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LEARNER GUIDE

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Indicate how Different Needs lead to the Development of Different Financial Services Products

Introduction

Welcome to this module. The typical scope of this module is:

- To survey a sample of 10 people from two different communities.
- Formulation of a questionnaire to establish why people would/not use selected financial services.
- Graphic presentation in a bar graph or pie chart.
- Classification of investment markets: individual, groups, corporate, unions.
- Decision making/selection of a product according to own needs.
- Particular events include loss, e.g. burglary, death, legal disability; change in health status e. g. onset of dread disease; change in life status e.g. birth, adoption of a child, marriage, divorce, retrenchment, retirement.
- Products refer to financial services products including, but not limited to, Endowment, Retirement Annuity, Life Policy, Healthcare Cover, Collective Investments, Funeral, Short Term Risk and multi-class type policies and banking products and published data accessed from Annual Reports, Statistics SA, HSRC and newspapers.

Module 1

Survey Opinions on the Need for Financial Services in two different Communities

This Module deals with:

- The financial service needs of two different communities compared in terms of their lifestyle, needs, buying power and value systems
- The reasons why people would/would not choose a financial services investment explored by means of a survey
- Existing financial services products offered by various providers listed and compared to the community needs identified in the survey
- A gap analysis conducted to identify where the existing products do not meet the consumer needs for the communities surveyed (covered in the assessment)
- The information obtained from the survey represented graphically (covered in the assessment)

1.1 The Financial Service Needs of two different Communities compared in terms of their Lifestyle, Needs, Buying Power and Value Systems

Development of financial products is normally the result of needs in communities.

Should enough of the same need be expressed by a group of people, it is almost inevitable that a financial product to fulfil those needs will develop. While it is almost impossible to develop a single product to the exact specification of individuals in a group, the new product will satisfy most of the needs of the majority of the group, and will in all probability also be flexible enough to satisfy almost the whole group.

Financial Services Providers are dependent on trends in the community to assist them in developing new products that are economically viable. For a product to be economically viable it has to:

- Have a pre – determinable economic life
- Be cost effective to develop and market
- Have a sustainable market
- Generate viable profits for the developing company
- Be trusted by a large proportion of the community

To establish the needs of communities, research and surveys have to be done. To find out what people want, you have to ask them and then use the answers to come up with a solution.

1.1.1 How to Conduct Research

Often, as part of a structured learning activity or part of your portfolio of evidence, you will be asked to “conduct research”. What this means in essence is that you need to find other sources of information about your topic and you will need to provide additional information in a coherent and summarized manner.

Below are some tips and techniques to conducting research:

- Get focused.
- You will be more effective in doing research if you know exactly what you want and why you want it.
- So before you start, write a short sentence describing exactly what you want to find and why.

An example could be:

“I want to find out what changes there have been to UIF (Unemployment Fund) legislation and how this affects domestic workers”.

Be Creative

Resources can usually be placed into three categories:

- Hard copy (anything you can pick up, such as newspapers, books, technical manuals)
- People (experts in certain fields)
- Auditory and visual media (internet, radio, TV)

Be Specific

Don't just put down "internet" as a source; instead list the specific websites which may be helpful.

For people resources, put down the names of the specific people who could be useful sources of Information.

Once you've identified different sources of information, highlight three to five sources that you believe will be most useful to you. Now focus on those!

Hunt with a Purpose

Once you've decided on your most likely sources of information, gather information from those sources. Don't get side-tracked into irrelevant (but often very interesting) details. Refer back to your short sentence (or "mission statement") to make sure that you stay focused.

When obtaining information from hard copy, it is often useful to go straight to the index to find what you want.

When obtaining information from people, compile a list of the questions you want to ask them. Be very clear and concise in your questioning, and don't take too much time.

If you are unfocused in your questions or take up too much time (for example more than half an hour), you will find that the person will be reluctant to help you in the future.

When obtaining information from the Internet, use a good search engine to focus on what you want. Many people find the GOOGLE search engine useful:
<http://www.google.com/>.

Stop when you have enough Information

Easier said than done! Most people fall into one of two traps

- Obtaining too little information, usually from a single source ("Hasty Harriet")
- Obtaining too much information and subsequently getting bogged down in a mass of data ("Drowning David")

You have enough information when you can answer your short sentence, referring to more than one source. Simple as that!

Organise your Information carefully

Don't be afraid to discard what you don't need. It is unlikely that you will need all the information that you gathered. Be logical in your organization. Use only the things that you will need to complete your tasks.

Credit your Sources

Copying something without referring to the source is called plagiarism (academic cheating!)

However if you acknowledge your source then you can copy as much as you like (but remember to put things you copy into "inverted commas" to describe what you are copying) and state who you are quoting.

It is good practice to provide the name of the author, the paper/book/source in which you found the information and the year of publishing if available.

Presentation is Important

Always imagine that your work is being presented to a client or potential client/employer.

1.1.2 Develop a Framework for Effective Thinking

The following steps will provide you with a framework for effective thinking, integrating divergent and convergent thinking processes:

Step 1: Identify the direction of your thinking	What are the focus / purpose of your thinking? What do you hope to achieve with your thinking? What are you thinking about?
Step 2: Obtain information and generate possibilities	Identify different sources of information Ask questions to obtain information from other people. Determine the quality of information obtained. Identify the perceptions and feelings of the people involved. Make the 'most' of information, by reading between the lines. Generate as many possibilities as you can. Do not immediately evaluate each possibility as it arises - you will stay firmly within your own thinking.
Step 3: Choose between possibilities	Develop possibilities to become usable ideas. Spend time improving and building up the idea. Do not be satisfied just because an idea seems good – it may be possible to make it even better. Divide possibilities into groups of stronger and weaker. Choose some quality or character, which all usable ideas should have.
Step 4: Decide and take action	Decide what to do – to proceed, or not. Do a hindsight check – spell out the reasons why a decision has been made. Examine the need for a decision as well as the risks involved. Make things happen – putting the output of thinking to work.

1.1.3 Taking a New Approach

Being creative means using a different approach to the way you solve certain problems. This is not something you need to do all the time, for example when a problem is clear or close-ended.

However, if a problem is open-ended and has a number of potential solutions, start to apply what you have learned about effective thinking.

1.2 The reasons why People would/would not choose a Financial Services Investment explored by means of a Survey

“By nature, men are nearly alike; by practice, they get to be wide apart.”
Confucius – Analects, 5th C BC

1.2.1 Why conduct Market Research Surveys?

Understanding human needs is half the job of meeting them...

Companies are increasingly using their knowledge of consumers and consumer lifestyles to introduce a continuing stream of new products and services into the marketplace and target new and untapped consumer segments. Financial services products are intangible products that cannot be seen, heard, examined, or felt in advance to purchase.

Knowledge of consumer needs and interests is therefore essential for companies to succeed in the dynamic and rapidly evolving financial services industry and to ensure they continue to meet the needs of an ever changing and growing market. Companies need to know everything they can about potential investors - what they want, how they live and the personal and group influences affecting the decisions they make.

The research of Consumer Behaviour rests heavily on the following disciplines:

Psychology	This is the study of the individual and includes the study of motivation, perception, attitudes and personality. These all enable us to understand the consumption needs of individuals and their actions and reactions in response to different products / services and the respective messages they convey, as different personality characteristics and experiences affect their product choices.
Sociology	This is the study of groups, group memberships, family structure and social class, which influence consumer behaviour.
Social Psychology	This is the study of how an individual operates in a group and how those influence him they respect, such as their peers, reference groups, families, opinion leaders, etc.

Cultural Anthropology	This is the study of the development of core beliefs, values, customs and subcultures, which influence purchase behaviour. This lends itself to the study of different cultures and customs.
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1.2.2 The Distinction between Primary and Secondary Research

There are two ways of obtaining research information:

- Primary data is information specifically collected by the researcher for the task at hand,
- Secondary data is information that has already been collected and/or published, usually by a research institution such as the HSRC (Human Sciences Research Council), UCT Research department, etc.

It is useful to use both sources of information.

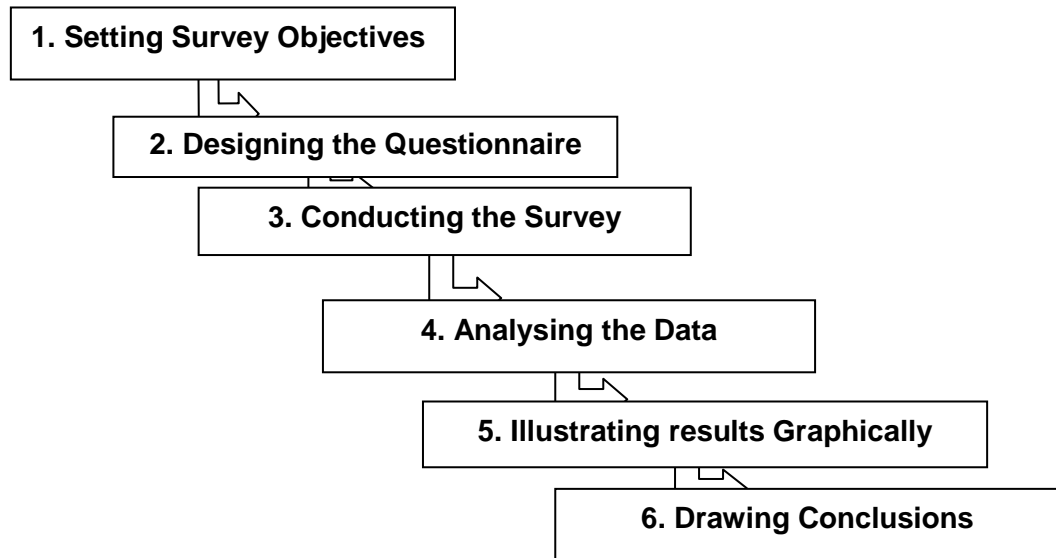
Primary data is usually more specific with regard to the information provided. Secondary data in contrast usually provides a broader, more generic viewpoint on the same subject and is often sourced from a greater universe of interviewees. It can either help to confirm the primary data if it shows similar results, or give a different angle on the primary data if it differs greatly.

1.2.3 The difference between Qualitative and Quantitative Research

- Qualitative research seeks in depth, open-ended response, not yes or no. It gets people to share their thoughts on a topic without giving them any direction or guidelines about what to say. For e.g. what do you think about when you invest money? Or by giving them a picture and asking them to comment on it.
- Quantitative Research asks identical questions with alternative, structured responses, which can be easily summarised in numbers like percentages or fixed responses, such as Yes or No, which can simplify the analysis of replies. The Multiple-choice approach, where respondents tick an appropriate block, also makes it easier and faster for them to reply. For example do you have any money invested - Yes or No?

1.2.4 How to Conduct a Survey

There are various stages involved in conducting a survey for market research purposes.



1. Setting Survey Objectives

The first step in conducting a survey is to carefully define the objectives of the study.

- Is it to segment the market into different groups according to age, gender, etc.?
- Is it to find out consumer attitudes toward a particular product or service?
- Is it to determine what percentage of women uses a particular product?

This is an essential first step in the process as it is vitally important for all involved in conducting the survey to agree at the outset on the purposes and objectives of the study and to ensure that the research questionnaire is designed appropriately.

A carefully thought-out statement of objectives helps define the type and level of information needed. For e.g. : If the purpose of the study is to come up with new ideas for products or promotional campaigns, then a qualitative study, such as focus groups, might be suitable, where respondents are asked their specific opinion on certain issues.

This is obviously more time consuming and can also prove to be more costly, so focus groups are usually used to interview a fairly small sample. These results cannot always be generalised for the entire population in the marketplace.

If, however, the purpose of the study is to find out the percentage of people who use particular products and how frequently they use them, then a quantitative study, which can be easily analysed by computer, is more appropriate. It is common for questionnaires to include both qualitative and quantitative questions. An example of a survey objective could be to determine the percentage of the population who invest in unit trusts.

2. Designing a Questionnaire

The design of the research questionnaire is based on the purposes of the study, for e.g. whether to gather descriptive information or provide new ideas.

Tips on Designing a Questionnaire:

- To encourage respondents to answer truthfully and completely, questionnaires must be interesting, objective, unambiguous, easy to complete and generally non-burdensome
- Only questions relevant to the purposes of the study as well as pertinent demographic questions (i.e. age, gender, income), which enhance the analysis and enable the classification of responses into meaningful categories, should be included in questionnaires.
- Questions can be open-ended (requiring answers in the respondent's own words) or closed-ended (where the respondent merely ticks the answer from a list of options). Open-ended questions yield more insightful information, but are more difficult to analyse. Closed-ended questions are limited to the alternative responses provided, but are far easier to tabulate and analyse.
- Fixed responses to questions speed up the answering process and simplify the analysis of the replies.
- The sequence of questions is also important: the opening questions must be interesting enough to "draw" respondents into participating, they must proceed in a logical order, and classification questions (such as age, gender, income, etc.) should be placed at the end, where they are more likely to be answered
- Questionnaires should also offer confidentiality or anonymity in order to encourage respondents to be honest in their answers and to dispel fears of self-disclosure.

There are no hard and fast rules, which have to be obeyed when designing a questionnaire. Nevertheless, the following points should be noted:

- The questions should be simple and unambiguous. Long questions containing more than one element should be broken down into sub-topics.
- Leading questions such as "Don't you agree that all intelligent people read the XYZ Magazine?" should be avoided because the answer is suggested. To the question posed, the answer "yes" is strongly suggested.
- Irrelevant questions should be avoided.
- Potentially embarrassing questions should be avoided or left to the end.
- The initial questions should be pertinent, easy to answer and not embarrassing.
- The questions should be as short as possible and they should be asked in a logical sequence because the quality of the answers will then be improved.
- Questions which allow an answer to be ticked are best.

Keep in mind the importance of proper wording and ordering of questions, the length of the survey (shorter surveys = higher response rates), and whether each question falls in the “essential” or “nice to know” category.

Deciding What Questions to Ask

For example, Brainstorming questions on investments such as:

- What they invest in?
- Why they invest in these particular products or services? The types of features they look for? The benefits they seek?
- Where they buy them? Through whom (direct or through a financial advisor / agent?)
- How often they invest? (whether once off lumps sum or ongoing debit order?)
- Language preference for marketing material and client communications?
- Impact of adverts, market commentaries, etc.?

For example:

Question: Do you have money invested in unit trusts?

Yes 30%

No 70%

Needs and Goals

Every individual has needs; some are innate, others are acquired.

Innate needs are physiological; they include the needs for food, water, air, clothing, shelter, etc. and are considered primary needs or motives.

Acquired needs are needs we learn in response to our culture or environment, and may include needs for esteem, prestige, affection, power. These are generally psychological and are considered secondary needs or motives, as they result from the individual’s subjective psychological state and from their relationships with others.

For example:

All individuals need shelter from the elements; thus finding a place to live fulfils an important primary need, however the kind of house individuals choose to live in may be the result of secondary needs.

They may seek a house in which to entertain large groups of people (and fulfil their social needs), they may also want to buy a house in an exclusive area in order to impress their friends (and fulfil their ego needs). The house an individual ultimately purchases thus may serve to fulfil both innate (primary) and acquired (secondary) needs.

Motivation is the driving force within individuals that impels them to action. This driving force exists as the result of an unfilled need.

Goals are the sought after results of motivated behaviour. All behaviour is goal orientated. Generic goals are those general categories of goals that consumers

select to fulfil their needs, whereas product specific goals are specifically branded products they select to fulfil their needs.

For example:

Savings vehicles are a potential way for individuals to save for retirement; however a specific product provider will want individuals to view their particular brand of investment product as being the best way to save money for retirement.

Needs and goals are interdependent and are constantly changing in response to an individual's physical condition, environment, interactions with others, and experiences. Needs are never fully satisfied and new needs emerge as old needs are satisfied. As individuals attain their goals, they develop new ones. NEEDS are things that that individuals cannot live without, WANTS are the added extras to satisfy ego once needs have been met.

Value Systems

Value systems influence why individuals make the choices they do. Values are the accumulated feelings and priorities individuals assign to issues. Values are relatively few in number and serve as a guide for culturally appropriate behaviour; they are difficult to change and are not tied to specific situations.

Values are widely accepted by the members of a community. They are therefore mental images, which influence the way an individual is likely to respond to a specific situation. Beliefs are decisions regarding brands, which tend to be influenced by a person's general values and specific beliefs regarding quality, status, etc.).

Styles of Questions

There are different styles of asking questions. Two such examples are provided below:

A series of statements are given and the respondent is asked to indicate the extent to which they agree/disagree with various statements. The scale can be expanded to include "Very important to "Not important at all" or the categories of "Poor, Fair, Good or Excellent".

Please place the number, which best indicates how strongly you agree or disagree with each of the following statements about your experiences when visited by a financial advisor.

1. Agree Strongly
2. Agree
3. Neither Agree nor Disagree
4. Disagree
5. Disagree Strongly

<input type="checkbox"/>	a) Most financial advisors are intimidating
<input type="checkbox"/>	b) It is difficult to understand a lot of the industry jargon
<input type="checkbox"/>	c) Investment products are confusing
<input type="checkbox"/>	d) The company the financial advisor represents is important
<input type="checkbox"/>	e) It is important to invest through a financial advisor

Respondents are asked to rank items in order of preference. This provides important comparative information and enables marketers to identify gaps for improvement.

The following are five types of savings vehicles. Indicate your preference for each investment vehicle by rating them 1 to 5.

	Unit Trust
	Life Policy
	Funeral Cover
	Bank deposit
	Stokvel

Some standard rating formulations:

- Strongly agree, agree (neither agree nor disagree), disagree, strongly disagree.
- Approve, disapprove, favour, oppose.
- Excellent, good, fair, poor.
- All of the time, most of the time, some of the time, hardly ever, never.
- To a very great extent, to a great extent, to some extent, to a very little extent, to no extent at all.
- Very satisfied, satisfied (neither satisfied nor dissatisfied), dissatisfied, very dissatisfied.

An example of a Final Survey Questionnaire:

Please tick the appropriate block, where applicable:

1. My current age is:

- Under 25
- 26 to 35
- 36 to 50
- 51 to 65
- Over 66

2. I have money invested in a:

- Bank Deposit
- Unit Trusts
- Insurance Policy
- Group Retirement Fund

3. I have invested this money

- Directly myself
- Through a broker / Financial Advisor

4. My investment experience can best be described as:

3. Conducting a Survey

When conducting a survey, select a representative sample by deciding whom to survey and how many to survey. This will ensure the survey results are representative of the larger market. This is best done by randomly selecting respondents.

Determine the cost and practicality of conducting the survey by mail, e-mail, telephonically or in person. This will depend on the nature of the survey and the suitability of the respondents.

Determine who will conduct the interviews, whether telephonically or in person
Identify the time frame in which the survey will be completed.

Verify the interviews have in fact taken place and that they are clear, complete and legible. This can be done by phoning, e-mailing or posting random samples to respondents to ensure they did participate in the interview.

The larger the size of the sample the more likely the responses will reflect the total universe under study.

Ways to Increase Response Rates

- Develop an effective communication strategy.
- Ensure that participation is voluntary.
- Ensure that the introduction to the questionnaire outlines the purpose of the survey, how the results will be used and how and when the questionnaires should be returned.
- Guarantee the anonymity of individual responses.
- Conduct a follow-up.
- Promise to provide subjects with feedback about the results.

4. Analysing Survey Data

When sorting through the research questionnaires, ask yourself the following questions:

- What kind of individuals invests in which type of products?
- What are the motivators for investing in products? (Easy to understand, low costs, liquid, expectations of good performance, following financial advisor's recommendation, minimum investment amount?)
- What is the image, brand association of a particular investment product?
- What service did they receive from the financial services provider? (investment notifications, etc.?)
- What was the evaluation of the product or service received? (post purchase dissatisfaction can have significant power).

1.2 Existing Financial Services Products offered by various Providers listed and compared to the Community Needs identified in the Survey

There are various different financial service providers offering these various investment products. The following table gives a summary of the kinds of companies who offer the different types of investment products.

This is a much-generalised list and the examples of institutions only provide the names of a few of the better-known providers in the market and are in no way complete.

Type of Product	Financial Service Provider	Examples of institutions
Call Account Notice deposit Fixed Deposit	Banks	ABSA, Nedcor, Standard Bank, FNB
Unit Trusts Money Market Bond Equity	Collective Investment Scheme Managers	Allan Gray, Coronation, Investec, RMB, Old Mutual, Sanlam, etc.
Endowment Policies	Life Insurance Companies	Metropolitan , Old Mutual, Sanlam, Momentum,

Module 2

The different Markets in South Africa for Financial Services

This Module deals with:

- The different financial services markets classified and compared and reasons for the differences between the markets with reference to the historical and cultural situation in South Africa
- The potential for marketing the different financial services products in terms of the nature of services needed by the different market sectors
- The effects of a particular event on a person compared for a scenario with or without insurance or investment
- Actions that constitute fraud and non-declaration and measures that are taken to reduce fraud with reference to a selected sub-sector
- Existing avenues of insurance and investment for consumers in lower income groups

The structure of the financial services industry has changed a great deal over the past few decades.

The most important change is the blurring, or fading, of distinctions between one financial service provider and another.

For example

The role of a building society and the role of a bank were very different 30 years ago, but now banks offer home loans and building societies offer banking services to their clients. Insurance brokers can facilitate housing loans for their clients and banks offer insurance to their clients. Convenience for the consumer has become important in a very competitive environment, with financial services institutions ever more trying to offer a “one stop service” for clients in an attempt to create customer loyalty and client retention.

It is important to be aware of this when you are studying this section of the course, as you need to be aware that many of the categories of financial service providers overlap each other. The various financial service providers though, do offer different types of, and sometimes exclusive, financial products.

2.1 The different Financial Services Markets classified and compared; and reasons for the differences between the Markets with reference to the Historical and Cultural situation in South Africa

In South Africa we are known for our very diverse and rich cultures, but also for our sometimes volatile history and transgression from Apartheid South Africa to what is known as the New South Africa or the “rainbow nation” of today.

As a result of the diversity as well as the legislated inequalities of the Apartheid era government we have seen the emergence of a number of different markets to which we cater in the financial services sector.

Reasons for the division between the markets may include among others:

- Large sectors of the population being disallowed ownership of land and as a consequence, the gathering of wealth.
- Limited or no access to education and therefore high level positions in post-apartheid South Africa.
- The post-apartheid government creating opportunities for the upliftment of previously disadvantaged individuals creating a new sector or young, educated and wealthy market.
- Cultural belief systems where it is believed that women should not obtain education and should not work to contribute to household wealth.
- Culturally many families don't value education and prefer having their children work on their subsistence farms.

As a result the financial services sector has identified the need to develop products which meet the needs of each of these emerging markets. This has proven to be a challenge especially in a society where the divide between the ever increasing wealth of the rich is consistently growing the gap between them and the poverty stricken and rising cost of living means the poor are getting poorer and disposable income with which to invest in financial services become less.

2.2 The potential for marketing the different Financial Services Products in terms of the nature of Services needed by the different Market Sectors

Examples of where people would typically want to invest:

Product	Description
Bank Accounts	Banks act as intermediaries between customers wanting to invest money and customers wanting to borrow money. Modern banks provide a wide range of services to the public. The types of accounts listed below are the main ones that most people are likely to use for investment.
	<ul style="list-style-type: none"> • Savings Account – This type of account is mainly used for saving. It is simple and easy to manage. Money can be placed in the account or withdrawn at any time. This is a very low yielding bank account and interest is earned on the balance in the account.
	<ul style="list-style-type: none"> • Call Deposit - This is readily available money that can be called back on demand. The minimum investment amount is usually R100, 000 and interest rates are subject to daily fluctuations. The interest earned will be lower than other fixed interest investment accounts due to the easy accessibility to funds.

Product	Description
	<ul style="list-style-type: none"> <li data-bbox="571 237 1390 600">• Notice Deposit - An agreed period of notice needs to be given to the bank before money in the account can be accessed. This is usually a 32-day period. The rate available will be higher than the call rate, as funds are tied up for a longer period of time. Suggestion: Notice deposit accounts earn a higher rate of interest but have a number of other restrictions. Besides the agreed notice period, the minimum amount needed to open the account is higher than an ordinary savings account. Interest rates may fluctuate periodically. <li data-bbox="571 640 1390 857">• Fixed Deposit - This type of account offers a fixed interest rate over a fixed period of time (e.g. 12 or 24 months.) The money must remain in the account for the specified period of time. This protects the investor from the temptation of drawing the money and is a good form of investing for a long-term goal.
Unit Trusts	<p data-bbox="518 898 1401 1115">A unit trust is an investment that pools the money of many investors, with the aim of providing smaller investors a means of gaining access to equities, bonds and cash, with less money and on a less risky basis. Unit trusts are suitable for investors who may not have the time, money or expertise to make the investments themselves.</p> <ul style="list-style-type: none"> <li data-bbox="523 1155 1358 1294">• Money Market Unit Trusts invest in short-term financial instruments mainly issued by banks and other financial institutions, which facilitate lending and borrowing in the short-term market. <li data-bbox="523 1335 1394 1630">• Bond Unit Trusts invest in debt instruments issued by government, semi-government and corporates. Bonds usually pay a fixed interest amount at six-monthly intervals over the life of the bond and the original investment amount on maturity of the bond. There are a range of different types of bonds issued by various institutions, with different terms to maturity and offering different coupon rates. <li data-bbox="523 1671 1390 1995">• Equity Unit Trusts invest in equities such as shares. A listed company issues shares to the public. These are then traded on the Stock Exchange. If a company does well it may issue a portion of its profits to its shareholders (dividends). However, because companies can do well at times and not so well at others, prices of shares can vary from one day to the next. As a result, as time passes, shares may be worth either more or less than the day you bought them.

Product	Description
Endowment Policy	<p>An endowment policy is in effect a savings plan rather than simple life cover. A monthly premium is paid for a specified period (usually 10 years), after which the policy matures and the investor is paid a lump sum. A lump sum can also be invested in a single premium endowment policy. There are however, limitations on the benefits payable if the policy is cancelled in the first 5 years. There are various choices of underlying investment, whether smoothed bonus which is lower risk or market related which is impacted by market fluctuations.</p>



2.3 Investment Product Characteristics

The main characteristics to consider with an investment are:

- **Return:** A return is basically the profit the investor makes on his/her investment. It may take the form of income such as interest or dividends or the form of capital growth where the value of the investment is increased and sold for a higher amount than when it was bought.
- **Risk:** The risk associated with an investment is an indication of the likelihood that the investor may lose all or part of his initial investment. The more risk an investor takes, the bigger the reward he/she expects. If there is a high risk that investors will lose part or all of their capital, they will expect a higher return in compensation.
- **Liquidity:** how easily the money can be accessed
- **Tax Implications:** The product's tax efficiency.

1. Potential Return on Investment

Investors generally invest in a product in the hopes of either earning income or achieving capital growth.

a) Income	<p>Income may take the form of:</p> <ul style="list-style-type: none"> • Interest • Dividends <p>Interest is either money we earn when we deposit money in a bank for example, or it is the price we pay for credit.</p> <p>Dividends are a portion of a company's profits paid out to shareholders as a return on their investment. These are cash payments whose value depends on the level of profits made. Payment of dividends is not guaranteed, i.e. if there are no profits, there may be no dividends.</p>
b) Capital growth	<p>Capital growth is achieved when an investment is sold for a higher price than when it was initially bought.</p>

2. Potential Risk of Investment

Investment risk is the chance that an investor may lose all, or part of, their capital invested. It is measured by the volatility of the investment, i.e. how much the price of the investment fluctuates for example the constant increase and decrease in share prices or unit trust prices. Unlike risk, which is the increase and decrease of one's chances of losing money, volatility indicates a share or unit trusts vulnerability to market trends.

The greater the risk, the greater the expected return to compensate for this additional risk. Risk can be regarded as a spectrum with bank deposits at the very safe end and equities at the other extreme.

It is important to note that although an individual investment may be high risk, when combined with an array of other investments, the overall risk of the portfolio can often be lowered.

3. Liquidity

A major consideration when investing is how soon the investor needs to access their money (i.e. liquidity). A non-liquid investment takes time to sell and money can be lost if a sale is rushed when there is no demand.

When considering the liquidity of an investment, one must take account any penalties that may be incurred if it is cashed in earlier than agreed. There could be significant charges for doing so. It is suggested that Investors hold a portion of their investments in stable, liquid instruments, such as money market unit trusts, in the event that they unexpectedly require access to cash. This will protect them from having to sell shares at what may be an inopportune time.

4. Tax Implications

Different investment products have different tax implications. The taxable portion of the income distribution in the hands of the investor depends entirely on how that income was derived.



<p>a) Income Tax</p>	<p>Income tax is paid on any interest or rental income earned, and where assets are actively traded for a profit in order to generate an income.</p> <p>The first R6000 of interest earned by a natural person under 65yrs and R10, 000 for taxpayers over the age of 65, will be exempt from tax.</p> <p>Local Dividends are currently tax-free (foreign dividends are taxed).</p>
<p>b) Capital Gains Tax (CGT)</p>	<p>CGT was introduced on 1 October 2001 and is paid on any capital growth made on the disposal of an investment. CGT applies to the profit or loss made between the market value of the investment at the date of sale and at base cost. The base cost is defined as the price at which the investment could have been sold on October 2001.</p> <p>Unit trusts will only attract CGT when an investor sells units and not each time the fund manager restructures the portfolio.</p> <p>The first R10 000 profit is exempt from CGT for each taxpayer, thereafter,</p> <p>25% of the net capital gain is taxable for individuals (at their marginal tax rate. The maximum tax payable by an individual is therefore 10, 5% (which would be on par with any share portfolio), but can be as low as 4, 5%, depending on the marginal tax rate. The first R50 000 is exempt for deceased persons. 50% for trusts and companies.</p>

Insurance policies, such as endowments, are taxed at a rate of 30% within the fund in the case of natural persons.

2.4 Comparison of the different types of Investment Products

Herewith, a comparison of the different types of investment products in South Africa for:

- Short term
- Long term and
- Medium term investments.

	Bank Deposit	Bond Unit Trust	Equity Unit Trust	Endowment Policy
Term	Short term	Medium term	Medium to long term	Minimum 5 years
Potential Return	Relatively low. Provides income in the form of interest. This can be reinvested and added to the capital value	Should outperform cash and underperform shares over the long term. Provides both interest income and potential for capital growth if the price of the bond strengthens	Should provide the greatest potential for gains over cash and bonds over time. Provides potential income in the form of dividends, but this is not guaranteed and the investment return is more in the form of capital growth if the share price increases.	The return will depend on the underlying investments
Risk	Low	Medium	Medium to High	The level of risk will depend on the underlying investments
Tax	All growth is in the form of interest, which will incur income tax	Both the coupons (i.e. interest earned) and any increase in the capital value are considered to be income and will therefore incur income tax.	Dividends do not attract tax in the hands of the investor. Any capital growth made since October 2001 will incur Capital Gains Tax (CGT)	Taxed at a rate of 30% within the fund
Liquidity	Depends on whether call account, notice, or fixed deposit	High - although may incur capital losses	High - although may incur capital losses	Minimum 5 year term, can surrender early, but at a penalty

2.4 Existing avenues of Insurance and Investment for Consumers in Lower Income Groups

The most suitable investment product for a particular investor will depend on their needs, wants, tolerance for risk, time horizons, tax rates, etc. It is therefore essential for investors to have a clear understanding of their risk profile when deciding on where to invest.

Investment Product	Investor Profile
Call, Notice, Fixed Deposit and Money Market Unit Trust	Conservative <ul style="list-style-type: none"> • Low tolerance for risk • Older in age • Requiring income • Lower tax rate • Short term time horizon
Bond Unit Trusts	Moderate <ul style="list-style-type: none"> • Medium tolerance for risk • Requiring capital growth and/or income • Medium time horizon
Equity Unit Trusts	Aggressive <ul style="list-style-type: none"> • Medium to high tolerance for risk • Younger in age • Wanting Capital growth • Higher tax rate because less tax onerous • Longer time horizon
Endowment Policy	Depends on underlying investment portfolio, whether smoothed bonus or market related

Module 3

Match the needs of Potential Customers with available Products

This Module deals with:

- Data from the survey of the two communities used to group people according to their requirements for financial services
- The wants and needs of people compared for different groups in terms of age, income, commitments and priorities
- The different products and services available in the industry and an indication of the profile of potential customers who are most likely to invest in the products indicated
- Two similar products offered by two selected financial services organisations and a decision as to which of the products offers the best value for money in the learner's opinion and circumstances
- Suggestions for new products that combine or offer different combinations of insurance or investments or meet different needs of potential new customers
- A plan is presented for an awareness or advocacy campaign to introduce the idea of insurance or investment to potential new customers

3.1 Data from the Survey of the two Communities used to group people according to their requirements for Financial Services

The life, retirement, medical aid and short term needs are done in the same way as investment products.

3.1.1 The Importance of Saving

Out of 100 people retiring, it is generally accepted that:

- 16 will be dependent on state pensions
- 31 will be forced to continue working
- 47 will be financially dependent on their families
- 6 will be financially independent

Most individuals do not realise the importance of saving until it is too late. With increased longevity because of better health care, most individuals cannot rely on only having their pension fund pay-outs to live off once they retire. For a great many South Africans, saving from an early age as possible can make the difference between a comfortable old age and poverty.

In addition, it is recommended individuals have a minimum of three months' salary saved in a liquid investment to provide for a sudden expense, retrenchment or unexpected illness. This is referred to as an emergency fund. People also save money for specific purpose such as to buy a car or as a deposit on a house. The FSB (Financial Service Board) has established a Consumer Education Department to encourage savings in South Africa.

- **The difference between Saving and Investing**

Savings involves putting money away for little or no return (for e.g., in the piggy bank or in the bank), whereas investments yield higher returns and are generally more risky than savings. However, the longer the term of the investment, the more chance the investor has to weather the storms of fluctuations in the market. Savings are considered to be short-term and easily accessible in an emergency, whilst investments are considered medium to long-term, and best not to be accessed in times of market volatility.

3.2 The Wants and Needs of People compared for different groups in terms of Age, Income, Commitments and Priorities

- **Market Segmentation**

This is the process of dividing a potential market into distinct subsets of consumers with common needs or characteristics. This is achieved by comparing the wants and needs of different groups of people in terms of age, income, commitments and risk priorities. Market segmentation can be used to identify any potential gaps in the marketplace.

This is achieved by discovering the needs and wants of specific groups of consumers and developing specialised products and services to satisfy their needs. South African investors have historically been mainly white, higher income earners. This has been rapidly changing since the advent of democracy in 1994 and implementation of affirmative action policies.

In addition, the reintegration of South Africa into the global market and gradual relaxation of exchange controls has also resulted in a growing demand for more innovative products and improved service. The profile of the South African workforce is therefore changing and this has implications for who is earning money and therefore also potentially in the position to save. This creates a new untapped market, with a different culture, background and needs.

This new market cannot be treated in the same way or be expected to respond to existing products and marketing strategies in the same way.

The market can be segmented according to various different groupings:

Categories	Variables	Examples
Geographic	Region	Province
	City size	Major metropolitan, small city, town
	Density of area	Urban, rural
Demographic	Age	18 to 35, 35 to 49, 50 to 64, 65 to 74, 75+
	Gender	Male, female
	Marital status	Single, married, divorced, living together
	Income	Under R2000, R2000 to R4999, R5000 to R9 999, R10 000 to R14 999, R15 000 to R25 000, R25 000 +
	Occupation	Corporate professional, self-employed, blue-collar, agricultural, domestic worker

Categories	Variables	Examples
	Education	Some schooling, matric, diploma, degree, postgraduate degree
Psychological	Personality	Extrovert, introvert, aggressive, compliant
	Lifestyle	Within each community, there are lifestyle factors (shared beliefs, attitudes, activities and behaviours). This includes a broad range of factors, such as overseas holidays, attending cultural events, playing golf, etc.
Socio-cultural Segmentation	Religion	Christian, Jewish, Muslim, Hindu
	Population group	African, Coloured, Asian, White
	Family life cycle	Bachelor, young married, empty nesters
Behaviour	Usage rate	Heavy, medium, light, non-user
	User status	Unaware, aware, interested, enthusiastic
	Brand loyalty	None, medium, strong

Module 4

Interpret Statistical Information to determine the Type of Financial Service

This Module deals with:

- Different interpretations that could be given to the data from own and other's surveys considered and compared in terms of the most valued types of financial service
- The survey data interpreted and possible reasons suggested for trends indicated in the data
- The type of financial service most valued by different communities compared from published statistics at different periods over the past 5 years (covered in the assessment)
- Published data interpreted and possible social, political and environmental reasons suggested for trends in the data (covered in the assessment)
- Implications of the trends in different communities for the financial services industry (covered in the assessment)

4.1 Different Interpretations that could be given to the data from own and other's Surveys considered and compared in terms of the most valued Types of Financial Service

The final task of conducting a survey is to communicate the findings clearly and accurately so they can be used for making decisions.

Your report should include a meaningful title, e.g. "Student Survey Results" says little, "Factors Related to Student Attrition" says much more.

To orientate the reader to your report, include the purpose of the study and how the survey was conducted (the methodology used). Provide a summary of your results, including any tables or charts displaying data. And finally, draw your conclusions and make recommendations based on your findings.

In a written report, include a copy of the survey instrument, frequency distributions of responses to questions (whether each one is discussed in the text or not) and a description of the survey and sampling methodology (how and when the survey was conducted, how respondents were selected, the response rate etc.)

An executive summary is very helpful for those who don't want to wade through a lot of text and numbers to get the highlights of the study. Graphics, in the form of charts and maps, help break up the text and help the reader focus in on the most important points.

Readers should be told what the topic or opinion question was, who conducted the survey and who was included in it, when the survey was conducted, why it was

conducted and why the named persons were included, and where the survey took place.

4.2 The Survey data Interpreted and possible reasons suggested for trends indicated in the data

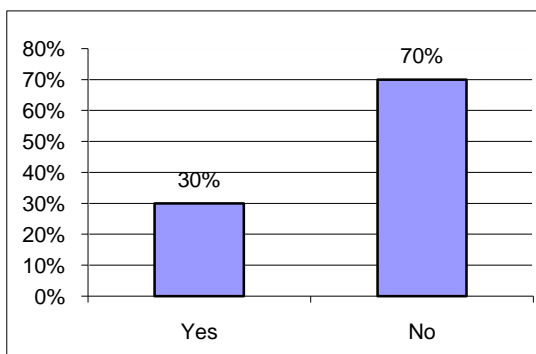
• Illustrating Information Graphically

The best way to illustrate survey results is graphically as it makes it easier to turn the data into meaningful information. This is best done using Microsoft Office Excel, by following the following steps

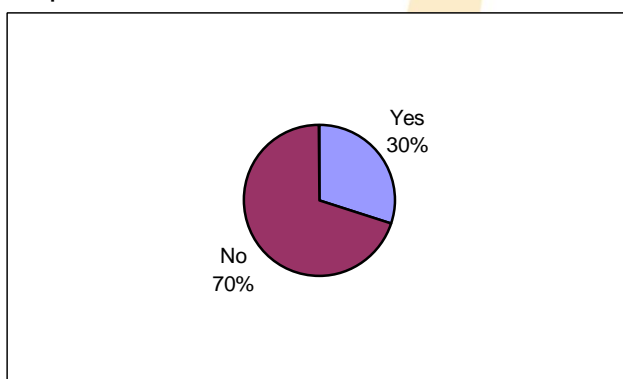
- Type in the research data with relevant headings
- Highlight data and click “Insert” on the top of the screen
- Select “Chart” and select the specific chart required, whether bar, line or pie chart. The suitability of chart will depend on the specific data to be represented.
- Continue to click “Next” until you reach the final screen when you click on “Finish”

The chart can be adjusted and improved by right clicking your mouse over the chart

Graphical Illustration in a Bar Chart:



Graphical Illustration in a Pie Chart



4.3 Drawing Conclusions

Once collated in manageable data, the survey results of the sample of respondents can be extended to draw conclusions about a broader market, for example the type of individual who is likely to invest in unit trusts.

5. Secondary Data

It is important to bear in mind that had the sample been taken from a different group of respondents the results would have more than likely been different. It is therefore useful to compare the results to any existing published secondary data that is available. This will ensure that the sample is representative of the broader market. Where the data differs substantially, it needs to be determined why there is a difference and whether it is substantial enough to affect the validity (i.e. accuracy) of the survey results.

Survey data is useful in indicating trends, which may be due to social, political and environmental reasons. The trends in different communities can have possible implications for specific industries.

We focused on investment products here, but surveys can of course be conducted for any other type of financial product and the methodology would be the same. The purpose of any study is to establish whether products currently available are meeting needs currently in existence. Should the needs not be met by available products, new products, or modification of existing products, are highly likely. To remain competitive in a constantly evolving global economy, prudent entrepreneurs will not let an opportunity pass to attend seriously to conclusive survey results pertaining to market needs and trends.

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