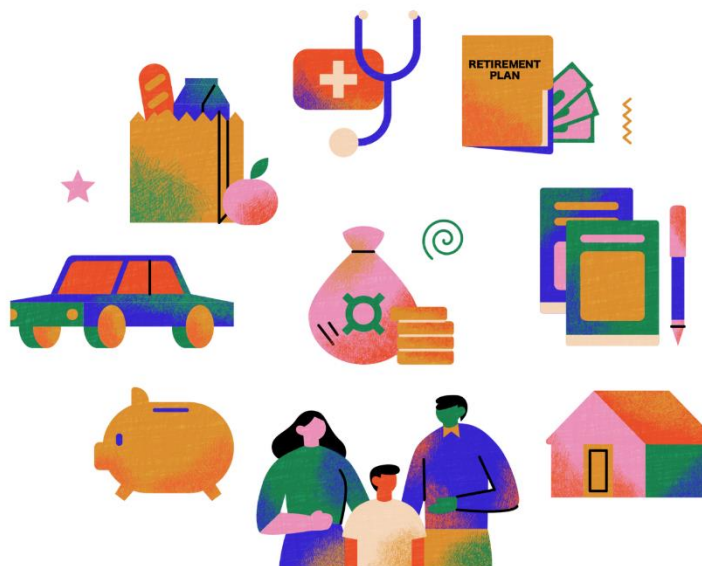


# nicro

FOR A SAFE SOUTH AFRICA

## Basic Financial Literacy Guide



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## Introduction

This document has been developed by NICRO at the request of our beneficiaries. It is being made available to the general public as part of our crime and violence prevention service. Individuals and organisations may make use of this document for non-profit and educational purposes.

## WHAT ARE BANKS



A bank is a **business** that offers banking products and services that you pay for

## WHAT DO BANKS DO

Banks offer a range of banking services and products to people and other businesses, such as companies. Banks charge for their services and products.

## HOW DO BANKS MAKE A PROFIT

A bank is a business. It must make money to survive. Banks make money by charging people and companies to use their services. These charges include:

Banking fees

Transaction fees

Debit order fees

Account fees

Interest

It costs the bank to operate as a business. Bank business costs include:

Office rental

Staff salaries

Insurance

Equipment

Electricity, water and internet

Banks need to earn enough money to cover these costs, AND make a profit.

## SHAREHOLDERS



Banks are a business. They must not only make enough money to cover their costs, they must also make a profit, which is then **shared amongst the bank shareholders**. Bank shareholders are people who have invested their private money by buying shares in the bank in order to make more money with their investment. Anyone can buy shares in a bank. Buying a share in a bank means you own a small piece of the bank's profit.

## WHY IS THIS IMPORTANT TO KNOW?



This is important to know, because many people think a bank's business is to lend people money. **This is not true**. A bank's business is to earn money by charging for banking products. This money covers the bank's costs and what is left is shared amongst the bank's shareholders.

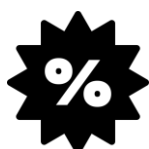
## BANKING PRODUCTS

Below is a list of the most common banking products.

Banking Product	What it is For	Charges
<b>TRANSACTION ACCOUNT (ALSO CALLED A CHEQUE ACCOUNT)</b>	An account used to hold money for payments	<ul style="list-style-type: none"><li>• Bank pays you interest</li><li>• You pay transaction and admin costs</li></ul>
<b>SAVINGS ACCOUNTS</b>	An account used to save money	<ul style="list-style-type: none"><li>• Bank pays you interest</li><li>• You pay transaction and admin costs</li></ul>
<b>CREDIT CARDS</b>	A card with a set amount of credit loaded on it that can be used for payments.	<ul style="list-style-type: none"><li>• You pay the bank interest</li><li>• You pay transaction and admin costs</li></ul>
<b>HOME LOANS</b>	A loan for a set amount used to buy a house	<ul style="list-style-type: none"><li>• You pay the bank interest</li></ul>
<b>VEHICLE FINANCING</b>	A loan for a set amount used to buy a car	<ul style="list-style-type: none"><li>• You pay the bank interest</li></ul>

Banking Product	What it is For	Charges
<b>DEBIT ORDERS</b>	A set recurring payment from your account	<ul style="list-style-type: none"> <li>You pay transaction and admin costs</li> </ul>
<b>DEBIT CARDS</b>	A card linked to either a transaction or savings account, used to make payments or withdraw cash at an ATM	<ul style="list-style-type: none"> <li>You pay transaction and admin costs</li> </ul>

## INTEREST



The term `interest` is a fee that has to be paid, by either you or the bank.

You pay interest on money you owe the bank. The bank pays you interest on your savings in the bank. The amount of interest that has to be paid is worked

out as a percentage of a larger amount, such as savings or a loan.

For example:

- If you spend R100 on a credit card, and do not pay it back within the required time, you will have to pay the **R100 plus 20%** of R100 as interest, which will be R20.
- You will have to pay R100 plus R20 = R120.

Interest is also paid on bank savings. The bank will pay you a percentage of your savings over a fixed period. For example:

**You have R100 in your savings account**

**Your bank has a savings interest rate of 5%**

**Your bank will pay you 5% of the R100, which is R5**

**You will then have R105**

Different banks have different interest rates and payment periods for credit and savings. It makes sense to compare the interest and payment periods of different banks when choose where to bank.

## Budgets



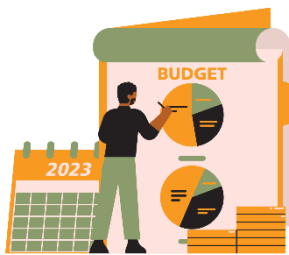
A budget is a plan of how you will spend your money over a period of time. A budget is very useful because:

**It allows you to plan ahead on how you will spend your money**

**It improves the control you have over your money**

**It helps you see where money can be saved and expenses cut back**

## WHAT IS THE DIFFERENCE BETWEEN A PERSONAL BUDGET AND A BUSINESS BUDGET?



A **personal budget** is a spending plan for your personal life, and covers things like your daily home and personal expenses.

A **business budget** is a spending plan for a business, and covers things like business expenses.

## WHAT INFORMATION GOES INTO A BUDGET

ITEMS	PERSONAL BUDGET	BUSINESS BUDGET
<b>MONEY EARNED</b>	Salary / wages	Sales of products and services
	SASSA grants	Business loans
		Business grants
<b>MONEY SPENT</b>	Rent	Staff salaries
	Food and toiletries	Rent
	Electricity and water	Electricity and water
	Airtime and data	Airtime and data
	School fees	Advertising
	Transport	Transport and petrol
	Medical care	Equipment
	Insurance / stockvel / funeral plans	Repairs and maintenance
	Credit / store cards	Security
Clothing	Insurance	

## BASIC PERSONAL BUDGET TEMPLATE

### INCOME

- |                   |         |
|-------------------|---------|
| 1. Salary / wages | R _____ |
| 2. Grants         | R _____ |
| 3. _____          | R _____ |
| 4. _____          | R _____ |
| 5. _____          | R _____ |

**Total Income** \_\_\_\_\_ **R** \_\_\_\_\_

### EXPENSES

- |                       |         |
|-----------------------|---------|
| 1. Rent               | R _____ |
| 2. Water              | R _____ |
| 3. Electricity        | R _____ |
| 4. Data               | R _____ |
| 5. Airtime            | R _____ |
| 6. School fees        | R _____ |
| 7. Childcare          | R _____ |
| 8. Food               | R _____ |
| 9. Toiletries         | R _____ |
| 10. Transport         | R _____ |
| 11. Savings / stokvel | R _____ |
| 12. Credit debt       | R _____ |
| 13. Clothing          | R _____ |
| 14. Medical care      | R _____ |
| 15. _____             | R _____ |
| 16. _____             | R _____ |
| 17. _____             | R _____ |
| 18. _____             | R _____ |

**Total Expenses** \_\_\_\_\_ **R** \_\_\_\_\_

**TOTAL INCOME MINUS TOTAL EXPENSES** \_\_\_\_\_ **R** \_\_\_\_\_

## BASIC BUSINESS BUDGET TEMPLATE

### INCOME

- |                    |         |
|--------------------|---------|
| 1. Sales           | R _____ |
| 2. Business loans  | R _____ |
| 3. Business grants | R _____ |
| 4. _____           | R _____ |

**Total Income** R \_\_\_\_\_

### EXPENSES

- |                                   |         |
|-----------------------------------|---------|
| 1. Rent                           | R _____ |
| 2. Water                          | R _____ |
| 3. Electricity                    | R _____ |
| 4. Telephone                      | R _____ |
| 5. Internet                       | R _____ |
| 6. Insurance                      | R _____ |
| 7. Raw materials / stock          | R _____ |
| 8. Staff salaries                 | R _____ |
| 9. Transport and petrol           | R _____ |
| 10. Car vehicle loan / hire       | R _____ |
| 11. Accounting services           | R _____ |
| 12. Taxes                         | R _____ |
| 13. Advertising and marketing     | R _____ |
| 14. Repairs and maintenance       | R _____ |
| 15. Bank charges                  | R _____ |
| 16. Printing                      | R _____ |
| 17. License and registration fees | R _____ |
| 18. Credit debt                   | R _____ |
| 19. _____                         | R _____ |
| 20. _____                         | R _____ |

**Total Expenses** R \_\_\_\_\_

**TOTAL INCOME MINUS TOTAL EXPENSES** R \_\_\_\_\_

## Savings and Cheque Accounts

### WHAT IS A SAVINGS ACCOUNT?



A savings account is a bank account that you use to keep your money in. The bank will pay you slightly more interest on money in your savings account. However, banks tend to charge more for payments made out of your savings account.

### WHAT IS A CHEQUE ACCOUNT?

A cheque account is a bank account that you use for daily and monthly payments. Most people have their salary paid directly into their cheque account. Banks pay very little or no interest on money in your cheque account. However, many banks charge little or no fees for payments made out of your cheque account. Most cheque accounts come with packages of free ATM withdrawals, debt orders and point of sale (teller) payments per month.

Account Type	Bank Transaction Charges	Used Mainly For	Interest Paid by Bank to You
Savings account	Higher than for cheque accounts	Savings	Higher than for cheque accounts
Cheque account	Lower than for savings accounts	Daily and monthly payments	Lower than for savings accounts

Based on the above, it may be better to:

- Have a savings account where you keep your savings because the bank pays higher interest on savings accounts.
- Have a cheque account from which you make your payments because the bank has lower transactions fees for payments on cheque accounts.

Take note that different banks offer different packages and rates for cheque and savings accounts.



## WHAT ARE THE BENEFITS OF HAVING A SAVINGS OR CHEQUE ACCOUNT?

The main benefits of using bank accounts rather than keeping cash are as follows:

<b>It is safer</b>	<b>Your money less likely to be stolen</b>	<b>You can make payments easily</b>	<b>You can earn interest on savings accounts</b>
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The costs of having a savings or cheque account are as follows:

**The fee paid to open the account**

**The monthly admin fee to maintain the account**

**Transaction fees for using the account**

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Savings and cheque accounts **pay** different interest rates

**Saving accounts earn more interest**

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**Cheque accounts earn less interest**

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Savings and cheque accounts **charge** different amounts for transactions and payments

**Cheque accounts charge less**

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**Savings accounts charge more**

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## Credit

The term `credit` means money that has been lent to someone to buy goods or services.



We get credit on bank credit cards. Store cards like Woolies and PEP store cards are also credit cards, but they can only be used to buy things at that shop. We have to pay credit back.

The lender has a payment period during which we can pay our credit back. If we do not pay back the credit within that payment period, we get charged interest. You have already learnt about interest in a previous topic. Interest is calculated as a percentage of the amount owing. Different lenders charge different interest rates. You then have to pay back the full amount, plus interest.

### WHAT IS THE DIFFERENCE BETWEEN GOOD AND BAD CREDIT

There is a difference between good credit and bad credit.

**Good credit is credit that we use to:**

- **Increase our overall worth or value**
  - **Paying for an education, which will increase our chances of earning more money**
  - **Starting a small business**
  - **Buying property that will increase in value over time**

**Bad credit is when we use credit to buy things that do not increase our overall worth or value, such as:**

- **Clothing**
- **Food**
- **Decorations and household items**
- **Vehicles - vehicle lose their worth over time. You will never sell your car for the same price as you bought it**
- **Entertainment**

## WHEN SHOULD YOU USE CREDIT

You should limit yourself to using credit for the following reasons:



To improve your overall worth or value, such as investing in education or starting a small business



To buy property that will increase in value overtime



To pay for emergencies such as medical care

If you use credit for products that do not increase your worth or value, then you are:



Wasting money



End up paying more that the actual cost of the item when you pay the amount back in monthly payments



### The rules of credit are:



Never use credit if an item does not add to your overall wealth or value and:

- a. Is not a medical emergency
- b. You cannot afford to buy it in cash



Instead of buying items on credit, rather save the money each month and buy in cash

## THE BAD CREDIT TRAP

Many people fall into a credit trap because:

They buy lots of things that do not increase their overall worth or value

Because they are not paying the full amount upfront, they feel like they are not spending money

They don't realise how much they end up paying back in the end

### AVOID FALLING INTO A CREDIT TRAP.

If you are in a credit trap, cut back your other expenses as much as you can pay the debt off as quickly as possible, so you pay less in interest.

#### Lindiwe



- Lindiwe buys nice towels at Ackermans in her store credit card for R300
- She pays this money back in small instalments over the next six months
- She ends up paying Ackermans R300 for the towels plus:
  - A monthly service fee on Ackerman's store card
  - Interest on the R300
- By the time she has paid off her towels, she has actually spent R520 on the towels



#### Lebogang

Lebogang wants to buy nice towels at Ackermans that cost R300

She saves money each month until she has the R300

She buys the towels for R300

### WHO MADE THE BETTER CHOICE AND WHY?