MONEY SMART NEWS

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MONEY SMART WEEK
SOUTH AFRICA
Creating a Money Smart South Africa

HIGHLIGHTS

As consumers in South Africa continue to feel the economic impact of COVID-19, our second issue of Money Smart News brings you some key information about various financial matters to help you now and in the future.

We have included news about understanding endowment policies, more about short-term insurance, the importance of drafting a Will, the differences between the surrender of goods, repossession and bank assisted sales as well as how to take advantage of lower interest rates.

Every month we will continue to tackle different topics to further educate, motivate and empower South Africans to become better educated about their finances.

We are also building the momentum for Money Smart Week South Africa (MSWSA), an annual financial literacy campaign, which is scheduled to take place again in March 2021.

Sign up for the newsletter at www.mswsa.co.za and remember to follow Money Smart Week South Africa on social media:
Facebook: @MSWSA Twitter: @MSW_SA
LinkedIn: @MSWSA

Surrender of Goods, Repossession and Bank Assisted Sales: What does it all mean?

The impact of COVID-19, and the ensuing financial crisis, will have a lasting impact on society and business as a whole. Those who are unable to work because of the lockdown are facing serious economic challenges. It is a time of great financial stress and a time where the services of bodies such as the Ombudsman for Banking Services (OBS) will be needed more than ever.

Because of job losses and reductions in income, many South Africans are worried that their assets such as their home, car or other financed goods could be repossessed over lack of payment. Knowledge is power especially when it comes to these types of financial matters. The Ombudsman for Banking Services is here to help.

Repossession

Having assets repossessed can be traumatic, not to mention the added legal costs and the burden of having a judgment against you. Even though you may be struggling financially, you need to avoid having any of your goods repossessed.

Voluntary Surrender and Bank Assisted Sales, as outlined below, allow for cost effective and a less strenuous method of disposing of your assets if needed. The consumer has the choice to decide which route is best for them.

Surrender of Goods

As a consumer, if you are no longer able to pay for an item that you purchased on credit, Section 127 of the National Credit Act (NCA) 34 of 2005, allows you to surrender the goods to the credit provider to resell in order to assist you by relieving the debt. Let us unpack what this means:

- The bank can only repossess your financed goods with a court order or with your written consent, which is referred to as voluntary surrender in terms of Section 127 of the National Credit Act (NCA).
- Section 127 also gives you the right to terminate the agreement and surrender (return) the goods to the credit provider for any reason and at any stage before the credit provider institutes legal action to recover the goods.
- Section 127 provides a 'self-help' tool aimed at financially strained consumers and allows them to simply return the goods bought on credit.
- The surrender of goods in accordance with Section 127 is limited to specific agreements, namely instalment sale agreements, or a secured loan or a lease agreement governed by the NCA.
- As a consumer, you can exercise your right of voluntary surrender by notifying the credit provider in writing to terminate the agreement and if the goods are already in the credit provider's possession, you must instruct the provider to sell the goods.
- If the goods that are the subject of the credit agreement are not in the credit provider's possession, you must return the goods to the credit provider's place of business during ordinary office hours within five business days after the date of the notice to terminate. You may also arrange with the credit provider with regards to the period within which and the place where the goods are to be handed over.
- If the credit agreement is in default, the credit provider may send its representatives (debt collectors) to your home/work to determine whether you are willing to voluntarily surrender the goods to the bank.
- The bank representatives may not use violence, misrepresentation, intimidation or threats to force you to surrender the goods and you have the right to refuse them entry to the property.
- If you decide to voluntarily surrender the goods, the bank representatives must provide you with a form or agreement to sign to prove that you have surrendered the goods voluntarily. Remember that as a consumer, it is your responsibility to ensure that you understand the contents of the document before signing it.
- The voluntary surrender form/agreement must contain all the information relevant to the surrender of the goods and the process that will be followed thereafter.
- Once the bank is in possession of the goods, it must value the goods within 10 business days to determine how much it can possibly be sold for. The bank will send you a letter by post, stating the amount.
- As a consumer, you have 10 business days after receiving the letter to settle the arrears owing in full and collect the goods. The banks generally require payment of at least 80% of the arrears before it will consider returning the goods to you. This decision, however, is within the bank's exclusive discretion. Should you not settle the arrears, the bank will sell the goods at an auction.
- You will be held liable for any outstanding balance owing on the account after the goods are sold.

- After selling the goods, the bank must provide you with an account showing the amount the goods were sold for and the amounts credited and owing on your account.
- The Section 127 Voluntary Surrender process can also be used by a consumer who is not in default under the instalment agreement but has decided that he/she no longer wishes to continue with the agreement. The consumer simply needs to contact the bank and the bank will send representatives to collect the goods and value them. The same process as described above will then be followed.
- If your payments are up to date when voluntarily surrendering the goods, **you may unconditionally withdraw the notice you signed.**
- There is no limit as to the number of times the consumer may surrender the goods in terms of Section 127 of the NCA.
- During the period when the goods are surrendered to the credit provider, all contractual obligations between the parties are suspended. This means that the consumer is not obligated to make installment repayments.

Bank Assisted Sales

Particularly where property is concerned, a Bank Assisted Sale is a better option than an auction where a property may be sold for less than its worth. Furthermore, with this option, a consumer can save themselves from the burden of legal costs, a judgment credit bureau listing and a court judgment in their name.

Benefits of Bank Assisted Sales for consumers include:

- The property is sold with the assistance of the bank.
- Discounted attorney fees may apply provided that the attorneys are appointed by the bank.
- The choice regarding which offer to accept remains with the consumer.
- The bank may agree to a discount on the repayment of the shortfall (the amount that remains after the property is sold for less than what was outstanding), and in some instances, the repayment may be made interest free over an agreed period of time.
- If the consumer is behind with rates, taxes and levies, these may be added to the loan balance and will form part of the shortfall.

Cancellation of long-term investment options

Understanding Endowment Policies

Although endowment policies are loosely referred to as investments, endowments are actually life assurance policies where you invest your money for a minimum period of five years. An endowment policy is merely a 'wrapper' – a vehicle that allows you to invest into a collective investment scheme.

It is the collective investment scheme, a product that you can access directly, into which the funds are actually invested and that generates a return. The truth is that endowment policies, while providing benefits to a specific niche investor, provide an additional layer of fees and charges, and may not be appropriate options for everyone. There are many factors that would determine whether this option is appropriate for you.

Being a long-term insurance policy, an endowment must comply with the provisions of Section 54 of the Long-Term Insurance Act 52 of 1998*, which means that there are specific restrictions applicable to an endowment policy.

This includes that an endowment policy is legally required to have a minimum 5 year term and during this period, the maximum amount you can withdraw is whichever is the lesser amount between:

Endowments are policy contracts which commit consumers to a minimum investment period of 5 years after which the proceeds are tax free. Certain restrictions are in place should you need to make withdrawals during the life of the investment, which can result in high fees and penalties.

- Contributions during the restriction period, plus 5% compound interest.
- The market value of the investment account less fees and charges.

Any remaining balance (more than R2 500) must stay invested until the restriction period ends.

Furthermore, should you increase the premiums that you are contributing to an endowment policy by more than 20% compared to the aggregate monthly or annual premiums paid during the last two premium periods, a new 5-year restriction will come into effect.

A common misconception of endowment policies is that they are tax effective investment vehicles, providing a tax-free lump sum upon maturity. While it is correct that you will receive a tax-free amount when the endowment policy matures, during the duration of the policy, it is taxed at a rate of 30% on all interest and income earned.

Click on https://www.mswsa.co.za/getting-professional-advice-when-saving-and-investing/ for more information about the role and responsibilities of financial services providers.

To contact the FAIS Ombud or lodge a complaint, call 012 762 5000 or go to https://faisombud.co.za/.

1 Endowment policies can be beneficial if....

you are a high net worth investor looking for an alternative to retirement annuities. Endowment policies can also be effective estate planning tools, especially where you nominate a beneficiary so that if you die, the endowment policy is transferred into your estate without having to pay Capital Gains Tax, estate duty or executor's fees.

2 Endowment policies might not be a good idea if....

amongst other factors, you do not have a sizable investment upfront or if you are likely to need your money within 5 years.

The role of a registered financial services provider, also known as a financial planner or advisor, is crucial in helping you to make an informed decision about the most suitable option.

3 The role of the FAIS Ombud

In investigating complaints relating to endowment policies, the Office of the Financial Advisory and Intermediary Services (FAIS) Ombud is responsible for ensuring that financial services providers comply with the provisions of the General Code of Conduct for Authorised Financial Services Providers and Representatives.

*On 1 July 2018, the Insurance Act (Act 18 of 2017) came into effect. This resulted in certain sections of the Long-term Insurance Act of 1998 and Short-term Insurance Act of 1998 being wholly repealed while other sections were amended. Section 54 of the Long-Term Insurance Act was neither amended nor repealed but Part 4 of the Regulations made under the Long-term Insurance Act, which deals with Section 54, was amended in part. As a result, Section 54 remains effective and applicable subject to the amendments in Part 4 of the regulations.

Leaving behind a legacy of financial peace.

Where there is a Will there is a way, where there is no Will there is a relative.

**During this global pandemic, you may have started asking questions such as:
What if something was to happen to me? Would my family be OK?
Perhaps without knowing it, you have started the process of Estate Planning.
In this article, we look at one aspect of estate planning – the Will.**

What happens if you die without a Will?

A common belief is that if you die without a Will, your assets go to the Government. This is not, in fact, the case. In South Africa, we have a piece of legislation called the Intestate Succession Act. This Act determines how your assets are distributed if you do not make a Will before you die.

Essentially, the order of distribution is firstly your Spouse and Children. If you, however, do not have a spouse or any children, it will go according to your blood relatives (starting with your parents, then your siblings, then other relatives).

Should you not have a Will, it is your responsibility to read the Intestate Succession Act to make sure that you agree with the way your estate will be distributed.

For example, this Act makes accommodation for cases where the husband is deceased in a polygamous customary union, whereby all spouses and descendants will inherit the estate in equal shares.

If you do not agree with the way your estate will be distributed in terms of this Act, for reasons such as customary or religious law, this is one of the reasons why it would be advisable to draft a Will.

1

What is a Will?

In South Africa, a person has freedom of testation. What this means is that you can deal with your assets when you die in the manner that suits you, as long as it is not against the public interest.

In addition to determining how your assets are distributed, a Will also allows you to nominate an Executor (the person who will step into your shoes and handle your assets after you die) and a Guardian (the person who will look after any minor children).

2

Who can draft a Will and what are the requirements?

Anyone who is over 16 years of age and of sound mind can make a Will.
For a Will to be valid it must be:

1. In writing (video and e-wills are not allowed in South Africa).
2. Signed on each page and at the end by the person making the Will (known as the testator/testatrix.
3. Importantly, the signature must be done in front of two witnesses (who are older than 14 and who do not benefit from the Will).

3

Signing a Will?

Point number three is vitally important. It must be noted that you cannot sign your Will and then mail it to the witnesses to countersign. All three parties must be present at the same time. It is also important to note that the witnesses cannot benefit from the Will, which means that witnesses cannot consist of your beneficiaries, Executor or Guardian.

Even though the lockdown restrictions have eased, current social distancing requirements may still pose a problem for someone making a Will. With offices becoming more open, it is advisable to maybe ask two colleagues to meet in the office and sign as witnesses (they do not need to read the Will, only witness you making your signature).

4

Drafting a Will

You can get assistance in drafting a Will from attorneys, banks, chartered accountants, a board of executors, trust companies and other individuals who have the necessary qualifications to draft a Will. Each year, the Law Society of South Africa runs National Will Week, where attorneys assist the public with drafting a basic Will at no cost. This year, the event will take place from 26 to 30 October.

More information is available at https://www.lssa.org.za/our-initiatives/advocacy/national-wills-week/.

Low Interest Rates

Taking advantage of lower interest rates

The economic consequences of the COVID-19 pandemic have financially constrained many consumers.

To stimulate much needed economic growth and help already cash-strapped consumers, the South African Reserve Bank (SARB) has reduced the repurchase (repo) rates over the last few months, making them the lowest they have been since 1998.

This decrease in interest rates has certain positive outcomes for consumers, namely consumers' expenses towards debt are reduced and lowered such as vehicle finance, overdraft, mortgage bond and personal loan repayments if the rate of interest was variable.

However, the Credit Ombud cautions consumers against extending themselves with more debt due to the interest rate cuts. While it may be tempting to purchase on credit because of the reduced interest rates, consumers must remain alert to these purchases being a need or a want and ultimately, coming at a cost.

What are interest rates?

Interest rates are prices paid for funds borrowed over various periods of time, such as when purchasing a property and taking out a home loan. The supplier or lender of funds (commercial banks for example) earn an income based on a percentage of the loan amount, and the user or borrower (customer) pays interest for the right to use the accumulated funds.

What is the repurchase or repo rate?

The repurchase or repo rate is the interest rate at which the South African Reserve Bank (SARB) lends money to private banks. The SARB acts as a banker for private banks. A change in the repo rate will affect people who have home loans or who have borrowed money from the bank.

What is the prime lending rate?

The prime lending rate is basically a marked-up version of the repo rate that banks use as a starting point to calculate interest rates for specific clients based on the amount of money they are borrowing.

What is a variable interest rate?

A variable interest rate is linked to the prime lending rate. That means if prime goes up, your repayments go up, and if prime goes down, your repayments go down too.

What is a fixed rate?

A fixed rate is not linked to prime which means that the rate the bank quotes you is exactly what you will pay, regardless of what happens with the repo rate. A fixed rate is quoted as a specific percentage. Fixed rates are typically around 2% higher than variable rates.

For more information, go to **https://www.resbank.co.za/AboutUs/Documents/Interest%20rates%20and%20how%20they%20work.pdf.**

The Credit Ombud offers the following tips:

- **Budget** – the key is to understand how you spend your money every month and then to identify how to change your spending - start with a savings plan.
- Ideally and if financially possible, continue making payment in terms of the original loan agreement if the interest rate was linked to a variable rate.
- Remember that it is sensible to pay a higher instalment per month, which will result in debts being paid up at a faster rate.
- If you decide to make lower payments adjusted to the reduced repo rates, then using the difference in the original instalment and the new reduced instalment, you could pay off other higher interest accruing debts.
- If you are fortunate not to have other debts, save the extra cash towards an emergency, retirement, holiday, next-big purchase or into a savings account.
- Once you pay off your credit cards with reduced interest rates savings, close these accounts so that you cannot be tempted to use them again.
- By maintaining healthy monthly payments, your credit history at the credit bureau will reflect that you are 'credit-healthy' consumer. Prospective credit providers will consider your credit history when credit is extended to you in the future and you will be able to negotiate favourable interest rates.
- Reward yourself in some way (add this to your monthly budget) for your discipline and sticking to your plan to achieve your new savings goals!

Interest rates are unpredictable - consumers must be aware that the SARB may increase the repo rate. The interest rate decrease means that if the interest rate on your debt is variable, your debt could now cost less to pay back. Take advantage of low interest rates! By paying back your debt and becoming a step closer to financial freedom.

The National Credit Act specifies the maximum prescribed interest rates that consumers can be charged when taking out credit, and since the repo rate has decreased, below are the maximum interest rates that credit providers can charge. Please also note that the maximums are dependent on the repo rate at a particular time, therefore, when the repo rate changes, the below maximums will also change.

Maximum Prescribed Interest Rates		
Credit type	**Maximum Prescribed Interest Rate**	**Current Maximum Prescribed Rate**
1. Mortgage agreements	[RR + 12%] per year	15,50%
2. Credit facilities	[RR + 14%] per year	17,50%
3. Unsecured credit transactions	[RR + 21%] per year	24,50%
4. Developmental credit agreements	[RR + 27%] per year	30, 50%
4.1 Small business		
4.2 Low income housing		
5. Short-term transactions	5% per month on the first loan, 3% per month on subsequent loans	5% per month and 3%
6. Other credit agreements	[RR + 17%] per year	20,50%
7. Incidental credit agreements	2% per year	2% per month

Notes: Current Repo Rate(RR) is 3,50% as determined by SARB on 23 July 2020.

For more information:
Contact the National Credit Regulator on 0860 627 627 or go to www.ncr.org.za.
Contact the Credit Ombud, 0861 662 837 or go to https://www.creditombud.org.za/.

Non-life (Short-term) insurance:
Managing your insurance during lockdown.

The government has recently eased restrictions and moved the country to level 1. This means that more businesses have re-opened and have started operating. There are still some businesses that cannot operate fully and still have to operate within certain restrictions.

Even though the country has moved to level 1, many consumers are still facing the financial challenges and impact brought about by the lockdown, which is still causing many South Africans to go without salaries or earn a reduced income.

Many consumers are continuously looking at ways to cut expenses and are restructuring their spending patterns, which includes looking at ways to reduce the spending on their insurance premiums.

Insurance companies are very aware of the challenges that these policyholders face and have put measurers in place to try and assist where possible.

The South African Insurance Association (SAIA) is here to help you!

SAIA is the representative body of the non-life insurance industry and is encouraging policyholders to consider the following when making decisions regarding their insurance policies:

1 Read your policy contracts, particularly when it comes to Credit Protection insurance.

This will assist you to know what you are covered for and what the conditions of cover are. Some credit protection policies do offer cover in the event that you do not earn an income. If you have a credit protection policy, you need to check the terms and if it is possible to claim against it.

2 Consult with your insurance company.

Most insurance companies have put measures in place to assist policyholders to address the financial impact brought about by the lockdown and pandemic. Find out more directly from your insurance company.

3 Contact authorised advisors representatives, or brokers before making any changes to your policies.

Representatives or brokers who are authorised to give advice will be able to assist you to structure your policies to suit your needs. This will ensure that as the policyholder, you can make an informed decision and do not decide to cancel or reduce cover without assessing the impact that this action can have.

4 During the lockdown period, your circumstances may have changed, resulting in a change to your risk exposure.

For example, you may be continuing to work from home which results in less travel which in turn reduces your exposure to road accidents. Such a change could translate into better insurance rates. By discussing this with an advisor or representative, you may be able to restructure your policies and may possibly benefit from this reduced risk.

For more information go to https://www.saia.co.za.

Look out for more details as we motivate and empower South Africans to become more educated about their finances.

Please go to our website www.mswsa.co.za for more details. Sign up for this newsletter at www.mswsa.co.za and follow us on Facebook, Twitter and LinkedIn.

Please email info@mswsa.co.za should you have any queries, comments or questions.