For example, those who are uninsured often times have more difficulty when it comes to negotiating prescription prices because they do not have the support of a larger firm behind them. With the costs of prescription drugs on the rise, it is becoming more and more common that the uninsured choose to skip their medications in order to save money.

Even after sacrificing some of your health care, it is common that a portion of ones savings shift to cover medical expenses rather than other necessary payments. Those who remain uninsured can end up paying more than 1/3 of their medical expenses out of pocket. The amount that may come out of pocket is always dependent on the medical issue, however these unexpected expenses can lead to the uninsured being three-times more likely to have difficulties paying for basic necessities. As a student this could mean less money for groceries, rent, tuition payments, and entertainment.

8. SECTION 8: Tax and Payslip.

Learning Outcome

At the end of this section, learners should cover:

- Tax
- Payslip

8.1. Tax

8.1.1. Who has to pay tax in South Africa?

South Africa operates on a residency-based taxation system, meaning that tax residents (whether permanent or temporary) pay **tax in South Africa** on their worldwide income. Official residents include those with South African citizenship or a residence permit, but you are also considered a resident for tax purposes if you have lived in South Africa for more than 91 days in each of the last five tax years, and at least 915 days in total across those five years.

However, recent changes to South African tax laws now mean that all homeowners in the country, even non-resident, must also register with SARS in the event they are liable to pay capital gains tax on immovable property.

If you qualify as a tax resident in South Africa, you will need to register as a taxpayer by visiting your local SARS branch to verify your identity, address and bank details, or an employee may arrange this for you. The remainder of the process can be done online. You can find out if you need to register by visiting the **SARS website**.

Those classified as **non-resident taxpayers**, who do not meet the requirements above, are liable to pay tax only on income earned inside South Africa.

In addition to direct taxation, there are also indirect taxes in South Africa, such as Value Added Tax (VAT) and Fuel Duty, which everyone has to pay, as well as contributions towards **social security in South Africa**.

SARS have a specific ruling with regards to students and scholars and is as follow:

Full-time students and scholars do not fall in a specific category and are taxed in the same manner as any other employee. The employer must determine, according to the rules for standard employment and nonstandard employment (25% deduction), which applicable method of deducting employees' tax must be used.

Thus the only question is if it's standard or nonstandard employment and the definition for both is:

8.1.2. Standard Employment

Where an employee does not fall within the definition of standard employment, an employee will be deemed to be in standard employment if —

- the employee (including scholars and students) is required to work for less than 22 hours a week and the employee furnishes a written declaration that he / she will not render services to any other employer, for the period that such employment is held, such employment is regarded as standard employment.
- the employee works for at least 5 hours a day and receives less than R164 per day, such employee is deemed to be in standard employment.

Where the employer conducts his / her business in such a manner that employees render services on a regular or frequent basis for such periods as may be required by the employer the Commissioner may, after consultation with the employer or with anybody or association on which the employer is represented, direct that the employment of such employees shall be standard employment. The Commissioner may further instruct the employer as to the manner in which employees' tax must be deducted.

Non-standard employment (25% deduction)

Examples of non-standard employment:

- Workers not in standard employment employed on a daily basis who are physically paid daily.
- Casual commissions paid, such as spotter's fees.
- Casual payments to casual workers for irregular services rendered or occasional services.

- Fees paid to part-time lecturers.
- Honoraria paid to office bearers of organisations, clubs, etc.

8.1.3. Filing your South African tax return

Residents who pay taxes in South Africa have to fill in an annual tax return form and submit to SARS. The only exemptions from this are those earning under ZAR 350,000 gross salary from a single employer, with no additional sources of income and no deductions they want to claim.

The South African tax year runs from 1 March to 28/29 February. The tax season, when people are required to submit their tax return forms, is from July to November.

Taxpayers, both individuals and businesses, are required to make the necessary payments along with their South African tax return. This will be any amount owed that hasn't been paid through the Pay-As-You-Earn (PAYE) system, where your tax contributions are automatically deducted from your wages.

If you have to pay more South African tax, payments can be made to SARS using any of the following methods:

- at a bank
- via SARS **eFiling**
- via electronic funds transfer

8.1.4. Provisional tax in South Africa

Provisional tax in South Africa is a system that requires taxpayers to pay at least two advanced amounts of South African tax throughout the year of assessment, based on estimated taxable income. The final payment will be payable following submission of your South African tax return.

All companies are liable to pay provisional tax, along with individuals receiving income other than PAYE salaries.

8.1.5. VAT in South Africa

Value Added Tax or **VAT in South Africa** is an indirect tax on the consumption of goods and services in the economy. The VAT rate in South Africa is currently 15

percent on the supply of most goods and services (with some exemptions) and on imported goods.

Businesses must register for VAT in South Africa if their annual turnover exceeds ZAR 1 million but they can also register voluntarily if they wish. Businesses are responsible for paying VAT to the government but they can pass on this charge to their customers or clients by adding VAT to the cost of invoiced goods and services.

8.1.5.1. South African tax rates

Under the South African tax system, taxpayers are liable to individual taxes, taxes on assets and wealth, and corporate taxes if applicable.

2019 tax year (1 March 2018 - 28 February 2019)

Taxable income (R)	Rates of tax (R)
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
305 851 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

8.1.5.2. South African income tax

This is the main form of tax in South Africa for individuals. **Income tax in South Africa** is payable on any earnings received from the following sources:

- employment income including salaries, bonuses, overtime and taxable benefits and allowances (in most cases deducted from wage payments by employers through PAYE)
- profits or losses from a business or self-employed trade
- director's fees
- rental income

- investment income such as interest or dividends
- annuities
- royalties
- pension income (excluding foreign pensions)
- certain capital gains.

8.1.6. Capital gains tax

Capital gains tax is not a separate tax in South Africa but forms a part of income tax that's applicable to both individuals and companies. Thus, any profit made when an asset is sold it is subject to the same rates as **South African income tax**.

8.1.7. Dividends tax

Dividends tax is imposed on dividends payments to shareholders. The South African tax rate for this is 15 percent. This is a separate tax that is withheld from the dividend payment by the company making the payment, so is not something that needs to be neither accounted for nor paid by the payment recipient.

8.1.8. Donations tax rates

Donations tax is a South African property tax payable on the value of any property disposed of as a donation. This is a flat tax rate in South Africa currently set at 20 percent of the donated property value and is payable by the donor. It needs to be paid by the end of the month following the month in which the donation was made. If payment is not made within the set period, then both donor and donee become jointly liable.

A donation is exempt if the total yearly value of donations does not exceed ZAR 100,000 for individuals (ZAR 10,000 for businesses).

8.1.9. Transfer duty

Transfer duty is another property tax in South Africa, payable on any property acquired in a sales transaction. The South African tax rates for transfer duty are progressive, with all property valued below R750,000 exempt, rising to a maximum payment of ZAR 937,500 on property valued over ZAR 10 million, plus 13 percent of the value exceeding ZAR 10 million.

Transfer duty is payable by the person acquiring the property and should be paid within six months from the date of acquisition to avoid incurring interest.

2019 (1 March 2018 - 28 February 2019) -

Value of the property (R)	Rate
0 – 900 000	0%
900 001 – 1 250 000	3% of the value above R900 000
1 250 001 – 1 750 000	R10 500 + 6% of the value above R 1 250 000
1 750 001 – 2 250 000	R40 500 + 8% of the value above R 1 750 000
2 250 001 – 10 000 000	R80 500 + 11% of the value above R2 250 000
10 000 001 and above	R933 000 + 13% of the value above R10 000 000

8.1.10. Company taxes in South Africa

8.1.10.1. Corporate income tax

Corporate tax in South Africa, also known as business tax, is a tax payable on business income for all businesses and companies registered in South Africa. This includes:

- listed and unlisted public companies
- private companies
- close corporations
- co-operatives
- collective investment schemes
- small businesses

- share block companies
- body corporates
- public benefit companies
- dormant companies

8.1.11. Turnover tax

Turnover tax in South Africa is an alternate, simplified method of taxation for small businesses with an annual turnover of ZAR 1 million or less. It replaces income tax, capital gains, dividends tax and VAT in South Africa, although there is an option to remain in the VAT system.

The turnover tax rates in South Africa are progressive, ranging from zero tax paid on annual turnover below ZAR 335,000, up to a payment of ZAR 6,650 on turnover above ZAR 750,000 plus 3 percent of the amount above ZAR 750,000.

8.1.12. Skills Development Levy (SDL)

SDL is a tax in South Africa payable by employers to promote learning and development of employees in South Africa. Employers become liable for SDL if their total annual salary bill is more than ZAR 500,000.

SDL is charged to employers at a rate of 1 percent of the total salary bill. It is paid monthly by employers to SARS and the money is used for the skills development of employees.

8.1.13. Unemployment Insurance Fund (UIF)

UIF is an unemployment benefit fund payable to those who have been in employment for at least 24 hours per week if they become unemployed, sick or take maternity leave. It is a short-term, contributions-based benefit and is funded through contributions of 2 percent of the employee's salary (1 percent from the employer and

1 percent from the employee). It is the employer's responsibility to pay this out of employee salaries each month to SARS.

8.1.14. Indirect South African tax rates

8.1.14.1. Customs duties

Customs duties are taxed on imported goods with the aim of raising revenue and protecting the local market. This is an indirect tax paid in addition to VAT, and usually calculated as a percentage of the value of goods. However, certain food, drink, textile and firearms products may be taxed according to volume.

8.1.15. Excise duties and levies

Excise duties and levies are imposed on high-volume daily consumable products (eg. petroleum, alcohol, tobacco) as well as some non-essential and luxury items (eg. electronic equipment, cosmetics). In addition to raising revenue, this indirect tax in South Africa exists to discourage consumption of products considered harmful to health or the environment. The rates of these taxes in South Africa vary from product to product.

8.1.16. Fuel tax

The fuel tax is an indirect tax in South Africa paid on petrol and diesel fuels. The current South African tax rate for fuel tax is 30.79 percent.

8.1.17. Air passenger tax

The **Air passenger tax** is another indirect tax in South Africa on international flights, currently levied at the rate of ZAR 190 per passenger (ZAR 100 for flights to Botswana, Lesotho, Swaziland and Namibia). The tax is paid by the airlines who pass the cost on to the customers through flight fees.

8.1.18. South African tax rates on industry

8.1.18.1. Securities transfer tax

Securities transfer tax is a tax in South Africa levied on every transfer of either: a share or depository receipt in a company; or a member's interest in a close corporation. The South African tax rate for this is 0.25 percent.

When listed securities are transferred through or from a member or participant, the member or participant is liable for the tax payment. The transfer of any other listed security will result in the person to whom the security is being transferred being liable. With unlisted securities, the company that issued the security is liable for the payment. Payments need to be made within a month of the transfer for listed securities and within two months for unlisted securities.

8.1.19. Withholding tax on interest or royalties

These are two taxes in South Africa charged on interest or royalties paid to or for the benefit of a foreign person outside South Africa. The South African tax rate for this is 15 percent. The foreign person is liable for the tax but it must be withheld by the person making the payment. There are certain exemptions

8.2. Payslip

The Department of Labour offers basic guides to key topics within labour legislation. Read on for our summary of Pay Slips.

8.2.1.1 What is a Pay Slip?

Each time workers are paid, employers must give them a pay slip containing certain details.

8.2.1.2. Who does it apply to?

The Basic Conditions of Employment Act applies to all employers and workers, but not members of the:

- National Defence Force,
- National Intelligence Agency, or
- South African Secret Service; or
- Unpaid volunteers working for charity.

The section of the Act that regulates working hours does not apply to:

- Workers in senior management

- Sales staff who travel and regulate their own working hours
- Workers who work less than 24 hours in a month
- Workers who earn in excess of an amount stated in terms of section 6 (3) of the Act
- Workers engaged in emergency work are excluded from certain provisions.

8.2.1.3. Contents of Pay Slips:

Employers must give workers the following information in writing when they are paid:

- Employer's name and address
- Worker's name and occupation
- Period for which payment is made
- Total salary or wages
- Any deductions
- The actual amount paid
- If relevant to the calculation of pay:
 - Employee's pay and overtime rates
 - Number of ordinary and overtime hours worked

Number of hours worked on a Sunday or public holiday .The total number of ordinary and overtime hours worked in the period of averaging, if a collective agreement to average working time has been concluded



