**Occupational Certificate:**

**Financial Advisor**

**SAQA ID: 105026**

**Overview of Financial Advice**

**Module 1**

**NQF Level 5**

**13 credits**

**LEARNER RESOURCE GUIDE**

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# SECTION A: INTRODUCTION

**ABOUT THIS GUIDE**

This Resource Guide is serves as an additional source of information containing information which is related to your learning material and, must be read in conjunction with the Financial Investment Adviser module.

The guide will cluster resources and information as per the qualification criteria. Section B will address Resources related to the Financial Investment Advisor Module.

|  |  |
| --- | --- |
|  | **Resources** During the contact session, your facilitator will refer to the resource guide where required – so please make sure you have it with you! |

# SECTION B: KNOWLEDGE MODULE RESOURCES

## Learning Module: Investment Advice overview

### Learning Unit 1: Basic Economics

|  |  |  |
| --- | --- | --- |
| Basics of Economics | | |
| **Subheading/s** | **Source** | **Summary** |
| **1. 1 – 1.5 The laws of supply and Demand, equilibrium, shortages and surplus** | STEYN, 2018  Illustration of the laws of supply and demand in the real world  Retrieved from <https://www.iol.co.za/business-report/companies/uber-sa-announces-price-increase-by-5-18419404>  **https://www.masterclass.com/articles/law-of-demand-explained#3-examples-of-the-law-of-demand** | This article discusses a practical, real-world example that is used in discussing the Laws of Demand and supply. |
| **1.8 Accounting for the Effect of inflation on GDP** | STATISTICS TIMES, 2018  Ranking of GDP by country (2019 -2023)  Retrieved from: <http://statisticstimes.com/economy/projected-world-gdp-ranking.php>  **Projected GDP Ranking**  As of [2021](https://www.statisticstimes.com/economy/gdp-indicators-2021.php), the United States and China would occupy the first two places in both methods' gdp ranking. The US and China's margin is coming down in nominal ranking as China's gdp growth rate of 2021 (8.02%) is higher than the US's 5.97%. On a nominal basis, the US is ahead of China by $6 trillion in 2021. On a ppp basis, China has overtaken the US in 2017 and ahead by Int. $4 trillion, and the gap is increasing. China will remain the world's [largest economy](https://www.statisticstimes.com/economy/largest-economies-in-the-world.php) on a ppp basis over the next few decades as 2nd ranked US is growing slow and 3rd ranked India is way behind.  In the nominal gdp list, There would be no change in the top 10. Other changes in the top 20 would be Iran overtaking the Netherlands, Saudi Arabia overtaking Turkey and Switzerland in the top 20 list. Among the top 50, the Economic rank of South Africa would move up by eight positions, while Egypt would lose four places.  In the ppp ranking, There would be no change in the top 10 list. Other changes in the top 20 would be Taiwan overtaking Australia. Among the top 50, Ireland will climb three spots.  In the list of top 50, All economies will experience a positive growth rate in 2021. Ireland is the fastest-growing economy with 14.04%, followed by Chile (11.00%). Thailand has the lowest growth rate of 0.96%, followed by the United Arab Emirates (2.24%) and Japan (2.36%).  United States (1,5) is present in both lists of the top ten GDP and GDP per capita ranking at nominal terms. Germany (4,17), Canada (9,15), Australia (13,9), Netherlands (18,12), and Switzerland (20,3) are in the top twenty list of GDP and GDP per capita ranking. In PPP, United States (2,8) is present in the top ten, whereas Germany (5,18) and Taiwan (18,15) are in the top twenty of both rankings.   * Choropleth Map * Bubble Map * Bubble Chart   Zoom level changed to 1.032638331  Zoom level changed to 1   | GDP (Nominal) Ranking | | | | | | | | | | | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Country/Economy** | **GDP (Nominal) (billions of $)** | | | | | | **Growth (%)** | **GDP per capita (Nominal) ($)** | | **Continent** | | **2020** | **Rank** | **2021** | **Rank** | **Share (%)** | **diff** | **2021** | **2021** | **Rank** | | [United States](https://www.statisticstimes.com/economy/country/us-gdp.php) | 20,893.75 | 1 | 22,939.58 | 1 | 24.2 | - | 5.97 | 69,375 | 5 | North America | | [China](https://www.statisticstimes.com/economy/country/china-gdp.php) | 14,866.74 | 2 | 16,862.98 | 2 | 17.8 | 6,077 | 8.02 | 11,891 | 64 | Asia | | [Japan](https://www.statisticstimes.com/economy/country/japan-gdp.php) | 5,045.10 | 3 | 5,103.11 | 3 | 5.38 | 11,760 | 2.36 | 40,704 | 26 | Asia | | [Germany](https://www.statisticstimes.com/economy/country/germany-gdp.php) | 3,843.34 | 4 | 4,230.17 | 4 | 4.46 | 873 | 3.05 | 50,788 | 17 | Europe | | [United Kingdom](https://www.statisticstimes.com/economy/country/uk-gdp.php) | 2,709.68 | 5 | 3,108.42 | 5 | 3.27 | 1,122 | 6.76 | 46,200 | 22 | Europe | | [India](https://www.statisticstimes.com/economy/country/india-gdp.php) | 2,660.24 | 6 | 2,946.06 | 6 | 3.10 | 162 | 9.50 | 2,116 | 150 | Asia | | [France](https://www.statisticstimes.com/economy/country/france-gdp.php) | 2,624.42 | 7 | 2,940.43 | 7 | 3.10 | 5.63 | 6.29 | 45,028 | 23 | Europe | | [Italy](https://www.statisticstimes.com/economy/country/italy-gdp.php) | 1,884.94 | 8 | 2,120.23 | 8 | 2.23 | 820 | 5.77 | 35,585 | 28 | Europe | | [Canada](https://www.statisticstimes.com/economy/country/canada-gdp.php) | 1,644.04 | 9 | 2,015.98 | 9 | 2.12 | 104 | 5.69 | 52,791 | 15 | North America | | [Korea](https://www.statisticstimes.com/economy/country/south-korea-gdp.php) | 1,638.26 | 10 | 1,823.85 | 10 | 1.92 | 192 | 4.28 | 35,196 | 29 | Asia | | [Russia](https://www.statisticstimes.com/economy/country/russia-gdp.php) | 1,478.57 | 11 | 1,647.57 | 11 | 1.74 | 176 | 4.69 | 11,273 | 68 | Europe | | [Brazil](https://www.statisticstimes.com/economy/country/brazil-gdp.php) | 1,444.72 | 12 | 1,645.84 | 12 | 1.73 | 1.73 | 5.23 | 7,741 | 87 | South America | | [Australia](https://www.statisticstimes.com/economy/country/australia-gdp.php) | 1,359.37 | 13 | 1,610.56 | 13 | 1.70 | 35.3 | 3.54 | 62,619 | 9 | Oceania | | [Spain](https://www.statisticstimes.com/economy/country/spain-gdp.php) | 1,280.46 | 14 | 1,439.96 | 14 | 1.52 | 171 | 5.74 | 30,537 | 34 | Europe | | [Mexico](https://www.statisticstimes.com/economy/country/mexico-gdp.php) | 1,073.92 | 15 | 1,285.52 | 15 | 1.35 | 154 | 6.25 | 9,967 | 72 | North America | | [Indonesia](https://www.statisticstimes.com/economy/country/indonesia-gdp.php) | 1,059.64 | 16 | 1,150.25 | 16 | 1.21 | 135 | 3.20 | 4,225 | 117 | Asia | | [Islamic Republic of Iran](https://www.statisticstimes.com/economy/country/iran-gdp.php) | 835.35 | 18 | 1,081.38 | 17 | 1.14 | 68.9 | 2.46 | 12,725 | 62 | Asia | | [Netherlands](https://www.statisticstimes.com/economy/country/netherlands-gdp.php) | 913.13 | 17 | 1,007.56 | 18 | 1.06 | 73.8 | 3.77 | 57,715 | 12 | Europe | | [Saudi Arabia](https://www.statisticstimes.com/economy/country/saudi-arabia-gdp.php) | 700.12 | 21 | 842.59 | 19 | 0.888 | 165 | 2.84 | 23,762 | 44 | Asia | | [Switzerland](https://www.statisticstimes.com/economy/country/switzerland-gdp.php) | 751.88 | 19 | 810.83 | 20 | 0.854 | 31.8 | 3.71 | 93,515 | 3 | Europe | | [Turkey](https://www.statisticstimes.com/economy/country/turkey-gdp.php) | 719.92 | 20 | 795.95 | 21 | 0.838 | 14.9 | 8.95 | 9,407 | 76 | Europe | | [Taiwan Province of China](https://www.statisticstimes.com/economy/country/taiwan-gdp.php) | 668.16 | 22 | 785.59 | 22 | 0.828 | 10.4 | 5.86 | 33,402 | 32 | Asia | | [Poland](https://www.statisticstimes.com/economy/country/poland-gdp.php) | 595.92 | 23 | 655.33 | 23 | 0.690 | 130 | 5.12 | 17,319 | 51 | Europe | | [Sweden](https://www.statisticstimes.com/economy/country/sweden-gdp.php) | 541.06 | 24 | 622.37 | 24 | 0.656 | 33.0 | 4.04 | 58,639 | 11 | Europe | | [Belgium](https://www.statisticstimes.com/economy/country/belgium-gdp.php) | 514.92 | 25 | 581.85 | 25 | 0.613 | 40.5 | 5.64 | 50,413 | 18 | Europe | | [Thailand](https://www.statisticstimes.com/economy/country/thailand-gdp.php) | 501.71 | 26 | 546.22 | 26 | 0.575 | 35.6 | 0.96 | 7,809 | 85 | Asia | | [Ireland](https://www.statisticstimes.com/economy/country/ireland-gdp.php) | 425.55 | 29 | 516.25 | 27 | 0.544 | 30.0 | 13.04 | 102,394 | 2 | Europe | | [Austria](https://www.statisticstimes.com/economy/country/austria-gdp.php) | 432.52 | 27 | 481.21 | 28 | 0.507 | 35.0 | 3.92 | 53,793 | 13 | Europe | | [Nigeria](https://www.statisticstimes.com/economy/country/nigeria-gdp.php) | 429.42 | 28 | 480.48 | 29 | 0.506 | 0.73 | 2.64 | 2,273 | 145 | Africa | | [Israel](https://www.statisticstimes.com/economy/country/israel-gdp.php) | 407.10 | 30 | 467.53 | 30 | 0.492 | 13.0 | 7.06 | 49,840 | 19 | Asia | | [Argentina](https://www.statisticstimes.com/economy/country/argentina-gdp.php) | 389.06 | 31 | 455.17 | 31 | 0.479 | 12.4 | 7.50 | 9,929 | 73 | South America | | [Norway](https://www.statisticstimes.com/economy/country/norway-gdp.php) | 362.52 | 33 | 445.51 | 32 | 0.469 | 9.67 | 3.03 | 82,244 | 4 | Europe | | [South Africa](https://www.statisticstimes.com/economy/country/south-africa-gdp.php) | 335.34 | 41 | 415.32 | 33 | 0.437 | 30.2 | 5.00 | 6,861 | 91 | Africa | | [United Arab Emirates](https://www.statisticstimes.com/economy/country/uae-gdp.php) | 358.87 | 35 | 410.16 | 34 | 0.432 | 5.16 | 2.24 | 43,538 | 24 | Asia | | [Denmark](https://www.statisticstimes.com/economy/country/denmark-gdp.php) | 356.09 | 36 | 396.67 | 35 | 0.418 | 13.5 | 3.80 | 67,920 | 7 | Europe | | [Egypt](https://www.statisticstimes.com/economy/country/egypt-gdp.php) | 363.25 | 32 | 396.33 | 36 | 0.417 | 0.34 | 3.33 | 3,852 | 123 | Africa | | [Philippines](https://www.statisticstimes.com/economy/country/philippines-gdp.php) | 361.49 | 34 | 385.74 | 37 | 0.406 | 10.6 | 3.22 | 3,492 | 129 | Asia | | [Singapore](https://www.statisticstimes.com/economy/country/singapore-gdp.php) | 339.98 | 39 | 378.65 | 38 | 0.399 | 7.09 | 6.03 | 66,263 | 8 | Asia | | [Malaysia](https://www.statisticstimes.com/economy/country/malaysia-gdp.php) | 337.01 | 40 | 371.11 | 39 | 0.391 | 7.53 | 3.50 | 11,125 | 69 | Asia | | [Hong Kong SAR](https://www.statisticstimes.com/economy/country/hong-kong-gdp.php) | 346.58 | 37 | 369.72 | 40 | 0.389 | 1.39 | 6.44 | 49,485 | 20 | Asia | | [Vietnam](https://www.statisticstimes.com/economy/country/vietnam-gdp.php) | 343.11 | 38 | 368.00 | 41 | 0.388 | 1.72 | 3.78 | 3,743 | 124 | Asia | | [Bangladesh](https://www.statisticstimes.com/economy/country/bangladesh-gdp.php) | 323.06 | 42 | 355.69 | 42 | 0.375 | 12.3 | 4.60 | 2,139 | 149 | Asia | | [Chile](https://www.statisticstimes.com/economy/country/chile-gdp.php) | 252.82 | 46 | 331.25 | 43 | 0.349 | 24.4 | 11.00 | 16,799 | 54 | South America | | [Colombia](https://www.statisticstimes.com/economy/country/colombia-gdp.php) | 271.55 | 43 | 300.79 | 44 | 0.317 | 30.5 | 7.61 | 5,892 | 96 | South America | | [Finland](https://www.statisticstimes.com/economy/country/finland-gdp.php) | 269.56 | 44 | 296.02 | 45 | 0.312 | 4.77 | 2.97 | 53,523 | 14 | Europe | | [Pakistan](https://www.statisticstimes.com/economy/country/pakistan-gdp.php) | 261.73 | 45 | 292.22 | 46 | 0.308 | 3.80 | 3.94 | 1,401 | 161 | Asia | | [Romania](https://www.statisticstimes.com/economy/country/romania-gdp.php) | 248.72 | 47 | 287.28 | 47 | 0.303 | 4.94 | 7.00 | 14,864 | 58 | Europe | | [Czech Republic](https://www.statisticstimes.com/economy/country/czechia-gdp.php) | 245.35 | 48 | 276.91 | 48 | 0.292 | 10.4 | 3.79 | 25,806 | 41 | Europe | | [Portugal](https://www.statisticstimes.com/economy/country/portugal-gdp.php) | 228.36 | 49 | 251.71 | 49 | 0.265 | 25.2 | 4.44 | 24,457 | 43 | Europe | | [New Zealand](https://www.statisticstimes.com/economy/country/new-zealand-gdp.php) | 209.38 | 50 | 247.64 | 50 | 0.261 | 4.07 | 5.06 | 48,349 | 21 | Oceania | | World | 84,972 |  | 94,935 |  |  |  | 5.88 | 12,284 |  |  |  * Choropleth Map * Bubble Map * Bubble Chart   Zoom level changed to 1  Zoom level changed to 1   | GDP (PPP) Ranking | | | | | | | | | | | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Country/Economy** | **GDP (PPP) (billions of Int. $)** | | | | | | **Growth (%)** | **GDP per capita (PPP) (Int. $)** | | **Continent** | | **2020** | **Rank** | **2021** | **Rank** | **Share** | **diff** | **2021** | **2021** | **Rank** | | [China](https://www.statisticstimes.com/economy/country/china-gdp.php) | 24,191.30 | 1 | 27,071.96 | 1 | 18.7 % | - | 8.02 | 19,090 | 75 | Asia | | [United States](https://www.statisticstimes.com/economy/country/us-gdp.php) | 20,893.75 | 2 | 22,939.58 | 2 | 15.9 % | 4,132 | 5.97 | 69,375 | 8 | North America | | [India](https://www.statisticstimes.com/economy/country/india-gdp.php) | 8,974.74 | 3 | 10,181.17 | 3 | 7.04 % | 12,758 | 9.50 | 7,314 | 129 | Asia | | [Japan](https://www.statisticstimes.com/economy/country/japan-gdp.php) | 5,312.30 | 4 | 5,633.51 | 4 | 3.89 % | 4,548 | 2.36 | 44,935 | 34 | Asia | | [Germany](https://www.statisticstimes.com/economy/country/germany-gdp.php) | 4,536.52 | 5 | 4,843.39 | 5 | 3.35 % | 790 | 3.05 | 58,150 | 18 | Europe | | [Russia](https://www.statisticstimes.com/economy/country/russia-gdp.php) | 4,100.48 | 6 | 4,447.48 | 6 | 3.07 % | 396 | 4.69 | 30,431 | 56 | Europe | | [Indonesia](https://www.statisticstimes.com/economy/country/indonesia-gdp.php) | 3,301.91 | 7 | 3,530.33 | 7 | 2.44 % | 917 | 3.20 | 12,967 | 103 | Asia | | [Brazil](https://www.statisticstimes.com/economy/country/brazil-gdp.php) | 3,153.15 | 8 | 3,437.61 | 8 | 2.38 % | 92.7 | 5.23 | 16,169 | 86 | South America | | [France](https://www.statisticstimes.com/economy/country/france-gdp.php) | 3,016.88 | 9 | 3,322.31 | 9 | 2.30 % | 115 | 6.29 | 50,876 | 26 | Europe | | [United Kingdom](https://www.statisticstimes.com/economy/country/uk-gdp.php) | 2,961.89 | 10 | 3,276.14 | 10 | 2.27 % | 46.2 | 6.76 | 48,693 | 28 | Europe | | [Turkey](https://www.statisticstimes.com/economy/country/turkey-gdp.php) | 2,545.94 | 11 | 2,873.84 | 11 | 1.99 % | 402 | 8.95 | 33,963 | 50 | Europe | | [Italy](https://www.statisticstimes.com/economy/country/italy-gdp.php) | 2,461.30 | 12 | 2,697.14 | 12 | 1.86 % | 177 | 5.77 | 45,267 | 32 | Europe | | [Mexico](https://www.statisticstimes.com/economy/country/mexico-gdp.php) | 2,439.47 | 13 | 2,685.25 | 13 | 1.86 % | 11.9 | 6.25 | 20,820 | 74 | North America | | [Korea](https://www.statisticstimes.com/economy/country/south-korea-gdp.php) | 2,317.18 | 14 | 2,503.40 | 14 | 1.73 % | 182 | 4.28 | 48,309 | 29 | Asia | | [Canada](https://www.statisticstimes.com/economy/country/canada-gdp.php) | 1,851.54 | 15 | 2,027.37 | 15 | 1.40 % | 476 | 5.69 | 53,089 | 24 | North America | | [Spain](https://www.statisticstimes.com/economy/country/spain-gdp.php) | 1,811.09 | 16 | 1,984.01 | 16 | 1.37 % | 43.4 | 5.74 | 42,075 | 40 | Europe | | [Saudi Arabia](https://www.statisticstimes.com/economy/country/saudi-arabia-gdp.php) | 1,627.75 | 17 | 1,734.23 | 17 | 1.20 % | 250 | 2.84 | 48,908 | 27 | Asia | | [Taiwan Province of China](https://www.statisticstimes.com/economy/country/taiwan-gdp.php) | 1,316.03 | 19 | 1,443.41 | 18 | 0.998 % | 291 | 5.86 | 61,371 | 15 | Asia | | [Australia](https://www.statisticstimes.com/economy/country/australia-gdp.php) | 1,330.47 | 18 | 1,427.26 | 19 | 0.987 % | 16.2 | 3.54 | 55,492 | 22 | Oceania | | [Poland](https://www.statisticstimes.com/economy/country/poland-gdp.php) | 1,296.85 | 20 | 1,412.30 | 20 | 0.976 % | 15.0 | 5.12 | 37,323 | 42 | Europe | | [Egypt](https://www.statisticstimes.com/economy/country/egypt-gdp.php) | 1,290.02 | 21 | 1,381.06 | 21 | 0.955 % | 31.2 | 3.33 | 13,422 | 101 | Africa | | [Thailand](https://www.statisticstimes.com/economy/country/thailand-gdp.php) | 1,272.54 | 22 | 1,331.05 | 22 | 0.920 % | 50.0 | 0.96 | 19,028 | 76 | Asia | | [Islamic Republic of Iran](https://www.statisticstimes.com/economy/country/iran-gdp.php) | 1,120.21 | 23 | 1,189.15 | 23 | 0.822 % | 142 | 2.46 | 13,993 | 97 | Asia | | [Pakistan](https://www.statisticstimes.com/economy/country/pakistan-gdp.php) | 1,074.84 | 24 | 1,157.48 | 24 | 0.800 % | 31.7 | 3.94 | 5,447 | 143 | Asia | | [Vietnam](https://www.statisticstimes.com/economy/country/vietnam-gdp.php) | 1,061.48 | 26 | 1,141.30 | 25 | 0.789 % | 16.2 | 3.78 | 11,608 | 112 | Asia | | [Nigeria](https://www.statisticstimes.com/economy/country/nigeria-gdp.php) | 1,069.04 | 25 | 1,136.80 | 26 | 0.786 % | 4.50 | 2.64 | 5,377 | 145 | Africa | | [Netherlands](https://www.statisticstimes.com/economy/country/netherlands-gdp.php) | 1,003.81 | 27 | 1,079.16 | 27 | 0.746 % | 57.6 | 3.77 | 61,816 | 14 | Europe | | [Argentina](https://www.statisticstimes.com/economy/country/argentina-gdp.php) | 942.23 | 28 | 1,049.40 | 28 | 0.726 % | 29.8 | 7.50 | 22,892 | 67 | South America | | [Philippines](https://www.statisticstimes.com/economy/country/philippines-gdp.php) | 919.29 | 29 | 983.12 | 29 | 0.680 % | 66.3 | 3.22 | 8,900 | 124 | Asia | | [Malaysia](https://www.statisticstimes.com/economy/country/malaysia-gdp.php) | 903.70 | 30 | 969.04 | 30 | 0.670 % | 14.1 | 3.50 | 29,048 | 57 | Asia | | [Bangladesh](https://www.statisticstimes.com/economy/country/bangladesh-gdp.php) | 870.79 | 31 | 953.39 | 31 | 0.659 % | 15.7 | 4.60 | 5,733 | 139 | Asia | | [South Africa](https://www.statisticstimes.com/economy/country/south-africa-gdp.php) | 792.33 | 32 | 861.93 | 32 | 0.596 % | 91.5 | 5.00 | 14,239 | 93 | Africa | | [Colombia](https://www.statisticstimes.com/economy/country/colombia-gdp.php) | 729.06 | 33 | 812.80 | 33 | 0.562 % | 49.1 | 7.61 | 15,922 | 87 | South America | | [United Arab Emirates](https://www.statisticstimes.com/economy/country/uae-gdp.php) | 660.34 | 34 | 699.44 | 34 | 0.484 % | 113 | 2.24 | 74,245 | 6 | Asia | | [Switzerland](https://www.statisticstimes.com/economy/country/switzerland-gdp.php) | 630.36 | 35 | 677.27 | 35 | 0.468 % | 22.2 | 3.71 | 78,112 | 5 | Europe | | [Romania](https://www.statisticstimes.com/economy/country/romania-gdp.php) | 589.87 | 36 | 653.90 | 36 | 0.452 % | 23.4 | 7.00 | 33,833 | 51 | Europe | | [Belgium](https://www.statisticstimes.com/economy/country/belgium-gdp.php) | 589.72 | 37 | 645.40 | 37 | 0.446 % | 8.50 | 5.64 | 55,919 | 20 | Europe | | [Singapore](https://www.statisticstimes.com/economy/country/singapore-gdp.php) | 560.12 | 39 | 615.29 | 38 | 0.425 % | 30.1 | 6.03 | 107,677 | 3 | Asia | | [Sweden](https://www.statisticstimes.com/economy/country/sweden-gdp.php) | 565.46 | 38 | 609.48 | 39 | 0.421 % | 5.82 | 4.04 | 57,425 | 19 | Europe | | [Ukraine](https://www.statisticstimes.com/economy/country/ukraine-gdp.php) | 545.00 | 40 | 584.13 | 40 | 0.404 % | 25.4 | 3.45 | 14,146 | 95 | Europe | | [Ireland](https://www.statisticstimes.com/economy/country/ireland-gdp.php) | 479.43 | 44 | 561.46 | 41 | 0.388 % | 22.7 | 13.04 | 111,360 | 2 | Europe | | [Kazakhstan](https://www.statisticstimes.com/economy/country/kazakhstan-gdp.php) | 501.21 | 41 | 536.34 | 42 | 0.371 % | 25.1 | 3.29 | 28,043 | 59 | Asia | | [Algeria](https://www.statisticstimes.com/economy/country/algeria-gdp.php) | 497.09 | 42 | 532.57 | 43 | 0.368 % | 3.77 | 3.41 | 11,829 | 111 | Africa | | [Austria](https://www.statisticstimes.com/economy/country/austria-gdp.php) | 493.59 | 43 | 531.41 | 44 | 0.367 % | 1.15 | 3.92 | 59,406 | 16 | Europe | | [Chile](https://www.statisticstimes.com/economy/country/chile-gdp.php) | 454.60 | 45 | 522.79 | 45 | 0.361 % | 8.62 | 11.00 | 26,513 | 60 | South America | | [Hong Kong SAR](https://www.statisticstimes.com/economy/country/hong-kong-gdp.php) | 443.14 | 46 | 488.65 | 46 | 0.338 % | 34.1 | 6.44 | 65,403 | 12 | Asia | | [Czech Republic](https://www.statisticstimes.com/economy/country/czechia-gdp.php) | 436.23 | 47 | 469.07 | 47 | 0.324 % | 19.6 | 3.79 | 43,714 | 36 | Europe | | [Peru](https://www.statisticstimes.com/economy/country/peru-gdp.php) | 397.93 | 49 | 453.65 | 48 | 0.314 % | 15.4 | 10.04 | 13,410 | 102 | South America | | [Iraq](https://www.statisticstimes.com/economy/country/iraq-gdp.php) | 399.38 | 48 | 428.86 | 49 | 0.297 % | 24.8 | 3.65 | 10,415 | 118 | Asia | | [Israel](https://www.statisticstimes.com/economy/country/israel-gdp.php) | 380.29 | 50 | 421.81 | 50 | 0.292 % | 7.05 | 7.06 | 44,966 | 33 | Asia | | World | 131,980 |  | 144,636 |  |  |  | 5.88 | 18,715 |  |  |   [About US](https://www.statisticstimes.com/about.php) | [Terms Of Use](https://www.statisticstimes.com/termsofuse.php) | [Privacy Policy](https://www.statisticstimes.com/privacy.php) | [Contact Us](https://www.statisticstimes.com/contact.php)  © 2021 - StatisticsTimes.com  AddThis Sharing Sidebar  Share to Facebook  , Number of shares  Share to TwitterShare to LinkedInMore AddThis Share options  , Number of shares2.3K | The article discusses the ranking of economic strength as measured by nominal GDP to give the student a practical application of the concept of GDP. |
| **1.9 The Concept of Business Cycle and phases in the Business Cycle** | SMITH, 2018  Recession: what is regarded as the longest recession in SA since 1945  Retrieved from <https://www.fin24.com/Economy/sa-in-longest-downward-business-cycle-since-1945-report-20181008>  **SA in the longest downward business cycle since 1945 - report**  [accreditation](https://www.fin24.com/)  Carin Smith, Fin24  Share  South Africa is in the longest downward business cycle since 1945, according to a report by the Centre for Risk Analysis (CRA) at the Institute of Race Relations (IRR).  "This is extraordinary, since other emerging markets are driving the global economy," IRR CEO Dr Frans Cronjé said in the report.  The CRA looked at data provided by the SA Reserve Bank on the country's business cycle phases dating back to the end of the Second World War in 1945.  The SARB data - measured in months - indicates that SA has been in a downward phase since December 2013.  Ian Cruickshanks, chief economist of the IRR, told Fin24 that the latest downward cycle was still ongoing, with the "end" still undetermined and, therefore, not yet part of the SARB data.  However, to be able to reflect a more complete picture of what is currently happening to the SA business cycle, Cruickshanks explained that the CRA "counted" the number of months since December 2013 to date - 58 months in total.  **Downward cycle still ongoing**  "We call it an estimate as we cannot say how long the duration of the downward business cycle will still continue as it is still in progress," he said.  "What we wanted to be able to establish the length of this downward business cycle phase to compare it to previous downward phases."  According to the CRA report, the SARB data defines growth cycles as representing "fluctuations around the long-term growth trend of aggregate economic activity".  "The SARB determines upper (peaks) and lower (troughs) turning points in the business cycle in terms of the growth cycle definition of business cycles and not the classical definition," explained Cruickshanks.  Classical business cycles refer to periods of absolute increase in aggregate economic activity, followed by periods of absolute decrease (recessions).  SARB employs several statistical tools to establish whether a reference turning point in the SA business cycle has occurred and monitors these continuously.  Cronjé pointed out that, as the most recent quarterly data has shown, there is relatively little life across any of the ten major sectors of the economy tracked by the CRA report.  **Stimulus package**  He said the IRR was “alarmed” that the recent stimulus package announced by President Cyril Ramaphosa "fell short" - in the view of the IRR - of what will be necessary to reignite the SA economy.  "The crisis SA faces is not one of inadequate government spending or insufficient stimulus, but rather one of an economy battered by a decade of hostile policy," said Cronjé.  In his view, the best "and only" real "stimulus" package open to the SA government is, therefore, one of policy reform.  Economist Mike Schüssler told Fin24 that he agreed with the CRA report about SA likely being in the longest downward business cycle in 80 years - if not even longer, in his view.  He too pointed out that the business cycle was more than just measuring gross domestic product (GDP). For the business cycle one looks at GDP in relation to leading, current and lagging indicators.  "It looks at a host of things, and basically means SA is growing below potential and that it is not something we can easily fix," said Schüssler.  "When you are down this long, it indicates a structural problem, which cannot just be fixed with interest rates or government spending."  For him the question now becomes how long this downward cycle will still last.  "It is quite frightening, because the rest of the world is showing an upward trend, while we are not," said Schüssler.  "We cannot afford this. In downward cycles, not enough jobs are created no matter what government does."  He pointed out, though, that one must keep in mind that a downward phase of the business cycle does not mean the economy is in a recession. It means it is performing below its normal growth potential.  downcycle | The article provides a real-world example of a recessionary period in South African History. |
| **1.9.1 The stages of a business cycle** | LUMEN  Business cycle: Definition and phrases  Retrieved from <https://courses.lumenlearning.com/baycollege-introbusiness/chapter/reading-the-business-cycle-definition-and-phases/>  **Reading: The Business Cycle: Definition and Phases**  **The Business Cycle**  The term “business cycle” (or economic cycle or boom-bust cycle) refers to economy-wide fluctuations in production, trade, and general economic activity. From a conceptual perspective, the business cycle is the upward and downward movements of levels of GDP (gross domestic product) and refers to the period of expansions and contractions in the level of economic activities (business fluctuations) around a long-term growth trend.  [Business-cycle graph showing output (GDP) over time. The phases of a business cycle follow a wave-like pattern over time, with expansion leading to a peak and then followed by contraction.](https://s3-us-west-2.amazonaws.com/courses-images-archive-read-only/wp-content/uploads/sites/1120/2015/06/02032106/Business_Cycle_Diagram.png)  Figure 1. Business Cycles: The phases of a business cycle follow a wave-like pattern over time with regard to GDP, with expansion leading to a peak and then followed by contraction.  **Business Cycle Phases**  Business cycles are identified as having four distinct phases: expansion, peak, contraction, and trough.  An **expansion** is characterized by increasing employment, economic growth, and upward pressure on prices. A **peak** is the highest point of the business cycle, when the economy is producing at maximum allowable output, employment is at or above full employment, and inflationary pressures on prices are evident. Following a peak, the economy typically enters into a correction which is characterized by a **contraction** where growth slows, employment declines (unemployment increases), and pricing pressures subside.  The slowing ceases at the **trough** and at this point the economy has hit a bottom from which the next phase of expansion and contraction will emerge.  **Business Cycle Fluctuations**  Business cycle fluctuations occur around a long-term growth trend and are usually measured in terms of the growth rate of real gross domestic product.  In the United States, it is generally accepted that the National Bureau of Economic Research (NBER) is the final arbiter of the dates of the peaks and troughs of the business cycle. An **expansion** is the period from a trough to a peak, and a **recession** as the period from a peak to a trough. The NBER identifies a recession as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production. ” This is significantly different from the commonly cited definition of a recession being signaled by two consecutive quarters of decline in real GDP. If the economy does not begin to expand again then the economy may be considered to be in a state of **depression**.  **Impact on Business Operations**  How the business cycle affects business operations may be best explained by looking at how one business responds to these cycles. Normal Maintenance is a small business that provides a variety of construction services to homeowners. They specialize in roofing, deck installations, siding, and general home maintenance. They employ three full-time workers, who typically work forty hours per week for an average of twelve dollars per hour. The company has been in business in the same town for than twenty years and has a solid reputation for quality work and reliability.  **Expansion**  Normal Maintenance is busy and has recently had to turn down jobs because it lacks the capacity to do all the work offered. Homeowners now want to make home repairs and improvements which they had had to put off during the sour economy. With the economy improving, others are fixing up their homes to sell. Faced with so much demand, the owner of Normal Maintenance must decide whether to pay his existing workers overtime (which will increase the costs for each job and reduce profits) or hire additional workers. The competition for qualified construction labor is steep, and he is concerned that he will have to pay more than his usual rate of twelve dollars per hour or possibly get workers who are not as qualified as his current crew. He is, however, able to charge higher prices for his work because homeowners are experiencing long waits and delays getting bids and jobs completed.  The owner purchases a new truck and invests in additional tools in order to keep up with the demand for services. Customers are willing to pay more than usual so they can get the work done. Business is expanding to such an extent that Normal Maintenance and its suppliers are starting to have trouble obtaining materials such as shingles and siding because the manufacturers have not kept pace with the economic expansion. In general, business is great for Normal Maintenance, but the expansion brings challenges.  **Peak**  At the peak of the business cycle, the economy can be said to be “overheated.” Despite hiring additional workers, the owner and crews of Normal Maintenance are working seven days a week and are still unable to keep up with demand. They can’t work any harder or faster. As a result, the crews are exhausted and the quality of their work is beginning to decline. Customers leave messages requesting work and services, but the owner is so busy he doesn’t return phone calls. Jobs are getting started and completed late as the crews struggle to cover multiple job sites. As a result, customer complaints are on the rise, and the owner is worried about the long-term reputation of the business. Neither the business nor the economy can sustain this level of activity, and despite the fact that Normal Maintenance is making great money, everyone is ready for things to let up a little.  **Contraction**  As the economy begins to contract, business begins to slow down for Normal Maintenance. They find that they are caught up on work and they aren’t getting so many phone calls. The owner is able to reduce his labor costs by cutting back on overtime and eliminate working on the weekends. When the phone does ring, homeowners are asking for *bids* on work—not just placing work orders. Normal Maintenance loses out on several jobs because their bids are too high. The company begins to look for new suppliers who can provide them with materials at a cheaper price so they can be more competitive. The building material companies start offering “deals” and specials to contractors in order to generate sales. In general, competition for work has increased and some of the businesses that popped up during the expansion are no longer in the market. In the short term the owner is confident that he has enough work to keep his crew busy, but he’s concerned that if things don’t pick up, he might have to lay off some of the less experienced workers.  **Trough**  On Monday morning, the crew of Normal Maintenance show up to work and the owner has to send them home: there’s no work for them. During the week before, they worked only three days, and the owner is down to his original crew of three employees. Several months ago he laid off the workers hired during the expansion. Although that was a difficult decision, the owner knows from hard experience that sometimes businesses fail not because their owners make bad decisions, but because they run out of money during recessions when there isn’t enough customer demand to sustain them. Without enough working capital to keep the doors open, some are forced to close down.  Representatives from supply companies are stopping by the office hoping to get an order for even the smallest quantity of materials. The new truck and tools that the owner purchased during the boom now sit idle and represent additional debt and costs. The company’s remaining work comes from people who have decided to fix up their existing homes because the economy isn’t good enough for them to buy new ones. The owner increases his advertising budget, hoping to capture any business that might be had. He is optimistic that Normal Maintenance will weather this economic storm—they’ve done it before—but he’s worried about his employees paying their bills over the winter.  The owner of Normal Maintenance has been in business for a long time, so he’s had some experience with the economic cycle. Though each stage has its stressors, he has learned to plan for them. One thing he knows is that the economy will eventually begin to expand again and run through the cycle all over again.    **KEY TAKEAWAYS**   * Business cycles are identified as having four distinct phases: peak, trough, contraction, and expansion. * Business cycle fluctuations occur around a long-term growth trend and are usually measured by considering the growth rate of real gross domestic product. * In the United States, it is generally accepted that the National Bureau of Economic Research (NBER) is the final arbiter of the dates of the peaks and troughs of the business cycle.   **Check Your Understanding**  Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.  Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section. | The module discusses the phases of a business cycle to give you a thorough grasp of the subject. |
| **2.1.4 The different methods of measuring inflation** | STATS SA, 2017  The South African CPI Sources and Methods manual  Retrieved from <http://www.statssa.gov.za/cpi/documents/The_South_African_CPI_sources_and_methods_26Feb13.pdf> | The publication is an overview of the overall process of computing CPI in South Africa |
| **2.1.4 The different methods of measuring inflation** | STATISTICAL RELEASE P0141  Consumer Price index (CPI) 2021 Weights (Total Country)  Retrieved from https://www.statssa.gov.za/publications/P0141/P0141September2021.pdf  **SEE ATTACHMENTS**  **P0141September2021.pdf** | The publication gives more insight into the different measures of inflation, including the move from to replace mortgage repayments with Equivalent owners Rent in the computation of CPIX. |
| **3.1 The SARB Monetary policy implementation** | SOUTH AFRICAN RESERVE BANK  Monetary policy  https://www.resbank.co.za/en/home/what-we-do/monetary-policy  **The SARB fulfils its constitutional mandate to protect the value of the rand by keeping inflation low and steady.**  **Monetary policy is the means by which central banks manage the money supply to achieve their goals. The SARB uses interest rates to influence the level of inflation.**  National Treasury, in consultation with the SARB, sets the inflation target, which acts as a benchmark against which price stability is measured. The SARB then independently makes monetary policy so as to achieve this target.  The basic aim of monetary policy is to determine how much money an economy should have in circulation. The monetary policies of countries may differ, but most major economies aim for low and stable inflation, and have publicly announced inflation targets.  To protect the value of the rand, the SARB uses inflation targeting, which aims to maintain consumer price inflation between 3% and 6%. The value of the currency is therefore protected relative to domestic consumer prices.  Monetary policy is implemented by setting a short-term policy rate – the repo rate. This affects the borrowing costs of the financial sector, which, in turn, affect the broader economy. The repo rate is so called because banks give the SARB an asset, such as a Government bond, in exchange for cash. They can later repossess (repo) that asset at a lower price, which reflects the interest they paid (i.e. the repo rate) to have the cash.  **Inflation Targeting Framework**  South Africa formally introduced inflation targeting in February 2000. This is a framework in which the central bank uses monetary policy tools, especially the control of short-term interest rates, to keep inflation in line with a given target. South Africa's inflation target range is 3−6%. Before adopting the inflation-targeting framework, the SARB used several different frameworks, including exchange rate targeting and money supply targeting. The inflation-targeting approach has been more successful. It has permitted a more realistic alignment between the SARB’s tools and objectives. It has also enhanced transparency and accountability by giving the SARB a clear and publicly visible objective. | Use this website for an overview of monetary policy in South Africa. |
| **3.1.2.1 The Repo rate** | NEWS24WIRE, 2016  What the rate hike means for your Bond.  Retrieved from <https://businesstech.co.za/news/property/553776/how-much-more-you-will-pay-on-your-bond-after-south-africas-latest-interest-rate-hike/#:~:text=For%20most%20homeowners%20with%20bonds,extra%20on%20their%20monthly%20repayments.&text=Notwithstanding%20this%2C%20the%20interest%20rate,period%20of%20time%2C%20Golding%20said>.  **What the rate hike means for your bond**  [News24Wire](https://businesstech.co.za/news/author/news24wire/)29 January 2016  [Property](https://businesstech.co.za/news/wealth/110605/what-the-rate-hike-means-for-your-bond/)  Top of Form  Bottom of Form  Top of Form  Bottom of Form  Affordability is going to be key for the property market this year, said Seeff Properties chair Samuel Seeff in reaction to the SA Reserve Bank (Sarb) hiking the repo rate by 50 basis points on Thursday.  This takes it to 6.75% and the base home loan rate beyond the 10% barrier to 10.25%.  Seeff believes that although the market will absorb the rate hike, there will no doubt be a knock-on effect. The affordable and middle-income sector will feel the effect most and obtaining credit will likely become tougher for first time buyers.  “Basic living and property costs will climb considerably, as will mortgage loan costs. Buyers will be looking very closely at prices and will be driving a hard bargain as they know that the market is getting tougher,” said Seeff.  “The average price growth will deteriorate further and we may even see negative equity growth when we adjust for inflation. For now though, we are still sitting with a fairly healthy housing market, packed with plenty of demand.”  He added that to have a good property market, you need a good economy. Since both are heavily sentiment and confidence driven, however, he believes property will remain an attractive investment this year, although the economic decline and deteriorating confidence remain serious concerns.  **Lack of supply**  The rate hike is likely to create a further dampening effect on housing demand as consumers are already exercising a more conservative and considered approach to both buying and selling, according to Dr Andrew Golding, chief executive of the Pam Golding Property group (PGP).  “While doom and gloom merchants commentating on the property market abound, a more pragmatic approach presents a different picture,” said Golding.  “Firstly, given the volatility being experienced in financial markets, exchange rates, stocks and commodities, many analysts are seeing property – bricks and mortar – as a sound investment and rand hedge.”  He added that in South Africa property is increasingly sought after among the new generation of young, first time buyers. PGP is seeing that activity in the below R1m price range still seems to be limited mainly by a lack of supply, and not a lack of demand.  He said one must bear in mind that interest rates are still low by historical standards. At the height of the global economic crisis the prime rate in South Africa reached 15.5%.  Kay Geldenhuys, manager for property finance processing at bond originator ooba, said the rate hike will negatively impact the residential housing markets as many consumers are already facing increasing financial strain through dealing with elevated levels of debt and the rising cost of living expenses. Like Seeff, she also sees affordability as a key factor.  The repayment on a R1m home loan over a 20 year period will now cost the homeowner an additional R331 a month, she pointed out. On a 20 year home loan of R1m, the monthly instalment has risen by R1 138 per month since January 2014.  **Speculation**  Another consequence of the rate hike will be on property speculation, according to John Loos, household and property sector strategist at FNB Home Loans.  “There is little room for speculation in the housing market by speculators wishing to use cheap credit to make a quick capital gain. Rapid capital growth just isn’t there at the moment,” said Loos.  He anticipates house price inflation to decline from recent levels of around 7% into lower single digit territory, below consumer price index (CPI) inflation rates, through the course of this year.  At the same time, Loos said it is best for the consumer that Sarb continues to hike interest rates slowly.  “We do believe that gradual hiking by the Sarb can assist in correcting certain macroeconomic imbalances, and is thus desirable,” he explained.  “Our expectation is that the Sarb will continue to nudge rates slowly higher, possibly reaching a 11% prime rate towards end-2016/early-2017. The behaviour of the rand will be key as to whether the Sarb is allowed to hike gradually, or whether it has to “speed it up” as it has done today perhaps.”  He said when buying homes, it would be sensible to buy well within one’s means in able to absorb more interest rate hikes should they materialise. It is also important to consider a higher price inflation rate and how it eats into disposable income, notably high inflation on housing related costs such as municipal rates and tariffs bills.  George Radford of international property investment firm IP Global, actually feels now is the time to invest in property.  “With a volatile start to the year for many global markets and a mixed economic outlook for 2016, the property investment industry remains stable,” he said.  “Many of our clients are choosing to invest in core safe haven markets like the UK, Australia, and Germany.”  **Bond restructuring**  For Adrian Goslett, CEO of RE/MAX of Southern Africa, cautioned that those consumers who are over-indebted need to create a budget that allows them to live within their means.  “If necessary, sell the second car and get rid of credit cards. Selling a home should be the last option, as property is the one long-term asset that should yield a return over time unlike cars, boats and the like,” he said.  “After a consumer has gotten rid of or ring-fenced short term debt, he or she should speak to their bank about the options of restructuring their bond.”  **LATEST ARTICLE**  **https://www.iol.co.za/business-report/economy/property-experts-explain-what-repo-rate-hike-means-for-homeowners-e33f12a3-8fe2-4f8e-9db0-7786005675e1**  **Property experts explain what repo rate hike means for homeowners**  By [Bonny Fourie](https://www.iol.co.za/authors/bonny-fourie) Nov 18, 2021  The moment that many homeowners and prospective buyers have been dreading for months arrived on Thursday when the Monetary Police Committee (MPC) increased the repo rate to 3.75%.  This 25 basis point hike now means that owners with mortgages will be paying a little more on their monthly bond repayments.  The prime lending rate also increases to 7.25%.  The consolation, however, is that interest rates are still low. In addition, property experts do not believe that this increase will have too much of an effect on the property market as a whole.  **Read the latest Property360 digital magazine below**  Through all the months of record-low interest rates, aspiring and new home owners have been warned to leave room in their budgets for any rate increases, which were always inevitable. And now, Adrian Goslett, chief executive of Re/Max of Southern Africa says he hopes they heeded this advice as “tough times” are ahead for those who have not.  However, he is hopeful that the hike will not have a profound effect on property market activity generally.  “My hope is that this interest rate hike will just bring activity back to normal volumes,” he says, explaining that the “hyper activity” – which saw the agency’s reported sales growing by 45%, and property registrations up by 75% for the year until September – was largely a result of the low interest rates and lifestyle changes brought about by the pandemic.  “Now that the economy has been allowed to open up further and vaccination rates are increasing, the hope is that we’ll see an end to the rising unemployment rates. The housing market is very closely linked to how well the greater economy is performing, so we remain hopeful that these factors will contribute towards greater economy stability, especially now that interest rates have been raised.”  For South Africans who are still looking to buy a property, Goslett says there will always be opportunities in any market.  Leadhome chief executive Marcél du Toit too believes that the increase will have “little effect” on the country’s already bullish residential property market, as the prime interest rate is still significantly lower than it was than 12 to 18 months ago.  “The property market is in an extremely positive place right now.”  **Read the latest Home Improver's digital magazine below**  The agency’s figures show that not only were October sales up by more than 50% in 2021 compared to October 2020, but over the same period the average number of days taken to sell a home reduced from 84 to 48 days.  “Positively, November has seen the momentum continue...The activity in the big metros is pretty much back to pre-Covid levels, and banks are still lending aggressively, with average bonds in October 0.2% below prime.”  He adds that the sentiment from the market is “upbeat”, and there is “renewed confidence in property as a long-term investment and a vehicle to building wealth”.  “People clearly feel more secure in their jobs and their incomes, and as business has become more sustainable, it’s removed the ‘fear factor’ from investing.”  Echoing this, Andrew Golding, chief executive of the Pam Golding Property group, says that while there remain variances in activity and demand across various regions, cities and towns the agency reports sustained volumes of sales transactions nationally, underlining ongoing consumer confidence in home ownership.  Still, despite the fact that it is widely acknowledged that interest rates need to start normalising soon, he notes that there are concerns that raising interest rates now may hamper the country’s still fragile economic recovery.  “So today’s decision by the MPC to increase the repo rate to 3.75% is disappointing for first-time home buyers and those with existing mortgages.”  The hike may be disappointing, but Bruce Swain, chief executive of Leapfrog Property Group, says it was “not unexpected”.  “We've enjoyed a record-low interest rate for a while now but it was never going to be a sustainable, long-term arrangement.”  The decision will, however, “certainly have an impact on affordability when it comes to property ownership, and will necessitate a more stringent and frugal approach to managing household finances”.  Carl Coetzee, chief executive of BetterBond agrees that the hike was expected. It is also no cause for alarm.  “We know that interest rates have to normalise as our economic activity returns to pre-pandemic levels, and inflation starts to rise. But we understand too that this will be a gradual increase with the  prime lending rate sitting comfortably below double digits for a while yet. With a prime lending rate of 7.25%, we can look forward to further positive activity in the housing market in 2022.” | The article touches on a real-world example of how changes in the repo rate affect household budgets. |
| **3.2.1 Expansionary fiscal policy** | NATIONAL TREASURY, REPUBLIC OF SOUTH AFRICA 2018  Medium Term Budget policy statement  Retrieved from:  <http://www.treasury.gov.za/documents/mtbps/2018/mtbps/FullMTBPS.pdf>  **NATIONAL TREASURY, REPUBLIC OF SOUTH AFRICA 2021**  Medium Term Budget policy statement 2021  Retrieved from: <http://www.treasury.gov.za/documents/mtbps/2021/mtbps/FullMTBPS.pdf>  **SEE ATTACHMENT:** **FullMTBPS.pdf** | Document gives a practical example of fiscal policy at work. |
| **4.5.2 The relationship between listed share prices and macroeconomic fundamentals** | <https://www.businessinsider.co.za/lower-interest-rates-boost-shares-2019-6>  **South African shares may be on the brink of a breakthrough - but two things need to happen**  [Helena Wasserman](https://www.businessinsider.co.za/Author/Helena%20Wasserman) , Business Insider SA   Jun 26, 2019, 04:07 PM    Lesetja Kganyago, governor of the South African Reserve Bank. (Getty)   * **If the Reserve Bank starts to cut rates in July - and history repeats itself - better times may be ahead for the local market.** * **Over the past half a century, South African shares have never failed to enjoy strong gains in declining interest rate cycles, an analysis by a portfolio manager shows.** * **For more stories, go to** [**Business Insider SA**](https://www.businessinsider.co.za/)**.**   It will be a massive surprise if the Reserve Bank doesn’t cut rates when the monetary policy committee announces its decision on July 18th.  The evidence in support of a cut is overwhelming: the economy is bleeding, inflation remains in check, the chairman of the Fed has confirmed that the US will cut rates soon, and the rand is looking well-behaved.  If South Africa’s experience over the past 46 years repeats itself, if the cut is followed by more decreases, it could signal the start of strong gains on the JSE.  Since 1973, the local market has always seen strong gains when during a declining interest rate  phase – without exception, an analysis by Schalk Louw, portfolio manager and strategist at PSG Wealth Old Oak, shows.  A declining interest rate phase is the period when rates move from a high to a low point - in the past 46 years, these periods lasted on average 32 months in South Africa. Rising interest phases (when interest rates are increased) spanned average periods of 31 months.  “When we consider the equity markets during these phases, it is quite striking that we never saw a negative market during a declining interest rate phase since 1973. On the contrary, the market bloomed like the Namaqualand in spring,” says Louw.  The average growth during a declining interest rate phase between 1973 and 2015 was a staggering 36% per year, while you would have only earned 0.5% growth on your capital during a rising interest rate phase.  The following graphs show that you would have outperformed the money market during the past six declining interest rate phases, while this would not have been possible during a rising interest rate phase.          From July 2012 to March 2016, when interest rates rose, the JSE’s all share index delivered an average gain of less than 4% a year (15% over the period) , below inflation.  Since then the Reserve Bank has zig-zagged on rates, with no clear rising or declining phase:    Repo rate (SA Reserve Bank)  During this time, share prices have been struggling, and the JSE is now lower than a year ago.  Louw believes that if rates do start to decline from next month, and a declining cycle starts in earnest, this could shift the market’s trajectory.  “Whether you believe in historical movements or not, shares and interest rates clearly go hand in hand.” | The article analyses the relationship between interest rates and the stock market (JSE). |
| **4.5.2 The relationship between listed share prices and macroeconomic fundamentals** | <https://www.businesslive.co.za/bd/markets/2019-08-01-hawkish-comments-from-us-fed-push-jse-lower/>  **Hawkish comments from US Fed push JSE lower**  **US Federal Reserve chair Jerome Powell warned on Wednesday that the rate cut was not the start of an easing cycle**  [BL Premium](https://www.businesslive.co.za/buy/)  01 August 2019 - 10:49 Odwa Mjo  The JSE opened lower on Thursday, tracking global markets, after the US Federal Reserve dampened market expectations of further monetary policy easing.  The Fed cut the interest rate by 25 basis points, the first cut in more than a decade and one that had been priced in by the market. US Federal Reserve chair Jerome Powell, however, said the rate cut was not the start of an easing cycle, dashing the hope that the Fed will cut rates in the coming months. .. | The article discusses the relationship between global economic factors on the JSE. |
| **4.5.2 The relationship between listed share prices and macroeconomic fundamentals** | <https://www.news24.com/Fin24/strong-rand-low-commodity-prices-weigh-on-jse-20170815>  **Strong rand, low commodity prices weigh on JSE**  [accreditation](https://www.fin24.com/)  David van Rooyen    Johannesburg - Commodity shares pulled the JSE lower on Tuesday as they were hit by the deadly combination of lower commodity prices and a stronger rand.  Most of the activity was however in the financial sector, where more than 7 million Old Mutual [JSE:OML] shares were sold, almost three times more than any other share in response to the group’s strong results.  By mid-morning on Tuesday the Resources index was already 1.34% lower and the Gold index traded 1.58% softer as the rand continued to trade at levels of around R13.30, compared with almost R13.50 last week.  **https://www.reuters.com/world/africa/south-africas-rand-firms-heads-weekly-loss-2021-09-17/**  **S.Africa's rand, stocks fall on strong dollar, drop in commodity prices**  JOHANNESBURG, Sept 17 (Reuters) - South Africa's rand weakened on Friday, reversing some early gains and was set to close the week with an overall loss of almost 3.8% as the U.S. dollar rose and weak domestic economic data weighed on sentiment.  At 1610 GMT the rand traded at 14.7400 against the dollar, 1.03% weaker than its previous close.  South African Rand coins are seen in this photo illustration,  file. REUTERS/Mike Hutchings/File Photo  South African Rand coins are seen in this photo illustration, file. REUTERS/Mike Hutchings/File Photo  **Register now for FREE unlimited access to reuters.com**  JOHANNESBURG, Sept 17 (Reuters) - South Africa's rand weakened on Friday, reversing some early gains and was set to close the week with an overall loss of almost 3.8% as the U.S. dollar rose and weak domestic economic data weighed on sentiment.  At 1610 GMT the rand traded at 14.7400 against the dollar, 1.03% weaker than its previous close.  After three weeks of strong gains, the rand has reversed direction since Tuesday, buffeted by poor domestic retail data, a retreat in commodity prices and a recommendation from investment bank JPMorgan to sell the currency.  The dollar climbed to a three-week peak on Friday, continuing to be boosted by strong U.S. retail sales data released on Thursday, reviving fears that a Fed tapering might be close. This has led to fall in riskier currencies and outflow of money from emerging markets. [read more](https://www.reuters.com/business/dollar-holds-near-three-week-high-after-us-retail-sales-boost-2021-09-17/)  Markets focus is now on next week's local consumer price index (CPI) data, South Africa's central bank interest rates decision on Sept. 23 and the Federal Reserve policy meeting for indications on how soon the U.S central bank will start to taper stimulus.  Shares listed on the Johannesburg Stock Exchange (JSE) continued their steady decline on Friday as investors worried that the boom in the commodity cycle was nearing an end which could hit South Africa's foreign currency earnings.  The slide was further worsened by a fall in Wall Street shares driven by decline in technology stocks and fears of a rise in corporate taxes in the United States. [read more](https://www.reuters.com/business/global-markets-wrapup-5-2021-09-17/)  The benchmark all-share index [(.JALSH)](https://www.reuters.com/quote/.JALSH) closed down 0.71% to 62,862 points, ending the day with a weekly drop of 2.2%, its third consecutive week of decline, which has brought the broader index down to its early February level.  The blue-chip index of top 40 companies slipped by 0.86% to 56,605 points.  The yield on the government's benchmark 2030 bond was up 7 basis points to 8.985%. | The article discusses the impact of commodity prices and the exchange rate, and the JSE. |

### Learning unit 2: Application of Economic Principles to the Financial Services Sector

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| Application of economic principles to the Financial Services Sector | | |
| Subheading/s | Source | Summary |
| **2.3 The influence of Occupation, avocation and Lifestyle on needs and wants** | ALLEN,2010  The Impact of avocations on financial planning  Retrieved from <https://www.fanews.co.za/article/magazine-archives-fanews-fanuus/60/features-profiles/1320/the-impact-of-avocations-on-underwriting/10132>  **The impact of avocations on underwriting**  *01 February 2010 Dalene Allen, Altrisk*  *Avocations are hobbies or pursuits which may pose a higher than normal risk in terms of life, disability and critical illness cover, and as such affect the underwriting assessment.*  In underwriting an application for life insurance, avocations significantly affect the rate or premium. This is because a sky diver, for example, is at greater personal risk than a non-skydiver, and is accordingly charged a much higher premium for life cover.  Clients often comment that their particular avocation is safer than driving a car in South Africa. This, of course, may be true, but remember that driving a car is already included in the rates provided whereas avocations are not.  **Exclusions**  The client can opt for an exclusion, especially in instances where there is no regular participation and the client cannot justify the additional expense.  In addition, not all insurers automatically exclude avocations. Altrisk’s policy, for example, offers cover for once-off participation in an event. As such, a person who does a resort diving course while on holiday or a once-off bungee jump would be covered without the client having to be concerned as to whether or not he or she has cover.  **Full disclosure**  However, avocations which could be deemed dangerous should be declared at inception of the policy. If clients take up such an avocation after inception of the policy, they are obliged to let the insurer know.  As a general rule for avocations, provide the insurer with as many details as possible in order to ensure a fair assessment. Below are some examples of avocations and the type of information needed to determine the correct loading.  **Scuba diving**  Normal recreational diving up to 40 metres would not be loaded provided it’s within the client’s qualifications. However, cave diving, potholing and the like can carry an additional loading or, if preferred, an exclusion.  **Mountaineering**  Factors to be considered for clients who are ardent mountain climbers include:  • when climbing alone the risk increases, either technically or in the event of an accident;  • climbing without ropes is dangerous for more obvious reasons; • height of mountains - 6000 metres above sea level is very different to climbing Table Mountain and brings an additional risk of altitude-related disorders such as pulmonary hypertension, hypoventilation and right heart failure.  As just one example of the risks mountaineering entails, one policyholder experienced total blindness when summiting Mount Everest. Fortunately this was reversed at a lower altitude, but obviously the danger of descent without eyesight was significant.  **Aviation** To ensure a fair rate and appropriate cover, aviation rates should be individually calculated according to the client’s personal experience by an actuary who is also an experienced commercial pilot. Considerations to take into account should include the type of aviation licence, type of aircraft, how much experience the pilot has and the number of hours he or she is expected to be in the air over the next 12 months – even down to the type of airstrips and quality of airports used.  These are but a few examples of the avocations your clients might pursue. Ensure that your client has made full disclosure regarding the nature and frequency of these avocations, and that you obtain cover from an underwriter with the necessary expertise to rate the client fairly and on an individual basis. | Articles discuss how avocations affect the underwriting of long-term insurance policies. |
| **2.4 Changes in the external environment and the impact on financial planning** | ERASMUS,2015  South Africans are among the world’s worst savers  Retrieved from: <https://www.fin24.com/Savings/News/South-Africans-among-the-worlds-worst-savers-20150707#commentsSection>  **South Africans are among the world’s worst savers**  [accreditation](https://www.fin24.com/)  Susan Erasmus    Cape Town - At 15.4% of its GDP, South Africa has one of the worst savings rates in the world. And it’s getting worse, according to statistics released by the Reserve Bank.  And it’s not just that our salaries are low and our cost of living is high – the Chinese earn less than we do, and they manage to save over 50% of their GDP, according to the Financial Services Board (FSB). India manages to save about 30%, Brazil around 25%, and Australia about 22.5%.  The highest this figure has been in South Africa in the last 13 years is 17.2%, which was recorded in 2002. The lowest was 14.7%, which was recorded in 2009, shortly after the worldwide recession on 2008.  These savings include pension contributions, and all forms of investment. In short, says the FSB, to save means spending less than you earn, and it encourages people to adjust their lifestyle so that they can contribute a part of their income to a savings scheme.  But, according to SA government statistics, South Africans are now borrowing more money than they are saving. Household debt as a percentage of household income now stands at approximately 80% (this includes loans, overdrafts, credit card debt, home loans, accounts). In the United States, the household debt-income ratio stands at 138%.  Only a quarter of those between the ages of 18 and 30 are saving for retirement, according to the Old Mutual Savings and Investment Monitor. Only 31% are saving for possible emergencies, while 35% are saving for a car and 26% to pay off debt. But the rising cost of living is also affecting this sector of the population, as 68% of them have said they had to reduce their expenditure in 2014, up from 55% the previous year.  The South African Savings Institute gives a number of reasons for the low savings rate in SA:   * low disposable income growth; * low employment growth; * a rising tax burden; * an inflationary environment; and * lack of confidence in the future.   The Old Mutual Savings and Investment Monitor published in July 2014 provided some interesting statistics on South African households and their savings and spending habits:   * 65% of income is spent on consumables and living expenses; * 38% of those interviewed said they were saving less than in 2013; * 50% believe that death, funeral and disability cover are more important than retirement savings; * 18% of households in the R40 000+ income category have unit trusts, mutual funds or exchange-related funds; * 32% of parents are saving for their children’s education; and * 45% of black households contribute to at least one stokvel per month.   The attitude to retirement savings mentioned above also explains why only 6% of SA retirees are financially independent at retirement. The rest are dependent on their families, friends, or the government, according to the FSB.  The savings rate is determined by looking at household savings, savings in the public sector and savings in the corporate sector. According to stats from the Reserve Bank, both the public and private sector were actually ‘dis-savers’ (borrowing more than they were saving) and the corporate sector was the only net contributor to gross savings. But that, at 4.2% was also not as high as it could be, according to the South African Savings Institute.  The reasons they give for this low rate in the corporate sector include the following:   * a lack of profitable investment opportunities; * high cost of capital; * labour market inflexibility; * high corporate taxes; and * short-term behaviour.   So if and when South Africans do save, what are their priorities? The following statistics from Old Mutual paints an interesting picture, especially as retirement savings and saving for funeral expenses come in at the same rate:   * 43% save for a rainy day; * 37% save for retirement; * 37% save for funeral expenses; * 22% save for children’s education; * 18% save to pay off debt; * 16% save for home improvements; and * 13% save for a vehicle.   In an effort to encourage South Africans to save more, National Treasury has introduced the Tax Free Savings Account from 1 March 2015.  **https://www.iol.co.za/personal-finance/debt/high-debt-levels-is-the-number-one-reason-why-south-africans-are-unable-to-save-2919515d-569c-450e-8789-ea72ebb612e9**  **High debt levels are the number one reason why South Africans are unable to save**  By Staff Reporter Jul 6, 2021  South Africans have long been considered as being amongst the world’s worst savers for retirement, but the reasons may have more to do with high levels of indebtedness rather than a poor savings culture.  “Most South Africans want to save for their retirement, but the reality for many middle-income South Africans is that once they’ve paid for essentials most of what’s left is spent on repaying debt. Debt repayments make up a substantial portion of what consumers need to spend. That makes saving difficult, if not impossible,” explains Benay Sager, head of DebtBusters.  The company’s most recent quarterly Debt Index found that people applying for debt counselling with take-home pay of over R20 000 per month are spending 60% of their monthly net income servicing debt. Their total debt-to-income ratio is over 130%. While in other countries the total debt-to-income ratio is similar, most of the debt in other countries is low-interest bond debt – in South Africa most of the debt is high-interest unsecured debt.  He says there are a few reasons for this. One of the main ones is that real incomes have declined by 17% over the past five years as a result of inflation, and the latest CPI numbers will exacerbate the situation.  A related reason is many consumers had to take significant, and in some cases permanent, salary cuts during the past year to keep their jobs. At the same time, the cost of essentials has gone up, forcing the consumers to borrow to make up the shortfall. Evidence of this is the 76% increase in unsecured debt levels since 2016 amongst consumers earning over R20 000 or more.  “Clearly the situation is unsustainable,” says Sager. “Lack of savings makes consumers vulnerable should they be faced with an unexpected expense, lose their income or are forced to stop working. It also has broader economic implications. Ideally consumers should build savings of three-to-six months’ worth of salary, but currently this is almost impossible as a result of high debt levels.”  He says that debt counselling is the most effective and sustainable way to restructure debt, allowing consumers to spend less of their net income on debt repayments and giving them the opportunity to save towards a sound financial future.  Interest rate reductions during 2020 are benefitting people who successfully apply for debt counselling. The record-low rates enable DebtBusters to negotiate significant reduction in interest rates for unsecured debt, such as personal loans, from an average of 21% to 1-2%.  “These reductions provide substantial savings for consumers, freeing up some income to pay off debt and regain some financial equilibrium and ultimately build some financial reserves.”  **ANOTHER ARTICLE**  https://mg.co.za/special-reports/2020-07-31-the-evolution-of-south-africas-savings-culture/ The evolution of South Africa’s savings culture 31 Jul 2020  The recent past has seen rapid globalisation, creating a connected economy that is subject to the vagaries of economic swings. It has dramatically influenced South Africa’s savings culture over the years and reinforced the critical importance of rainy-day savings.  While Standard Bank’s book reflects an increase in amounts saved over the years, this growth is largely attributed to wealthier individuals who are better positioned to continue growing their money through savings and investments, even during times of economic downturn.  The number of middle-income South Africans who enter the world of savings has, however, slowed. “In an economy that is declining, with rising unemployment levels, and businesses feeling the impact of the Covid-19 lockdown, most people are feeling the financial strain,” says Zibusiso Moyo, Client Solution Owner: Everyday Banking of Standard Bank.  “This is mostly felt by middle-class South Africa. Without access to disposable income, necessities trump savings contributions.”  There are insurance packages that protect from loss of income, but there is also protection in the form of savings products, which, Standard Bank says, are largely under-utilised. “The common misconception is that you need a lot of money to start saving; that is not the case — it can be as little as R50. There are savings products geared for every type of person.”  Covid-19 may force many South Africans to change their attitudes towards saving money. (Photo: Expatica)  **Society schemes remain popular, but are evolving**  Stokvels continue to be an important safety net for many South Africans. “This vehicle remains popular and is now attracting younger savers and aspiring investors, who are realising the power of pooling funds for investment,” says Moyo. “While the stokvel mechanism remains the same, its purpose is evolving — people are realising that it can be used to make bigger investments in property and other asset classes, that could not be achieved alone, to create alternative revenue streams.”  **TFSA the vehicle of choice for long-term savings**  Another savings vehicle that has gained popularity among South Africans is the tax-free savings account (TFSA). Launched by government in 2015 with the aim of incentivising individuals to save more, the TFSA allows for individuals to contribute R36 000 per annum, or R500 000 over their lifetime. Any contribution made to the TFSA is exempt from tax on interest, dividends and capital gains.  If any funds are withdrawn from the TFSA, it is important to remember that they can’t be put back into the savings vehicle. This helps to get individuals to stay invested for the long term. It is also worth noting that should a saver exceed the contribution limits; they will be penalised at 40% on contributions over the allowed limit.  The importance of savings to a country cannot be understated. Economic growth is tied to investment, from both locals and foreigners, in businesses or other assets. “As foreign direct investment is hard to come by these days, there is increased reliance on investment from households to boost economic growth,” says Moyo.  While many find it challenging to save in case unexpected expenses arise, the reality is that life is uncertain; nothing has demonstrated that better than the current situation we are in. This has created a shift to being careful and spending on needs rather than wants.  **Demand for short-term, easy access savings vehicles**  Standard Bank has recently seen a demand for savings products that offer attractive interest rates and easy access to the funds, should the need arise. Standard Bank’s Flexi Advantage account is a term investment which also allows partial redemption should the need arise, which means that you can withdraw up to 40% of what you put into the account during the year, while the remainder of the funds are fixed and can’t be touched. The account lets customers access funds at any time and offers competitive interest rates of up to 4.65%.  For those looking for more access to liquidity, the Standard Bank MarketLink acts as a savings product but also allows full transactional capability, so you can transact (with a physical card) if necessary while still earning interest of up to 2.5% on the funds invested.  With a large need among consumers to grow their funds, Standard Bank’s MoneyMarket Select investment account has become one of the bank’s fastest-growing products. The account lets customers invest from R250 000 and enjoy higher returns. Interest rates are variable and are currently sitting at 4.35% for this low-risk account, which also allows anytime access to funds.  **Graduating from saving to investing**  If you are able to save consistently through any of these products, and are fortunate enough to not have to dip into those funds, the amount can then be moved into an investment fund through Liberty and Stanlib that offers higher rewards in the form of returns. These investments are not without risk, but an investment expert can assist in setting up a diversified portfolio for investors that works to offset potential drops.  “Each financial institution has several products that all help, depending on the customer,” says Moyo. “At Standard Bank, we gain an understanding of their needs — whether they want to save monthly, or contribute a lump sum, for example — and provide them with an understanding of what savings is about, how interest rates work, and help them to access what is relevant and right for their needs.” — ***Zibusiso Moyo – Client Solution Owner: Everyday Banking***  Maya Fisher-French, personal finance journalist.(Photo: News24)  **This is the perfect time to talk savings**  Covid-19 cannot be ignored in the context of Savings Month, says Prem Govender, chairperson of Sasi (the SA Savings Institute) and the Financial Services Consumer Education Foundation, who wondered whether it might be considered insensitive to run Savings Month when many people can barely afford to put food on the table.  She was speaking at a webinar to launch Savings Month, on July 11. In fact there may be no better time to talk of savings in order to highlight the differing experiences of those who already had an emergency fund to help them weather the storm, and the unfortunate experiences of those who did not. A recent TransUnion South Africa financial hardship study found that even before the pandemic had really taken hold, 83% of consumers had seen their household incomes negatively affected by the lockdown with 91% reporting concern about paying their bills.  Gerald Mwandiambira, acting chief executive of Sasi and My Money author, says the crisis has highlighted the importance of having a plan in place and being in charge. “My acronym for this month is FATE: be in control of food expenses, cut back on your accommodation and transport costs, and rethink your entertainment and even education.”  Many might disagree on saving on education which is more an investment than an expense, but not with the theme of being in control of one’s expenditure. Sasi has been hosting a series of webinars throughout Savings Month on financial resilience.  TransUnion’s South African Industry Insights Report for the first quarter of this year showed that outstanding balances continued to grow across all major consumer lending categories, and was strongest for non-bank personal loans at 17.2% year-on-year.  The only category to maintain balanced growth was bank personal loans, which was at a rate comparable to the highs of last year, while consumer demand for credit remained strong, with enquiries across the five major credit categories up 12% year-on-year.  Govender believes Covid-19 will force people to change their attitudes to money. It’s a tough lesson to learn, for breadwinners to sit at home and not be able to earn an income. “Financial management starts at home. We need to think about what we are teaching our children.”  She describes the impact of the pandemic “is the single biggest blow dealt us”. Even before the pandemic, South Africa was mostly a nation of non-savers, with finances in poor shape. “We need to now see what we can do to rebuild our fragile financial situations.”  Maya Fisher-French, a personal finance journalist and author of Money Questions, says that the oft-mentioned excuse for South Africa’s rather negative savings rate, that “South Africans are poor” is simply not credible, given that many of our peers in SADC, sub-Saharan Africa and BRICS have positive savings rates; we save “substantially less than them”.  What makes South Africa so different? “It is the fact that it’s so easy to get credit extension, and so to buy on credit. It hasn’t allowed people to build a culture of saving. In many other countries, if you want to buy something you save for it. In South Africa, people don’t think like that: they think in terms of ‘how can I access credit’, and often don’t even consider the interest rate,” says Fisher-French.  She gives the example of the country of Turkey. In 2000 it had a good savings rate and virtually no household debt. “Then they introduced credit cards, and by 2014 it had gone from nearly 0% household debt to 55% debt as a ratio of household income; as well as one million people no longer keeping up with their credit card payments. Its national savings rate dropped to its lowest level in three decades.”  She explains the challenge in instilling a culture of saving: “Say a person wants to buy a R2 000 washing machine: she could save R200/month for ten months; with the advantage that having developed that discipline, she may continue putting aside R200/month even after making her purchase. In contrast, if she bought it on credit she would have to make 24 payments of R200/month, the extra 14 months being interest and credit insurance. That ‘difference’ goes to a credit company — making them very rich and the consumers very poor — when it could just as easily be going into our savings.”  Prem Govender, chairperson of Sasi (the SA Savings Institute) and the Financial Services Consumer Education Foundation. (Photo: SaveTaxFree)  Of South Africa’s total R1.4-trillion credit market, R410-billion is unsecured credit facilities (or consumer spending) of which R168-billion (or 41%) is the fees and interest, Fisher-French says. This unsecured credit figure has doubled over the past 10 years.  It is this figure which could make up the savings pool of the country if people could change their savings culture and spending patterns. They don’t, she says, because most people do not understand how much they pay in fees and interest, given that these amounts are often not transparent.  “The worst offenders are credit cards. If you spend R20 000 on a credit card and never touch it again, thereafter paying only the minimum monthly repayment, few people would be aware that it would take them 25 years and R53 600 to finally pay off that balance at an interest rate of 20% to 25%. From my experience, most people imagine it would take them about two years to pay it off, because few realise they are paying roughly 3% of a reducing balance (not a flat percentage). If a person is constantly using their credit card, this slowing-down effect becomes obscured,” says Fisher-French.  **Misconceptions about money**  Kristia van Heerden, chief executive of Just One Lap and host of The Fat Wallet podcast, points out that people would not consider starting up a business without having a business plan demonstrating containment of expenses and the revenue levels needed to cover expenses, which produces a profit at the end. Yet few salaried people think of applying that same discipline in terms of a financial plan to their personal lives and salary.  “The definitions of ‘profit’ and ‘savings’ are much the same thing. People who wouldn’t question a business plan query why they have to have a financial plan or to save. This is because there are many misconceptions about saving and money.  One is that you need to be earning money before having a financial plan. In fact, a financial plan is more about life decisions than financial decisions.  “A second misconception is that money buys happiness,” a fallacy she proceeds to debunk. “Initially, having more money certainly does bring more happiness, up to a point where one’s basic expenses are covered. But after that point, it becomes easy to get caught in a spending cycle to recapture that initial happiness. Spending money can give a fleeting joy, but unless one has figured out for oneself what really brings you happiness, you will become deluded into shopping for that happiness.  “We need to ask ourselves: once I’ve covered my basic expenses, what does a good life look like to me?”  **Savings Month**  Savings Month is the South African Savings Institute (Sasi)’s national savings awareness campaign. Savings Month is held in July each year and the objectives of the campaign are to:  • Promote debate around key aspects of saving  • Raise awareness of the benefits of short, medium- and long-term planning  • Build relationships with key partners to leverage future opportunities  • Get consumers to move from ennui into action | The article discusses how the environment that one lives in impacts on their financial planning decisions. |
| **2.4 Changes in the external environment and the impact on financial planning** | MJO, 2019  Rand slips as US-China trade war weighs on emerging markets  Retrieved from https://www.timeslive.co.za/sunday-times/business/2019-05-17-rand-slips-as-us-china-trade-war-weighs-on-emerging-markets/  **Rand slips as US-China trade war weighs on emerging markets**  **The rand was the third-biggest loser among emerging-market currencies, with only the Brazilian real and Argentinian peso doing worse**  [BL Premium](https://www.businesslive.co.za/buy/)  17 May 2019 - 16:07 Odwa Mjo  The rand was among the worst-performing emerging-market currencies against the dollar on Friday afternoon, dragged down by the persistence of US-China trade tension.Escalating tension between the US and China continues to disrupt global markets as the two superpowers struggle to reach a trade deal. This week China announced a tariff increase on $60bn worth of US imports effective from June 1, while the US on Wednesday signed an executive order to blacklist Chinese telecoms giant Huawei from the US market. The rand was the third-biggest loser among emerging-market currencies, with only the Brazilian real and Argentinian peso performing worse. By 2.30pm the rand was down 0.56% to R14.37/$, 0.56% to R16.0556/€ and 0.22% to R18.3272/£. The euro was flat at $1.1173. The benchmark R186 government bond weakened, with the yield rising seven basis points to 8.5%. London-based Oanda analyst Craig Erlam said upcoming political events on the domestic front will not be the main factor for the ran...  **ANOTHER ARTICLE**  https://www.schroders.com/en/za/intermediary/insights/markets/are-fundamentals-turning-more-positive-for-emerging-market-assets/  **Are fundamentals turning more positive for emerging market assets?**  With some significant headwinds now easing, it is time to reassess the challenges and opportunities in emerging markets.  16/07/2021  The last decade has been challenging for emerging markets (EM), to say the least. EM equities have persistently underperformed developed market (DM) equities, giving up most of the outperformance of the early 2000s. On the debt side, EM local currency government bonds have delivered close to zero total return for international investors since 2011.  **Read the full paper** [**here**](https://www.schroders.com/en/sysglobalassets/digital/insights/2021/07-july/are-fundamentals-turning-more-positive-for-emerging-market-assets/601828-are-fundamentals-turning-more-positive-for-em.pdf)  On top of that, the impact of the Covid-19 pandemic in many of the more vulnerable developing countries has been shocking. Vaccines are supporting the outlook for a transition out of the crisis, but the prospects for a straight line recovery are slim and the path will vary greatly by economy.  However, amidst of all this uncertainty, we believe there might be some unexpected opportunities for EM economies to emerge stronger from the pandemic. For investors, these developments perhaps warrant a fresh assessment of the challenges and opportunities that emerging markets offer.  **An unexpected opportunity in the pandemic**  The key reason why a number of EM countries have struggled over the last decade can be traced to the inability to accumulate sufficient savings, as we explain in the paper. Countries such as Brazil, South Africa and Mexico have had savings rates far below than what is necessary to fund investments in the economy.  The lack of savings in these countries has resulted in structurally low growth, high inflation and increasing levels of government debt. In order to plug the gap between savings and investments, the countries have had to run current account deficits, making them reliant on foreign capital inflows. But as the sentiment towards EM soured in the middle of last decade, the inflows dried up, leading to persistent weakness in EM currencies.  With EM government spending increasing sharply in the pandemic, it would seem that savings have fallen further. However, a silver lining is that private savings, in most cases, have increased by even more than government deficits. This is the case because EM current accounts, reflecting the aggregate balance between savings and investments, have improved significantly since the beginning of the pandemic. In fact in 2020, almost all major EM economies registered current account surpluses.    Granted, some of this improvement is likely to reverse once the restrictions are eased and normal economic activity resumes. But the increase in private savings has been a longer-term trend in many countries, and was well underway before Covid-19.  It could be that after years of saving too little, the private sector has started to adjust in EM, with the disruption caused by the pandemic providing further impetus. A permanently higher private sector savings rate would be a long-term positive for growth, since it would allow more investments and eventually, higher growth.  While it is too early to tell if this will really be the case, the first result of the shift in savings has been that the new government bond issuance in EM has been funded almost exclusively by domestic investors, rather than foreigners. This could go a long way in helping to at least put an end to the precipitous currency weakness that has weighed on EM assets over the last decade.  **A new commodities super cycle?**  The second fundamental driver that has turned more positive for EM in the Covid-19 pandemic is commodity prices. The Bloomberg Spot Commodity Index, a broad commodity index, has increased by 72% since March 2020, standing at its highest level since 2011. How likely it is that commodity prices will continue to move higher?  There are good reasons to believe that [this could be the beginning of a new commodities super-cycle](https://www.schroders.com/en/mt/professional-investor/insights/markets/five-reasons-to-believe-in-a-new-commodities-super-cycle/). Most importantly, investment in new supply has been limited over the last decade, as low prices have deterred producers from taking on new projects.  At the same time, the demand for commodities, especially those associated with [global energy transition](https://www.schroders.com/en/uk/tp/economics2/economics/which-emerging-markets-will-be-the-winners-and-losers-from-energy-transition/), is likely to increase substantially over the next decade. Given this supply and demand mismatch, prices might have to increase for supply and demand to reach equilibrium.  Higher commodity prices are crucial for many EM countries that have struggled over the last decade, especially in Latin America.    **The tailwind of global trade growth**  Despite the significant impact of the Covid-19 pandemic on the global economy, global trade has weathered the storm surprisingly well. Global export volumes, after dropping sharply in the early stages of the pandemic, have rebounded and are now well above the pre-pandemic level. Clearly, the unprecedented fiscal stimulus measures in many countries have boosted demand for various goods.  Since a number of EM countries are heavily dependent on exports, global trade growth is a critical factor. In fact, the latest data show that the exports of countries such as Mexico or South Africa have recovered fast, even as the local economies remain well below the pre-Covid levels.    EM have faced some significant headwinds over the last decade. However, with the increase in private savings, higher commodity prices and strong global trade growth, EM fundamentals are perhaps in better shape than many feared at the onset of the global pandemic.  While their long-term growth prospects remain subdued due to years of insufficient investment, improving fundamentals could at least put a stop to the precipitous currency weakness that has weighed on EM assets. The big question is whether these improvements can be sustained.  For investors, the changes brought by the Covid-19 pandemic could at least warrant a fresh look at EM. Some of the structural headwinds, while perhaps not abated, have at least lessened. | An illustration of how global factors impact emerging markets such as South Africa and the impact on economic variables that affect a financial plan |

### Learning Unit 3: Current Affairs in the Financial Services Sector

| Current Affairs in the Financial Services Sector | | |
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| Subheading | Source | Summary |
| **3.5 Corporate governance and Ethics in the Financial services Sector** | NATIONAL TREASURY, 2018  NEW TWIN PEAKS REGULATORS ESTABLISHED  Retrieved from <http://www.treasury.gov.za/twinpeaks/Press%20release%20Twin%20Peaks%20implementation%20March2018_FINAL.pdf> | Press release on the establishment of the FSCA and PA and their roles in the dispensation of new twin peaks regulation |
| **3.4 Ethics, the role of professional bodies and the importance of continuous professional development in the Industry** | FINANCIAL PLANNING INSTITUTE,  FPI STRATEGIC PLAN  Retrieved from <https://www.fpi.co.za/documents/FPIMediumTermStrategicPlan(2016-2018).pdf>  **NEW TWIN PEAKS REGULATORS ESTABLISHED**  On 1 April 2018, South Africa’s financial regulatory system will fundamentally change, as two new regulators come into operation - the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA). This implements a new Twin Peaks model of financial sector regulation in South Africa.  The Minister of Finance and Governor of the South African Reserve Bank are pleased to announce the appointment of Deputy Governor Kuben Naidoo as the CEO of the Prudential  Authority. Established within the South African Reserve Bank, the PA will supervise the safety and soundness of all financial institutions. The FSR Act also provides for stronger oversight of  financial conglomerates and of systemically important financial institutions (SIFIs).  The Minister of Finance will initiate the legislated process to appoint a Commissioner and Deputy Commissioners for the FSCA, expected to take three months. The FSCA will supervise  how financial institutions conduct their business and treat customers. It will be responsible for significantly improving customer protection in the financial sector, and driving better customer outcomes, ensuring that the sector serves South Africans best. It is also responsible for the efficiency and integrity of financial markets. The current Financial Services Board (FSB) closes down on 31 March 2018. Transitional plans for the closing down of the FSB and the establishment of the FSCA are well-progressed. A Transitional Management Committee will be responsible for implementing transitional plans, until a FSCA Commissioner and Deputy Commissioners have been appointed. The chair of the FSB Board, together with the current executive committee of the Financial Services Board, are included in the Transitional Management Committee in order to ensure a smooth and non-disruptive process.  The 2011 policy document, “A Safer Financial Sector to Serve South Africa Better”, first proposed the shift to a Twin Peaks Model of regulation. Twin Peaks is a comprehensive and complete system for regulating the financial sector. It represents a decisive shift away from a fragmented regulatory approach and will reduce the possibility of regulatory arbitrage or forum shopping and close gaps in the regulatory system. Twin Peaks aims to make the financial sector safer and make it work more effectively in the interests of all South Africans, by reducing potential threats to financial stability and better protecting customers by ensuring that financial institutions treat their customers fairly.  Both the PA and FSCA will publish regulatory strategies within six months of their establishment, setting out in further detail their intended regulatory focus areas and work plans over the next three years.  A Commencement Notice and Regulations have been published in the Government Gazette to give effect to the relevant provisions of the Financial Sector Regulation Act (Act 9 of 2017) (FSR Act) that provides for the Twin Peaks system. The attached Annexure provides further detail on the implementation of the FSR Act.  In order to ensure a well-managed and non-disruptive transition to the new model, certain provisions of the FSR Act will be phased in over time. Once fully phased in, the Twin Peaks regulatory model will focus on a more harmonised system of licensing, supervision,  enforcement, customer complaints (including ombuds), appeals, and consumer advice and education across the financial sector. Ensuring that there is co-ordination across all regulators in the financial system is an important supporting pillar. These regulators include the PA and FSCA, the National Credit Regulator, the Financial Intelligence Centre, the Council for Medical Schemes and the South African Reserve Bank.  The Commencement Notice and Regulations can be found on  www.treasury.gov.za/twinpeaks  Issued by: National Treasury  Date: 29 March 2018  **ANNEXURE: FSR Act Implementation**  In addition to the establishment of the Prudential Authority and Financial Sector Conduct Authority, the Commencement Notice and Regulations also provide for the following:  **1. Transitional provisions**  The Commencement Notice brings certain provisions of Chapter 17of the FSR Act into effect from 1 April 2018. These provisions provide for transitional arrangements to ensure the continuation of existing matters being addressed by the Registrar of Banks and FSB. This includes:   * + Existing inspections and investigations that are not concluded prior to the establishment of the PA and FSCA, will be continued and concluded by the PA and FSCA as relevant (clause 296)   + Existing matters being heard by the FSB Enforcement Committee and Appeal Board will continue to be heard by those bodies until the matters are concluded (clause 298)   + The Tribunal, PA and FSCA will be substituted as the relevant parties for any pending proceedings in terms of clause 300   + Clause 301 provides for savings of approvals, consents, registrations and other acts.   **2. Financial Services Tribunal**  In order to ensure a smooth, seamless and non-disruptive transition, the current members of the FSB Appeal Board, the Board of Review and the FIC Appeal Board, are appointed to  constitute the Tribunal created in sections 219 and 220 of the FSR Act. Members are appointed on a three year basis.  The Regulations provide for the FSB or FSCA to enter into agreements with the SARB or PA and the FIC, to share costs of running the Financial Services Tribunal, until the Financial  Sector Levies Bill (“Levies Bill’) comes into effect (envisaged for the 2019/20 financial year).  Judge Yvonne Mokgoro (Retired Judge) will serve as the Chairperson of the Tribunal and Judge Louis T Harms (Retired Judge) as the Deputy Chairperson of the Tribunal. The names of all Tribunal members will be made available in the next two weeks.  **3. Ombud Council**  The Ombud Council is created in terms of Chapter 14 of the FSR Act. The Commencement Notice provides that this chapter will become effective on 1 October 2018 to allow for sufficient time for appointments to be made. Further information will be published in due course. | Website outlines the strategic plan of the Financial planning institute of Southern Africa chief among them being professionalism through high ethical standards. |
| **3.5 The enforcement of Ethical standards in the financial services sector** | Financial Advisory and Intermediary Services, 2003  *General Code of Conduct for Authorised Financial Services Providers and Representatives*  <https://www.gov.za/documents/financial-advisory-and-intermediary-services-act-general-code-conduct-authorised-financial>  **Final amendments to the General Code of Conduct and the Code of Conduct for FSPs conducting Short-term ...**  On 26 June 2020, the FSCA published FSCA Communication 35 of 2020 (FAIS) confirming publication of the following final amendments:   1. Amendment of the General Code of Conduct for FSPs and Representatives; 2. Amendment of the Specific Code of Conduct for FSPs and Representatives conducting Short-term Deposit business; and 3. Amendment of the Determination of Fit and Proper Requirements (BN194 of 2017).   Masthead provided input and commentary on the proposed amendments, which can be read in the Consultation Reports which we have referenced below. Members can also access Masthead’s Regulatory Commentary by accessing the website for members.  We have summarised the amendments below.  **AMENDMENTS TO THE GENERAL CODE OF CONDUCT**  The process of making certain changes to the General Code of Conduct has now come to an end with the final amendments published on 26 June 2020.  Some of the provisions come into effect immediately while other provisions only start 6 or 12 months from date of publication (i.e. 26 December 2020 or 26 June 2021).  The key sections that ***come into effect immediately*** and which, therefore, require careful attention are:   * **Changes to existing and new definitions – understand them** (section 1(1))   There are several existing definitions which have been amended and quite a few new definitions inserted which FSPs need to come to grips with, e.g. “replace or replacement”, “variation”, “white labelling” and “loyalty benefit”.   * **Unregulated products or services – be careful not to imply that these are regulated by the FSCA** (section 3)   The FSCA has clarified that FSPs that offer products or services that are not regulated by the FSCA cannot give the impression that they are. This is not a new requirement – however, those FSPs that deal in unregulated products or services or operate in areas that fall outside of FAIS, need to pay attention.   * **Independent – when can you *not* use that term?** (section 3)   A new sub-section explains when an FSP ***may not*** describe itself or the financial services which it renders as independent. FSPs that own or are owned in whole or in part by a product supplier or FSPs that earn fees other than commission from product suppliers, for example binder fees, or where there is some other material conflict, need to read this section carefully as it may impact how they can describe themselves.   * **Comparisons – some new requirements**   The section that deals with what you can and cannot do when comparing different financial products, product suppliers, providers or representatives is now followed by a section that requires FSPs to apply the same principles when using comparisons in advertisements to these types of financial product or product supplier comparisons. This includes things like ensuring that you only compare products or services that are similar in characteristic, ensuring that not only price but also benefits are compared, being careful not to focus on price to the exclusion of suitability or delivery on client expectations, using current, complete and accurate information.   * **Forecasts, illustrations, hypothetical data or projected benefits and past performance data – be careful when using these in your dealings with clients**   The amendments introduce a number of requirements relating to advertisements specifically when using forecasts, illustrations, projected benefits, past performance data, etc. These requirements must also be applied when using this type of information in the provision of a financial service to a client.   * **Information to be obtained before giving advice**   This section used to apply to all FSPs other than direct marketers. The proverbial playing fields have been levelled and this requirement now applies across the board to all FSPs. While in principle the requirements are largely the same, the amendments serve to clarify the type of information to be taken into consideration before giving advice, such as the affordability of the client, their ability to bear risk, the extent to which they understand risks, and also extends to employee benefits/group schemes where the advisor must consider the collective needs and circumstances of the members.   * **The extent of information necessary to provide appropriate advice**   Previously, if a client did not give an advisor enough time or information to conduct an analysis, the advisor had to meet certain obligations, such as warning the client about the limitations in the advice. There is no longer any reference to being *“unable to conduct such an analysis”* – the amendments clarify that ***when performing an analysis*** there may be circumstances that vary the extent or depth of the information needed to provide appropriate advice and that these circumstances can be taken into consideration. It goes further to require that ***where an analysis is performed in any of the circumstances*** set out in the amendments, the client must be warned of the limitations in the advice ***in light of such circumstances*** and take care to ensure that it is appropriate, particularly any aspects that were not considered in light of the circumstances – although similar to what was previously required, there are some differences to be cognisant of, which may require a shift in the approach currently being taken.   * **Record of Advice – the FSCA can prescribe the format**   The FSCA is now able to determine the format of a record of advice. For now, this only provides the FSCA with the power to do this – no prescribed format accompanied the amendments.  The sections and some of the changes which come into effect after 6 months or 12 months from date of publication (i.e. 26 December 2020 or 26 June 2021) are as follows:   * **Financial interest and conflict of interest management policy** (section 3A)   There have been some enhancements to ensure that clients fully understand and agree to fees payable and the services they can expect in return for those fees. The financial interests which can be offered by an FSP to its representative have also been expanded to incorporate measurements relating to fair customer outcomes. The changes will require FSPs to re-look at their Conflict of Interest Management Policy, the way they remunerate representatives and any fee arrangements with clients, to ensure that these are aligned with the amendments. This section will take effect from 26 December 2020.   * **Information about a financial service – enhancing disclosure of a client’s monetary obligations** (section 7)   This requires that where feasible, there should be a written agreement between the client and the provider which deals with the specifics relating to the client’s monetary obligations in terms of amount, frequency, payment method, services to be provided, termination arrangements etc. This section will take effect from 26 December 2020.   * **Advertising** (section 14)   The section on advertising has been completely overhauled and aligned, where possible, with other regulation such as the Long-term and Short-term Insurance Policyholder Protection Rules (PPRs). This section will require FSPs to have a close look at their Advertising Policy and Procedures and to make appropriate changes by the end of the year when it takes effect on 26 December 2020.   * **Direct Marketers** (section 15)   There have been some slight changes to this section which, in the main, align with the fact that direct marketers are no longer excluded from sections 7, 8 and 9 and, therefore, those sections now apply and do not need to be separately addressed under this section. These changes will take effect from 26 December 2020.   * **Complaints** (sections 16 – 19)   Like the changes on advertising, the requirements relating to complaints have been replaced with a completely new section which is aligned with the PPRs as far as possible. While there is still some time before these requirements kick in (some in 6 months and others in 12 months), FSPs need to start looking at their complaints management framework and identify necessary adjustments to bring it into line with the new requirements.  FSPs will need to spend some time digesting the new requirements and consider their impact on different policies and procedures in the business.  [Click here](https://www.masthead.co.za/wp-content/uploads/2020/06/FSCA-Communication-35-of-2020-FAIS-Amendment-to-GCOC-SCOC-and-FP-1.pdf) to read the Amendment of the General Code of Conduct for Authorised FSPs and Representatives.  Click on the links below to read previous articles relating to the proposed amendments to the General Code of Conduct.   * [Proposed amendments to the FAIS General Code of Conduct, Short-term Deposits Code of Conduct and Determination of Fit and Proper requirements sent to parliament.](https://www.masthead.co.za/newsletter/proposed-amendments-to-the-fais-general-code-of-conduct-short-term-deposits-code-of-conduct-and-determination-of-fit-and-proper-requirements-sent-to-parliament/) * [Proposed changes to General Code of Conduct](https://www.masthead.co.za/?s=proposed+changes+to+gcoc&article=y)   [Click here](https://www.masthead.co.za/wp-content/uploads/2020/06/Annexure-C-Consultation-Report_Amendment-to-GCoC-and-ST-Deposit-Code.pdf) to read the Consultation Report relating to the proposed Amendments to the General Code of Conduct and Short-term Deposits Code of Conduct.  **AMENDMENTS TO THE CODE OF CONDUCT FOR FSPS – SHORT-TERM DEPOSIT BUSINESS**  The main purpose of the amendments to this Code is to align the provisions relating to advertising, marketing, and complaints management with the changes to the General Code of Conduct. These changes come into effect 6 months after the effective date of the Amendment of the General Code of Conduct.  [Click here](https://www.masthead.co.za/wp-content/uploads/2020/06/Annexure-A-GN-No.-706-of-26-June-2020-Amendment-General-Code-and-St-Deposit-Code-1.pdf) to read the Amendment of Specific Code of Conduct for Authorised FSPs and Representatives conducting Short-term Deposit Business. | Use this website to assess FAIS code of conduct. |
| **3.7 The role of continuous professional Development in the financial services** | FSCA COMMUNICATION 2 OF 2019  Continuous Professional Development – Are your hours adding up?  Retrieved from https://www.fsca.co.za/Regulatory%20Frameworks/Temp/FSCA%20Communication%202%20of%202019%20(FAIS).pdf  **SEE ATTACHMENT**  **FSCA Communication 2 of 2019 (FAIS).pdf**  GOVERNMENT GAZETTE, 15 DECEMBER 2017  Determination of fit and proper requirements for financial services providers 2017  Retrieved from <https://www.fsca.co.za/Notices/Board%20Notice%20194%20of%202017.pdf>  **SEE ATTACHMENT**  **BN 194 of 2017** | Article is a simplified summary of the continuous professional development requirement for KI, Representatives and FSPs.  Gazette provides the fit and proper requirements as per Board Notice 194 of 2017. |
| **3.9 The changing needs of the consumer in the financial planning landscape** | BUSINESS REPORT, 2019  Standard Bank to close branches across the Country  Retrieved from  <https://www.iol.co.za/business-report/companies/standard-bank-to-close-branches-across-the-country-25021118>  **Standard Bank to close branches across the country**  By Staff Reporter Jun 4, 2019  DURBAN – Standard Bank has announced that they will be closing a number of their branches across the country according to My Broadband.  The bank said that this move is aimed at adjusting its business and retail banking platforms with the modern way that people use the bank.  As the bank closes down several of their branches, the bank said that its digital self-service channels will remain available at all times.  Gauteng will be the most impacted by the closures of Standard Bank branches followed by the Western Cape.  The said that they know the ways that people bank has changed and they are changing with their users. According to the bank, they are aligning their retail and business banking services so that people can bank at any time, anywhere.  The full list of Standard Bank branches that will be closed down is available in the bank's website.  **Standard Bank chooses Microsoft to drive digital transformation**  Standard Bank Group and Microsoft today announced a new strategic partnership that will help to transform the bank’s technology estate and internal corporate functions, enabling the largest bank in Africa to accelerate its digital transformation journey significantly improving its employee experience.  The partnership will see Microsoft providing cloud services for the bank’s internal corporate functions such as treasury, finance, employee productivity and human resources.  It forms part of Standard Bank’s multi-cloud approach and strengthens its long-term relationship with Microsoft. | This article discusses the impact of the consumer environment in the Financial Services Industry. |
| **3.9 The changing needs of the consumer in the financial planning landscape** | TSHIDI, 2017  New Financial Regulator will better protect consumers.  <https://www.iol.co.za/personal-finance/new-financial-regulator-will-better-protect-consumers-12319245>  **New financial regulator will better protect consumers**  By Dube Tshidi Dec 9, 2017  The passing into law in August of the Financial Sector Regulation Act, which introduces the Twin Peaks regulatory system, is a major milestone for the Financial Services Board (FSB) and South Africa, particularly the financial services sector and its consumers.  It is a progressive move for consumers of financial services and products, because the mandate of the Financial Sector Conduct Authority (FSCA) is the conduct of all financial sector institutions. This means that consumers of financial products or services that were previously outside the FSB’s mandate, such as retail banking services, will now be protected.  Naysayers have said that the FSCA will simply be the FSB with a different title and renamed portfolios. The reality is that the mandate of the new entity will be much wider than that of the FSB.  Although in some cases there may, on the face of it, not be a significant difference, the scope of the FSCA is significantly broader.  It is not only the jurisdiction of the FSCA that will change; the Act also dictates a shift in approach, requiring the regulator to be more proactive and pre-emptive. In order to do this, the regulator will have to be highly data-enabled and have strong research capabilities. This will require recruiting people with new skills, to ensure that we can meet our objectives.  The organisation is being restructured to be more function-focused, as opposed to its current sectoral approach. This will enable a much greater degree of consistency across industries.  As the regulator will have virtually no prudential responsibilities, we will sharpen our focus on market conduct issues to a much greater extent than was previously possible.  Although the Act has been subject to criticism, as is always the case when major changes are introduced, the legislation went through an extensive consultation process and Parliament considered many views when processing the bill.  Issues around the cost of regulation and the need for a dual regulatory system were raised, and National Treasury addressed these in a cost-benefit study.  The negative impact on the financial system, economy and consumers associated with the failure of financial institutions, as experienced as a result of the 2008 global financial crisis, necessitates regulatory reforms to close gaps and ensure that entities are comprehensively regulated. Although this will lead to some increase in costs, it is necessary, and we will closely monitor these costs to ensure they are in line with industry norms.  The Act will be implemented in phases to ensure minimal disruption to the industry and maximum understanding and consensus.  Through our existing Twin Peaks forums, we are engaging with the industry to ensure it is kept up to date with the implementation process, and we have been hosting multi-stakeholder dialogue sessions through various media platforms to ensure that all stakeholders are kept abreast of developments. The next step will be officially to launch our strategy and new brand in 2018.  This process cannot be completely quickly. We have identified immediate priorities to transition the FSB to the FSCA.  It is estimated that at least six to eight months will be required before the Act can be fully implemented.  The Minister of Finance is empowered to provide for the Act’s provisions to become effective on different dates. For the FSCA to be established, the Act states that the minister must follow a process in appointing a commissioner and deputy commissioners. To that end, draft regulations setting out the process will be published for public comment.  Internally, we will continue with our regular engagements with all staff members to ensure a seamless transition and finalise re-organisation.  The process also ensures a smooth transition to the FSCA for cases or investigations that are before the FSB. The Act specifically provides for the possibility that supervisory issues or legal proceedings may not be finalised, and deals with the process of how such pending cases should be dealt with. The Act also specifies that all rights and obligations of the FSB will pass to the FSCA.  We will monitor the impact of the new legislation as it is implemented to ensure that the new system works effectively and efficiently, promoting and maintaining a sound financial investment environment with consumer interests at its heart.  **TWIN PEAKS SET-UP**  The Financial Sector Regulation Act creates two new regulators: the Prudential Authority and the Financial Sector Conduct Authority (FSCA).  The Prudential Authority will be responsible for regulating the prudential aspects of banks and all non-bank financial institutions. The FSCA will be responsible for regulating market conduct and the safety of consumers of financial products and services.  The set-up will see the banking supervision department of the South African Reserve Bank being replaced with the Prudential Authority, and the Financial Services Board transforming into the FSCA. | As article by the Chief Executive officer and Registrar of the then Regulator (FSB) outlining how the consumer landscape would change due to increased regulation. |
| **3.10 Adapting to the changing consumer environment** | <https://blog.hubspot.com/service/customer-service-technology>  **14 Ways Technology Will Affect the Future of Customer Service**  There's a lot of excitement about new technology in customer service, support, and success. The progress of video, real-time messaging, chatbots and artificial intelligence (AI), cryptocurrencies, self-service, and even customer success itself, all present the potential for big changes in the day-to-day workings of customer success practitioners.  But with new technology come challenges, too. There's a steep learning curve when it comes to learning to use and adapt to new technologies, they can be costly for businesses to implement, and there's the looming concern we all feel about some new tech: [Will it steal our jobs?](https://thinkgrowth.org/dear-professionals-its-time-to-stop-pretending-ai-won-t-take-our-jobs-b19b7092d306)  The short answer is no. Most new technologies will only serve to help customer-facing professionals to do their jobs more efficiently. These technologies might change your job, however, and that's where these predictions come in.  Read this blog post to get my thoughts on the future of service technology — and how it will change your day-to-day work, as well as the trajectory of your career.  **How Customer Service Technology Will Change the Future of Customer Service**  **1. Face-to-face video communication will increase.**  Eye contact is powerful, and customers, more and more, will look at non-video, real-time voice conversation as a thing of the past. Companies using video — asynchronously, as "video voicemail" (e.g. Loom) or synchronously, as "video conference" (e.g. Zoom with video) — are a generation ahead.  We know that eye contact improves relationships and facilitates openness (whether that's in business or in your personal life), so video is not just a growing expectation of consumers, but a viable business-improving tool for vendors. You should start using video voicemails now, and scheduled meetings with customers should involve a face-to-face meeting whenever possible.  **2. Customers will expect an omni-channel service experience.**  Your brick-and-mortar stores aren't the only places where customers interact with your business. With social media, ecommerce, and third-party review sites, customers can engage your company through a variety of digital mediums.  This increased accessibility will drive the need for omni-channel experiences. [Omni-channel support](https://blog.hubspot.com/service/omni-channel-support?_ga=2.84694812.481933236.1587992540-1964482938.1570108995) is distinctively different from multichannel support as omni-channel syncs your communication channels together so both your team and your customers can work seamlessly between them.  For example, rather than customers having to navigate away from your social media page, your service team can respond to them wherever they're engaging your business. Then, if the problem can't be solved on one communication channel, your reps can easily transfer the case to another medium where they can better support the customer.  This reduces friction in the service experience because customers don't have to log off one interface just to log into another one to continue working on the same problem.  To do this, you'll need to connect a [help desk](https://blog.hubspot.com/service/best-help-desk-software?_ga=2.114045570.481933236.1587992540-1964482938.1570108995) as a central inbox for all incoming customer inquiries. That way, no matter where an interaction starts online, your agents use the same interface to communicate with your customer base.  **3. Real-time messaging will outpace email.**  Email is dead, and long live chat. Right?  Well, yes and no. Just like video, customers expect you to be always on — and [most of them prefer to interact using chat](https://blog.hubspot.com/service/customer-service-chatbots?_ga=2.41696226.173528286.1559846382-323570090.1554838983) than phone or email. Facebook Messenger as a channel for support has pushed us ahead light years! Now, you can converse with businesses in real-time, and Facebook will even show you their average responsiveness (and if that responsiveness is poor, forget even engaging at all).  This expectation of real-time messaging and responsiveness seeps into other media, too. It's not just the expectation on Facebook Messenger or Slack (either internally or with vendors), but on-site conversations and chat are all expected to be real-time, 1:1, and authentic. That's a big change from the world of asynchronous snail mail, and then email.  The world operates in synchronous time now — so that means you need to amp up your communication technologies and strategies while still using email to share important documents and communications your customers will want to come back to again and again. HubSpot offers a [shared inbox tool](https://www.hubspot.com/products/crm/conversations?hubs_post=blog.hubspot.com/service/customer-service-technology&hubs_post-cta=shared%20inbox%20tool) that allows all [incoming messages](https://www.hubspot.com/products/sales/live-chat?_ga=2.238736064.173528286.1559846382-323570090.1554838983&hubs_post=blog.hubspot.com/service/customer-service-technology&hubs_post-cta=incoming%20messages) from customers, across channels, to be collected and assigned in one place.  **4. Remote work will become more normal.**  The future of customer service will not only push customers online, but it'll move service reps there, too.  Rather than being confined to [call centers](https://blog.hubspot.com/service/call-center-software?_ga=2.84694812.481933236.1587992540-1964482938.1570108995), service reps will have more tools to work remotely. They'll field customer inquiries from the comfort of their homes, instead of having to work in an office setting.  And, most service channels can already be used outside offices and call centers. Email, live chat, and social media can even be operated from a smartphone and most [business phone services](https://blog.hubspot.com/service/business-phone-service?_ga=2.84694812.481933236.1587992540-1964482938.1570108995) offer cloud-based solutions that allow you to work from home. As businesses see the potential savings of reducing office space, it'll become much more common for service reps to work remotely.  **5. Bots (and AI) will help professionals, not replace them.**  Ah, bots. Our future robot overlords, right? Well, maybe not.  Today, most "bots" aren't actually any form of artificial intelligence. They're branched, piecemeal logic presented in a conversational (like iMessage or Facebook Messenger) user interface (UI). Bots are just a different interaction mode for existing knowledge, and it's another opportunity to engage your customers. Conversational UI is a great way for businesses to make themselves appear on the bleeding edge of innovation.  Don't get me wrong — that's a natural form of interaction nowadays, and bots can actually be very clever when backed by good tech — but it's not "artificial intelligence". It's extremely clever math, turned into experience. The near-term opportunity with bots is twofold:   1. Bots can be there when you can't, like while your customer service team is asleep. 2. Bots can improve self-service for customers, and reduce expenses for vendors, by providing a new, repeatable, and inexpensive method of communications.   Over the next 10-25 years, this technology will continue to make huge advances and will be capable of doing even more of what humans are doing today. It will be smart for customer-facing teams to keep up with bot progress and stay on the cutting edge here to provide increasingly better experiences at increasingly lower costs.  Bots and AI will be a game-changer for [customer support](https://blog.hubspot.com/service/customer-support?_ga=2.238736064.173528286.1559846382-323570090.1554838983), where reps spend close to 90% of their time on the job repeating the answers to the same questions and helping customers with the same issues over and over again.  What about the questions humans answer on the job that require judgment? Machines can learn, train, and teach, too. In the future, reps will only have to deal with edge cases where bots can't answer questions with the help of a knowledge base or a past history of customer questions. Once you make support content public in a knowledge base, a bot can learn and deliver that information again and again when customers ask for it.  When you think about the [inbound service framework](https://blog.hubspot.com/service/inbound-customer-success?_ga=2.238736064.173528286.1559846382-323570090.1554838983) we're building, customer support is about engaging with customers reactively, customer service is about guiding them with new suggestions and added value, and customer success is about helping customers grow, and can provide infinite additional value for both the customer and their own company.  In the grand scheme of things, when bots and AI become a mainstream part of every customer-facing team, leaders will be able to reallocate customer support reps into the [customer success](https://blog.hubspot.com/service/customer-success?_ga=2.238736064.173528286.1559846382-323570090.1554838983) organization — because there will be less need for the repetitive answering of questions, and a greater need for helping customers grow and derive value from the products and services they've already purchased.  **6. Blockchain will change e-commerce customer support.**  Cryptocurrency itself is probably not going to radically change customer success, because paying with bitcoin (BTC) isn't too different than paying with other currencies post-sale. But blockchain technology has fascinating applications to contracting and how transparent payments are in the future. Smart contracts — a way for machines to enforce and execute contract terms and payments without human involvement — are a generation ahead of simple recurring payment models.  You could imagine a world in which smart contracts enable customer success managers (CSMs) to spend less time bickering overpayments and hunting down money, and more time focusing on delivering value. So although the currency change from USD to BTC isn't likely to become a mainstream thing, nor will it have a big impact on the space, blockchain technology could fundamentally change the face of commerce within the next 25 years, and CSMs, as commercially-involved parties, could change along with it.  **7. Self-service will become an absolute necessity.**  Since the first time someone wrote a user manual, self-service has existed. And as mentioned above, bots and AI offer new frontiers of self-service.  But more meaningfully, customers and users are changing rapidly, and they expect more self-service avenues than ever before. As we can see from the chart below, there are multiple types of self-service tools that businesses are providing to their customers — ordered by popularity.  Types of Self Service Channels  [*Image Source*](https://www.quandora.com/knowledge-bases-effective-self-service-channels-new-study-finds/)  Why is that change happening? Most vendors that the average consumer interacts with nowadays are big and technologically-sophisticated — think about Amazon, Facebook, Google, Walmart, big retailers, big banks so on.  These big businesses are embracing self-service because it lowers their costs of doing business — but in doing so, they're also pushing the envelope on more sophisticated methods of customer interaction. Over time, businesses that can't or don't keep up with this change will look like dinosaurs to the average consumer.  Imagine a world where you interact most frequently with messenger bots or location-aware mobile apps. You would think it very strange if a business didn't offer these self-service channels, and forced you to use something old like phone or email. Snail mail is dead, and phone and email are going to be next. This time, the killer is sophisticated self-service.  The first step to helping your customers help themselves? [You need a knowledge base](https://www.hubspot.com/knowledge-base?hubs_post=blog.hubspot.com/service/customer-service-technology&hubs_post-cta=You%20need%20a%20knowledge%20base) where you can write out answers to common customer questions that they can find on Google or using their voice-search devices over and over again — without your customer support reps having to talk them through it.  **8. Customer service training will be personalized.**  Customer service training has traditionally been one-size-fits-all. However, as [sentiment analysis tools](https://blog.hubspot.com/service/sentiment-analysis-tools?_ga=2.184286115.481933236.1587992540-1964482938.1570108995) make it easier to identify each rep's strengths and weaknesses, training will become more tailored to the employee's needs.  Reps who need more time learning the product will be able to master its features, while employees who are more technically savvy will receive training that builds their soft communication skills.  To personalize your training, you'll need to survey your team before, during, and after each exercise. Measure their performance and ask for feedback. This will not only build trust with your new reps, but it will also create an onboarding process that's unique to each agent.  **9. Customer success will become a competitive differentiator.**  Over the next five years, great [customer success](https://blog.hubspot.com/service/marketing-and-customer-success?_ga=2.238736064.173528286.1559846382-323570090.1554838983) will become a critical competitive advantage for companies, just like great customer support is today.  The customer success industry, and the progress of companies in search of [customer value](https://blog.hubspot.com/service/how-to-calculate-customer-lifetime-value), is just too fast and effective for this to not happen. Plus, the concepts of customer success are permeating beyond just the software-as-a-service ([SaaS](https://blog.hubspot.com/service/saas)) industry. It's spreading quickly and growing.  When customer success becomes table stakes like customer support is today, it will be an exciting time in the industry of customer success to see the takeover. But when that happens, it'll pose a novel challenge for companies looking to grow their customer list. Successful, established companies will have happier customers on the whole, raising the bar even higher for new entrants, even as switching costs of providers decreases for consumers.  Plus, customer success will become an imperative from day one, increasing startup costs and dipping margins for new entrants. It'll be an exciting new set of challenges to stay ahead of that curve once it arrives — and if you're already doing customer success at your company now, you're ahead of the game.  **10. Customer service decisions will be more data-driven.**  No matter which service technology you choose, it should include a way to quantitatively measure its success. Without that, there's no way to prove if the added software is being effective. So, as companies continue to adopt service technology, their customer service teams will become much more dependent on analyzing the success of these programs.  With that shift, there should be a noticeable influx of valuable data circulating throughout customer service departments. Service technology records a variety of information about customer interactions which are used to identify overlooked customer needs or roadblocks. Customer support and success teams then utilize this data to improve the customer's experience.  Additionally, marketing and sales teams will be interested in this information because they can apply it to their initiatives as well. Marketing teams will use these insights to highlight new roadblocks and record them in the [customer's journey map](https://blog.hubspot.com/service/customer-journey-map), like the one below.  How HubSpot Created Its Customer Journey Map  Sales teams will want this data to understand relevant customer needs that they can touch on during their sales pitch. Adopting service technology will lead to new demand for customer service data that can be beneficial across your entire organization.  **11. Social media will become a standard customer service tool.**  We all know that cathartic feeling of leaving an impassioned review of our least favorite store or restaurant. And, we can thank Facebook and Twitter for giving us that moment of release.  Social media has empowered consumers with the ability to instantly criticize brands on a public forum. One bad customer experience can be recorded to video, then uploaded to the internet for millions to see. With [83%](https://www.nielsen.com/content/dam/nielsenglobal/apac/docs/reports/2015/nielsen-global-trust-in-advertising-report-september-2015.pdf) of consumers likely to trust their peers' opinions, this places the pressure on customer service teams to come up with a consistent and effective response plan.  To do that, companies will have to adapt their social media accounts to handle customer service situations. Whether this is a messaging service or a dedicated rep, businesses will need to devise a game plan that manages spontaneous social media interactions. This means that social media channels like Facebook, Twitter, and Instagram will become viable options for customers that are looking to submit feedback.  In the past, these mediums wouldn't even be considered as customer service options. However, as social media continues to open up new outlets for customer reviews, companies will be forced to engage with these consumers on their own online turf.  **12. New technology will create new customer service positions.**  Some technology will become the catalyst for new customer service positions. For example, [augmented reality](https://blog.hubspot.com/service/augmented-reality-customer-experience) will pave the way for virtual assistants who can help customers learn how to use products and services. Customers will not only be able to simulate a product, but they'll also have someone digitally supporting them as they become familiar with its features.  Another role that will become popular is specialists. With more customer service mediums, reps will need to have specialized skills and knowledge if they want to provide adequate support. This will lead to reps dedicating themselves to individual channels so they can learn all of the intricacies they'll need to be successful.  Some roles that we can expect to see are chat specialists, social media specialists, and onboarding specialists.  **13. Customer service reps will solve fewer problems.**  OK, this one sounds bad, but it really isn't!  With more AI and self-service resources becoming available to customers, customer support will see a decrease in case count. This is because smaller, less-complicated problems will be solved by either the customer or a service technology.  So does that mean you can fire your customer support team? No! Your reps will be able to use this added time to focus on solving more difficult product or service problems. That significantly improves the customer experience because it allows your reps to provide a more personalized interaction. Instead of feeling the pressure of a growing case queue, customer service teams can be more thorough in their work and avoid costly troubleshooting errors.  Additionally, with more support cases being solved by front-line customer service, your product experts can spend more time improving the product or service. Instead of having to perform customer-facing responsibilities, engineers and product developers can focus their energy on innovating your company's offers.  **14. The frontline service rep will be more flexible and empathetic.**  New technology is going to empower customer service reps and give them the tools they need to succeed in their role. They'll spend less time worrying about [standard operating procedures](https://blog.hubspot.com/marketing/standard-operating-procedure?_ga=2.184309283.481933236.1587992540-1964482938.1570108995) and more time focusing on their customers' needs.  As a result, customer service personnel will become much more flexible and empathetic. With fewer points of friction in their workflow, they'll have more encouragement to provide [above-and-beyond customer service](https://blog.hubspot.com/service/above-and-beyond-customer-service?_ga=2.184309283.481933236.1587992540-1964482938.1570108995).  Still not sold on investing in your customer service team? Learn about the [importance of customer service](https://blog.hubspot.com/service/importance-customer-service) in this next post.  *Editor's note: This post was originally published in March 2018 and has been updated for comprehensiveness.* | The story of the Bizbank is a practical example of a provider harnessing technology to meet changing consumer needs. |
| **3.10 Adapting to the changing consumer environment** | ZERBST,2013  Are IFAs ready for increased Regulation and changing Client behaviour:  Retrieved from:  <https://www.fanews.co.za/article/intermediaries-brokers/7/general/1227/are-ifas-ready-for-increased-regulation-changing-client-behaviour/13766> | Article gives insight on how independent financial advisers should adapt to changing regulation and consumer needs. |

### Learning Unit 4: Risk in the Financial Services Environment

| Risk in the Financial Services Environment | | |
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| Subheading | Source | Summary |
| **4.1.2 Forms of investment risk** | WHAT IS RISK?  Retrieved from <https://www.investor.gov/introduction-investing/basics/what-risk>  **What is Risk?**  All investments involve some degree of [risk](https://www.investor.gov/glossary/glossary_terms/risk). In finance, risk refers to the degree of uncertainty and/or potential financial loss inherent in an investment decision.  In general, as investment risks rise, investors seek higher returns to compensate themselves for taking such risks.  Every saving and investment product has different risks and returns.  Differences include: how readily investors can get their money when they need it, how fast their money will grow, and how safe their money will be. In this section, we are going to talk about a number of risks investors face.  They include:  **Business Risk**  With a stock, you are purchasing a piece of ownership in a company.  With a bond, you are loaning money to a company.  Returns from both of these investments require that that the company stays in business. If a company goes bankrupt and its assets are liquidated, common stockholders are the last in line to share in the proceeds.  If there are assets, the company’s bondholders will be paid first, then holders of preferred stock.  If you are a common stockholder, you get whatever is left, which may be nothing.  If you are purchasing an annuity make sure you consider the financial strength of the insurance company issuing the annuity.  You want to be sure that the company will still be around, and financially sound, during your payout phase.  **Volatility Risk**  Even when companies aren’t in danger of failing, their stock price may fluctuate up or down.  Large company stocks as a group, for example, have lost money on average about one out of every three years.  Market fluctuations can be unnerving to some investors.  A stock’s price can be affected by factors inside the company, such as a faulty product, or by events the company has no control over, such as political or market events.  **Inflation Risk**  Inflation is a general upward movement of prices.  Inflation reduces purchasing power, which is a risk for investors receiving a fixed rate of interest.  The principal concern for individuals investing in cash equivalents is that inflation will erode returns.  **Interest Rate Risk**  Interest rate changes can affect a bond’s value.  If bonds are held to maturity the investor will receive the face value, plus interest.  If sold before maturity, the bond may be worth more or less than the face value.  Rising interest rates will make newly issued bonds more appealing to investors because the newer bonds will have a higher rate of interest than older ones.  To sell an older bond with a lower interest rate, you might have to sell it at a discount.  **Liquidity Risk**  This refers to the risk that investors won’t find a market for their securities, potentially preventing them from buying or selling when they want. This can be the case with the more complicated investment products.  It may also be the case with products that charge a penalty for early withdrawal or liquidation such as a certificate of deposit (CD).  **Are there any Guarantees?**  **The Federal Deposit Insurance Corporation (FDIC)** – Savings accounts, insured money market accounts, and certificates of deposit (CDs) are generally viewed as safe because they are federally insured by FDIC.  This independent agency of the federal government insures your money up to $250,000 per insured bank.  It is important to note that the total is per depositor not per account.  But there’s a tradeoff between security and availability; your money earns a low interest rate.  The FDIC insures deposits only.  It does not insure securities, mutual funds, or similar types of investments that banks and thrift institutions may offer.  **The National Credit Union Administration (NCUA)** –The National Credit Union Share Insurance Fund (NCUSIF) is the federal fund created by Congress in 1970 to insure credit union member’s deposits in federally insured credit unions.  The Dodd -Frank Act permanently established NCUA’s standard maximum share insurance amount at $250,000.  NCUSIF is backed by the full faith and credit of the U.S. Government.  **Securities Investors Protection Corporation (SIPC)**– Securities you own, including mutual funds that are held for your account by a broker, or a bank's brokerage subsidiary, are not insured against loss in value.  The value of your investments can go up or down depending on the demand for them in the market.  The Securities Investors Protection Corporation (SIPC), a non government entity, replaces missing stocks and other securities in customer accounts held by SIPC member firm up to $500,000, including up to $250,000 in cash, if the firm fails.  For more information see [www.sipc.org](http://www.sipc.org).  <https://www.getsmarteraboutmoney.ca/invest/investing-basics/understanding-risk/types-of-investment-risk/> 9 types of investment risk1. Market risk The risk of investments declining in value because of economic developments or other events that affect the entire market. The main types of market risk are equity risk, interest rate risk and currency risk.   * **Equity risk –** applies to an investment in [shares](http://www.getsmarteraboutmoney.ca/en/managing-your-money/investing/stocks/Pages/default.aspx). The market price of shares varies all the time depending on demand and supply. Equity risk is the risk of loss because of a drop in the market price of shares. * **Interest rate risk –** applies to debt investments such as [bonds](http://www.getsmarteraboutmoney.ca/en/managing-your-money/investing/bonds/Pages/default.aspx). It is the risk of losing money because of a change in the interest rate. For example, if the interest rate goes up, the market value of bonds will drop. * **Currency risk –** applies when you own foreign investments. It is the risk of losing money because of a movement in the exchange rate. For example, if the U.S. dollar becomes less valuable relative to the Canadian dollar, your U.S. stocks will be worth less in Canadian dollars.  2. Liquidity risk The risk of being unable to sell your investment at a fair price and get your money out when you want to. To sell the investment, you may need to accept a lower price. In some cases, such as [exempt market](http://www.getsmarteraboutmoney.ca/en/managing-your-money/investing/investor-protection/Pages/The-exempt-market.aspx) investments, it may not be possible to sell the investment at all. 3. Concentration risk The risk of loss because your money is concentrated in 1 investment or type of investment. When you [diversify](http://www.getsmarteraboutmoney.ca/en/managing-your-money/planning/investing-basics/Pages/Diversification.aspx) your investments, you spread the risk over different types of investments, industries and geographic locations. 4. Credit risk The risk that the government entity or company that issued the bond will run into financial difficulties and won’t be able to pay the interest or repay the principal at maturity. Credit risk applies to debt investments such as bonds. You can evaluate credit risk by looking at the credit rating of the bond. For example, long-term Canadian government bonds have a credit rating of AAA, which indicates the lowest possible credit risk. 5. Reinvestment risk The risk of loss from reinvesting principal or income at a lower interest rate. Suppose you buy a bond paying 5%. Reinvestment risk will affect you if interest rates drop and you have to reinvest the regular interest payments at 4%. Reinvestment risk will also apply if the bond matures and you have to reinvest the principal at less than 5%. Reinvestment risk will not apply if you intend to spend the regular interest payments or the principal at maturity. 6. Inflation risk The risk of a loss in your purchasing power because the value of your investments does not keep up with inflation. Inflation erodes the purchasing power of money over time – the same amount of money will buy fewer goods and services. Inflation risk is particularly relevant if you own cash or debt investments like bonds. Shares offer some protection against inflation because most companies can increase the prices they charge to their customers. Share prices should therefore rise in line with inflation. Real estate also offers some protection because landlords can increase rents over time. 7. Horizon risk The risk that your [investment horizon](http://www.getsmarteraboutmoney.ca/en/managing-your-money/planning/investing-basics/Pages/Time-horizon.aspx) may be shortened because of an unforeseen event, for example, the loss of your job. This may force you to sell investments that you were expecting to hold for the long term. If you must sell at a time when the markets are down, you may lose money. 8. Longevity risk The risk of outliving your savings. This risk is particularly relevant for people who are retired, or are nearing retirement. 9. Foreign investment risk The risk of loss when investing in foreign countries. When you buy foreign investments, for example, the shares of companies in emerging markets, you face risks that do not exist in Canada, for example, the risk of nationalization. | The article discusses the forms of investment risk that causes deviations from expected returns. |
| **4.1.2.1 Factors affecting risk appetite** | PRUDENTIAL INVESTMENT MANAGERS,2018  How much investment risk can you handle?  Retrieved from: <https://www.prudential.co.za/insights/articlesreleases/how-much-investment-risk-can-you-handle/>  **How much investment risk can you handle?**  Risk is one of the most important concepts related to financial planning and investing. Unfortunately, it’s also one of the most misunderstood. Your investment decisions are determined, to a large extent, by your appetite for risk. But there’s a huge difference between your natural appetite for risky behaviour and your risk profile as an investor.  If you’re a naturally cautious person – someone, say, who avoids rollercoaster rides and who always checks the ‘best before’ date on their food – then you may feel naturally inclined take a highly cautious, risk-averse approach to your investments. Similarly, if you’re a bit of a daredevil – the type who goes skydiving on Saturdays and bungee-jumping on Sundays – then you may be tempted to take the leap into high-risk investments.  Either way, you’d be making a mistake. Your investment decisions shouldn’t be based on your aversion towards risk in your everyday life. Savvy investors know how to separate their personality from their [investment-risk profile](https://www.prudential.co.za/insights/articlesreleases/savvy-investors-understand-their-risk-profile/). The two, after all, should be mutually exclusive.  Risk profiling is a crucial part of your financial planning process. Your financial adviser will help you to determine your risk profile by examining the amount of risk needed to achieve your [investment goals](https://www.prudential.co.za/personal-investor/our-funds/tools/goal-calculator/); how much risk you can afford to take; and your emotional willingness to take on risk.  Other key factors that also play a role include your investment goals and your investment time frame (also referred to as your investment time horizon). Based on these criteria, your financial adviser will assess your tolerance for investment risk and then use that information to help you make your investment decisions and construct an appropriate portfolio.  Your investment risk profile might end up being:   * Low – you’re only willing to accept minimal losses and may have a short-term investment time frame. * Low to medium – you want reasonably stable growth and are willing to take on a limited level of risk. * Medium – you accept some volatility and are prepared to invest for five years or longer. * Medium to high – you accept the risk/rewards trade-off, can live with volatility, and are looking to invest for up to 10 years). * High – your focus is on long-term capital growth and you’re willing to accept significant fluctuations in value, knowing that it might mean high returns in 10 or more years’ time.   As you can see, your personality only plays a limited role determining your investment risk profile. The major factors are your time horizon, your access to cash, and your investment goal. And while you may worry (or not) about the level of investment risk you’re taking on, your natural inclination to go skydiving without a back-up parachute over a lake of flesh-eating piranhas (or not) is only a small part of the overall equation.  The bigger picture shows you why you would need to separate your individual personality traits from the risk characteristics of your investment portfolio.  Fortunately, Prudential has a [range of funds](https://www.mandg.co.za/insights/articlesreleases/how-much-investment-risk-can-you-handle/) to choose from, each with their own risk profile and investment time horizon. Try our [Fund Selector](https://www.mandg.co.za/insights/articlesreleases/how-much-investment-risk-can-you-handle/) tool to see which Prudential fund best matches your investment objective. | The article discusses the importance of carefully taking on the requisite amount of risk to achieve investment objectives. |
| **4.1.2.1 Factors affecting risk** | Moneyweb  Know your risk appetite  https://www.moneyweb.co.za/financial-advisor-views/why-its-important-to-understand-your-risk-tolerance-when-investing/  **Why it’s essential to understand your risk tolerance when investing**  History has proven that panic-selling for long-term investors almost always ends poorly.Proper risk profiling ensures that your asset allocation is in alignment with your attitudes and current situation. Picture: Shutterstock  27 March 2019 14:30   /  By  Renee Eagar - Brenthurst Wealth  History has proven that panic-selling for long-term investors almost always ends poorly.  Many people think they can remain rational when markets are volatile and when investment values are going through a dip.  The truth, however, is quite the opposite. People become overly emotional when markets behave badly to the point of selling off valuable stakes of their portfolio. But selling shares when values decline is never a good idea.  History has proven that panic-selling for long-term investors almost always ends poorly. Investors who kept their wits during a financial slump ended up recouping not only all their losses but were also still around to benefit from a market recovery.  Often, it’s hard to really know what you’re comfortable with until you’ve experienced losses. It is therefore important to make an honest assessment of your own risk tolerance.  Any financial planner worth his/her salt will tell you that a proper assessment of your risk profile is the first step in the creation of a robust financial plan. If you’re not aware of your own risk profile, chances are you’ll end up taking regrettable investment decisions at least a few times in your life.  Risk tolerance is a measure of willingness to accept higher risk or volatility in exchange for higher potential returns in portfolio selection.  Risk profiling helps you invest in the optimum and diversified asset allocation to reach your investment goals. It also aims to simplify the process of understanding your underlying attitudes towards investing and hence predicting your probable reactions to future events. It is an important part of the financial planning process.  All types of investments require that you take on some degree of risk. Cash, for example, carries an inflationary risk, property carries the risk of not being occupied and equities the risk of capital loss through corporate failure or devastating economic factors.  Investment risk measures how sure you can be of achieving your investment objectives. The relationship between risk and return is fundamental to all investments**.**The more risk you’re willing to take on, based on market performance over long periods, the greater the potential return should be.  Your financial planner will assist you in understanding your risk profile by way of a questionnaire. Based on your requirements, a decision can be made on asset allocation. The more detailed it is, the more it’s likely to capture your risk profile accurately. It will test the investor’s responses to his/her limitations in taking financial risk, past decisions in financial situations, and his/her attitude towards investing in various risk/return scenarios.  Once you know how much spread is to be maintained between risk assets like equity and low-risk assets like cash, you can identify the funds and products where you would like to invest. You will also realise your preference for consistent growth and a slow uptick, and the level of volatility you can withstand to get a better result.  The rate of return that an investment is going to generate is generally the first thing that is discussed at the time of investment. While this is definitely a very important aspect to be noted, it is equally important to consider the risks associated with that particular investment.  Once you are better versed in the products and assets you are invested in and what percentage is invested either locally or offshore, you will be less likely to be panicked into a decision when the market turns.  Proper risk profiling ensures that your asset allocation is in alignment with your attitudes and current situation. This will allow you to take wiser decisions with your money – not panic and sell out or invest out of greed. In the long run, you’ll be happy with the returns you’ve earned.  Investors must understand the dangers of changing strategy in a portfolio, just to chase last year’s performance, and how getting the timing wrong can have a detrimental effect on a portfolio. It is very important to leave emotion out of it and ignore the noise, as an overreaction will only lead to losses.  A better understanding of your risk profile will also make it easier for you to adapt your financial plan. It will hone your focus on future events that matter, like retirement or the death of a family member, which are the real determinants of a risk profile.  **ANOTHER ARTICLE ON RISK TOLERANCE**  <https://www.psg.co.za/news-and-publications/articles/wealth/understanding-your-risk-tolerance-the-wealth-perspective> Understanding your risk tolerance AvatarNirdev Desai, Head of Sales  PSG Wealth  April 2021  Many investors become overly anxious when markets behave badly and choose to sell off valuable stakes of their portfolio. However, opting to sell when values decline is rarely a good idea. Panic-selling or buying almost always ends badly, which is why investors must understand the dangers of changing strategy in a portfolio in hopes of chasing past performance. And why proper risk profiling will help ensure that your asset allocation is aligned to your current situation and risk appetite.  “ Risk profiling can help you understand your underlying attitudes towards investing and consequently help predict your probable reactions to future events.” Understanding your risk tolerance Many investors become overly anxious when markets behave badly and choose to sell off valuable stakes of their portfolio. However, opting to sell when values decline is rarely a good idea. Panic-selling or buying almost always ends badly, which is why investors must understand the dangers of changing strategy in a portfolio in hopes of chasing past performance. And why proper risk profiling will help ensure that your asset allocation is aligned to your current situation and risk appetite.  In financial terms, risk is defined as the possibility of having a different outcome or investment return than what was expected. Risk includes the possibility of losing some, or all, of an original investment. So, the word ‘risk’ inherently holds negative connotations – it alludes to an exposure to loss. However, I’d argue that the framing of risk is often misguided by short–termism at the expense of long-term goals. All types of investments require that you take on some degree of risk, but once we truly understand what is at risk, investors will not be swayed by behavioural biases. They can then make informed decisions that are aligned to portfolio benchmarks, which will help them achieve their financial goals.  **The determinants of a risk profile**  In the simplest form, to determine an investor’s risk tolerance, two broad questions will be asked: (1) “how much upside do you want?” and (2) “how much downside can you tolerate?” Generally, no-one wants any downside over any period, but managed risk needs to be introduced into investors’ portfolios in order to realise returns that beat inflation. There is also a third element that helps frame the upside expectation and downside tolerance – time horizon. From an unbiased perspective, these are reasonably easy to plan for. However, it’s often hard to really know what risk you are comfortable with until you’ve experienced the volatility that markets typically deliver in the short term. It is therefore important to make an honest assessment of your own risk tolerance with the help of a financial adviser. Risk profiling can help you understand your underlying attitudes towards investing and consequently help predict your probable reactions to future events. This is an important part of the financial planning process. You can then invest in portfolios optimised and diversified to reach your personal set of investment goals.  **What is really at risk?**  They say hindsight is 20/20. Well, that was certainly true for the last year - 2020 saw the fastest sell off in equity markets and the fastest recovery ever. At its lowest point investors in local equities lost 40%, however the one-year return on equities ended 7% up (almost double inflation for the year). In hindsight, those who chose to stay invested in equities through the turbulence managed to beat inflation and reap good returns.  Investors need to understand that they may well be invested during those times of downsides and volatility of markets, and framing around how this will impact their investments. If you can accept that you will experience a negative return in equities (around 20%) at least one year of every five-year period, then the recent experience is a good one to frame one’s expectations of equities:  **In the short term (five years)**  The returns of South African equity have been lower than normal. However, it has beaten cash, and those investors who stayed invested over the five-year period are already on their journey to achieving the benefits of compounding interest. The extra return over cash delivered by South African equities was 16%. **In the medium term (10 years)**  Investors in the South African equity market over the last 10 years have reaped the benefits of compounding, with a cumulative extra return on investment delivering almost double the returns of a cash investment, at 92.5% (see Graph 1).  **In the long term (>10 years)**  The case for being invested in growth assets makes any lower risk investment seem very unattractive. Getting nine times extra return over cash makes a lower risk asset a very unappealing alternative.  Graph 1: Annualised returns – equities vs cash  Source: Morningstar Direct  Time horizon is crucial: the longer the time horizon, the less volatile returns from equities becomes, in other words, the expected returns one can plan for becomes more reliable. One of our funds, the PSG Wealth Creator FoF can be used to illustrate this example (see Graph 2). By staying invested long enough (seven years plus), your returns will be able to achieve the cash and inflation beating returns expected from equities and deliver the power of compounding. Through the planning process there may be shorter-term capital and income needs, which may not make a portfolio fully exposed to growth assets appropriate, and that appropriateness needs to be decided on – this is precisely why engaging with a qualified financial planner is key to good financial planning.  PSG Wealth Creator FOF D – the best, worst and average in rolling returns  Source: PSG Wealth multi-management research | The article discusses how to determine investor risk appetite. |
| **4.2.2 The Impact of global political factors on South African investment returns** | BUSINESS DAY, 2019  Rand Falls the most in a week as Saudi attacks send investors to safe-havens.  Retrieved from <https://www.businesslive.co.za/bd/markets/2019-09-16-rand-weaker-as-saudi-oil-attacks-spur-global-risk-off-trade/>  **Rand falls the most in a week as Saudi attacks send investors to safe havens**  **The price of Brent crude jumped more than 9% on Monday morning after a drone attack on a Saudi Arabian facility**  16 September 2019 - 10:28 Odwa Mjo  UPDATED 16 September 2019 - 14:14  [Picture: REUTERS](https://lh3.googleusercontent.com/H_RMngZhpUOLQL-6SbFRfB_X8n0F68hVTna9UiHsFdXI7_kuDiuwH0dSdnQXFVzz3Nr9O3FYxMWRqfJ_ZRuKJR7k1lq5-UlR=s1200)  Picture: REUTERS  The rand fell the most in a week on Monday morning after attacks on oil facilities in Saudi Arabia drove oil prices up, with investors scurrying for safe havens such as gold and the dollar.  The price of Brent crude jumped more than 9% on Monday morning after a drone attack on a Saudi Arabian facility at the weekend, wiping out more than half of the country’s oil supply, about 5% of global oil supply, Reuters reported.  “The drone attack ... is causing havoc for certain emerging- markets this morning” due to the effect of higher oil prices on inflation, Standard Bank currency dealer Warrick Butler said.  “For countries like SA and Turkey, who are net importers, the negative impact is greater.”  At 9.55am, the rand had weakened 0.25% to R14.6622/$, 0.27% to R16.2394/€ while it was flat at R18.2696/£. The euro was little changed at $1.1075.  Gold was up 1.8% to $1,504.60 while platinum was flat at $955.36. Brent crude climbed 9.03% to $65.55 a barrel. | The article discusses the impact on financial indicators by geopolitical tensions emanating from the 2019 Bombing of Saudi Arabia’s oil reserves. |
| **4.2.3 The Impact of global health factors on South African investment returns** | FOREIGN POLICY.COM, 2019  Donald Trump and Swine fever are creating an economic crisis.  Retrieved from  <https://foreignpolicy.com/2019/05/10/donald-trump-and-swine-flu-have-a-lot-in-common/>    **Donald Trump and Swine Fever Are Creating an Economic Crisis**  **A deadly outbreak in China and trade tariffs in the United States are threatening to send global markets into a tailspin.**  By [**Laurie Garrett**](https://foreignpolicy.com/author/laurie-garrett/), a columnist at *Foreign Policy* and former senior fellow for global health at the Council on Foreign Relations.  A poster from a protest against President Donald Trump in New York City on Nov. 9, 2016.  KENA BETANCUR/AFP/Getty Images  May 10, 2019, 12:44 AM  As trade tensions between the Trump administration and Chinese President Xi Jinping’s negotiating team escalate, with U.S. President Donald Trump threatening to impose drastic new tariffs starting on Friday, the negative fallout for farmers—from soybean growers in Iowa to hog farmers in Shandong—is potentially very high. But it’s all made worse by an obscure African virus that is threatening to transform the trade woes into a snowballing catastrophe affecting everything from the food on your family’s plates next week, to the stability of global financial markets and agricultural industries, to the health of dialysis patients around the world.  Last summer a [hog farmer](https://www.bloomberg.com/news/articles/2019-05-02/pig-ebola-virus-sends-shock-waves-through-global-food-chain?cmpid=socialflow-twitter-business&utm_medium=social&utm_content=business&utm_source=twitter&utm_campaign=socialflow-organic) with a small, 400-pig operation in Shenyang, northeastern China, reported a disease was sweeping through his herd, with lethal outcome. By the time government investigators reached the scene, the disease had already spread to neighboring farms, swiftly killing over 10 percent of the swine. On Aug. 3, 2018, Zhang Zhongqui, the director general of the China Animal Disease Control Center, [announced](http://www.oie.int/wahis_2/public/wahid.php/Reviewreport/Review?page_refer=MapFullEventReport&reportid=27442) that [African swine fever](http://www.oie.int/en/animal-health-in-the-world/animal-diseases/african-swine-fever/) had, for the first time in history, broken out in China, where more than half of the world’s pork is consumed—[56 billion pounds](https://www.forbes.com/sites/donaldmarvin/2019/05/06/u-s-pork-industry-works-to-contain-african-swine-fever/#77d5f69067f4) of it annually—and much of it is produced.  The extremely contagious virus [causes](https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5844645/) animals’ vascular systems to collapse, bleeding out into organs and tissues throughout their bodies and killing them within four days. The disease is also notoriously hard to control, as there’s no rapid diagnostic tool farmers can use to tell if animals are infected, no treatment, and no vaccine—and anything including contaminated farmers’ shoes, feed buckets, and virus-laden transport vehicles can pass the virus on to pigs. The disease is not harmful to humans, but people can carry the virus on their clothing, hands, and equipment, unwittingly spreading it from pig to pig. And nobody has yet found an infected pig or boar that has survived African swine fever: It is nearly 100 percent [lethal](https://veterinaryrecord.bmj.com/content/181/5/115).  In 2017, experts [warned](https://veterinaryrecord.bmj.com/content/181/5/117?int_source=trendmd&int_medium=trendmd&int_campaign=trendmd) that China was ill prepared to handle African swine fever if it reached the country, particularly now that the nation’s hog farming is rapidly shifting from a mostly family-based village model to massive-scale, U.S.-style [industrial](https://www.reuters.com/article/us-china-swinefever/african-swine-fever-hits-huge-foreign-invested-chinese-farm-idUSKCN1OW0RB) swine farming. Family farmers could be quarantined, their homes and animals typically confiscated by the Chinese state. But the industrial operations house thousands of hogs in tight confinement, fed and tended to by a small staff that moves from pig to pig, potentially acting as a vector for viral spread in a matter of a few hours to tens of thousands of animals.  China has proven the experts right—it has not been ready for an outbreak. Within a month of Zhang’s announcement of the first Shenyang outbreak, African swine fever [spread](https://veterinaryrecord.bmj.com/content/183/9/300.2) to three other nearby districts. And it kept spreading, engulfing every pork-rearing area of the nation by early 2019. Some hog producers agreed to slaughter their entire herds, hoping to stop the epidemic. But when they brought in uninfected sows and piglets to restock their herds, the new animals quickly sickened, thanks to contaminated facilities. The virus is so contagious that one outbreak was traced to a courier [mailing pouch](http://focustaiwan.tw/news/asoc/201901240022.aspx) delivered to a farm—the pouch, not its contents, spread the disease.  In October, Chinese authorities realized that their quarantine measures were failing because family-scale farmers were [feeding](https://www.reuters.com/article/us-china-swinefever/china-blames-feeding-kitchen-waste-to-pigs-for-african-swine-fever-spread-idUSKCN1MY147) kitchen waste to their pigs—a traditional practice that essentially renders the animals cannibals, eating remnants of other pigs. This is reminiscent of the 1988 mad cow epidemic in the United Kingdom, which was caused by feeding sheep and cow bone meal to cows, spreading bovine spongiform encephalopathy to entire herds of animals across the nation. Today it is [illegal](https://www.food.gov.uk/safety-hygiene/bovine-spongiform-encephalopathy-bse) in the [U.K. and EU](https://www.daera-ni.gov.uk/articles/bse-feed-controls) to feed livestock meal made from body parts of their own species or other mammalian species. But with Chinese swine, the practice continues, which hastens the spread of African swine fever even when all other possible control measures are imposed. Worse, some factory-scale feed manufacturers in China have produced and sold contaminated protein powders made from hog cadavers.  China [culled](https://www.reuters.com/article/us-china-swinefever-idUSKCN1P90I1?utm_campaign=trueAnthem:%20Trending%20Content&utm_content=5c3dcb7004d301510582ad1a&utm_medium=trueAnthem&utm_source=twitter) nearly a million pigs by the end of January, frantically trying to slow the epidemic. But by early May, China had [logged](http://time.com/5580126/china-swine-fever-pork-industry-spreading/) at least 129 African swine fever outbreaks, located all over a nation with a $1 trillion hog industry, and the virus has spread to hogs in nearby pork-consuming nations: [Taiwan](http://focustaiwan.tw/news/afav/201901030013.aspx), [Vietnam](http://www.promedmail.org/post/20190322.6381354), [Mongolia](http://www.fao.org/ag/againfo/programmes/en/empres/ASF/Situation_update.html), [Cambodia, and North Korea](https://www.forbes.com/sites/donaldmarvin/2019/05/06/u-s-pork-industry-works-to-contain-african-swine-fever/#77d5f69067f4). Thailand and Laos are both bracing for the likely arrival of swine fever to their herds. Smugglers and food exporters trying to bypass quarantine controls have taken pork products infected with the swine fever to markets in [Japan](http://kticradio.com/agricultural/africa-swine-fever-virus-detected-in-luggage-from-shanghai/), [Taiwan](http://focustaiwan.tw/news/asoc/201901240022.aspx), [Australia](https://www.swinehealth.org/wp-content/uploads/2019/01/Jan2019-GSDMR.pdf), and [South Korea](https://www.swinehealth.org/wp-content/uploads/2019/01/Jan2019-GSDMR.pdf). In October, the U.S. Department of Agriculture said there was no testing method for it to screen imported pork products for the disease. In March, U.S. Customs and Border Protection officials [captured](https://www.forbes.com/sites/donaldmarvin/2019/05/06/u-s-pork-industry-works-to-contain-african-swine-fever/#77d5f69067f4) 50 shipping containers at the Port of New York and New Jersey loaded with 1 million pounds of deliberately mislabeled Chinese pork—a discovery that has American hog farmers worried that China’s swine fever will eventually hit U.S. pigs.  Under the Chinese zodiac, this is the Year of the Pig, but China has [already lost](https://www.bloomberg.com/news/articles/2019-05-02/pig-ebola-virus-sends-shock-waves-through-global-food-chain) an estimated 134 million pigs out of its 440 million swine and $128 billion pork industry. Forecasters say a total 2019 pig loss of [134 million](https://www.reuters.com/article/us-china-economy-output-pork/china-warns-of-soaring-pork-prices-as-virus-curbs-output-idUSKCN1RT0A5)—nearly half of China’s entire herd—seems likely. Pork products worldwide have been [affected](https://www.bloomberg.com/news/articles/2019-05-02/pig-ebola-virus-sends-shock-waves-through-global-food-chain): The cost of pork in China is up 21 percent since this time last year, bacon prices spiked 20 percent in Spain in March, and pork shoulders are 17 percent more expensive in Germany. And other meats are costing more as people switch from high-priced pork to beef or chicken. The economist Arlan Suderman told [*Bloomberg Businessweek*](https://www.bloomberg.com/news/articles/2019-04-14/deadly-pig-disease-to-reshape-global-soybean-markets-for-years), “This is an unprecedented situation. This will impact food prices globally.”  Meanwhile, some 80 percent of Chinese farmers have decided not to restock their swine herds—until the government gives a green light, or they are sure African swine fever is gone. “The impact on China’s pork industry has been catastrophic. Farms are empty across China. Farmers have been directed to wait up to [six] months before restocking,” Brett Stuart, a co-founder of Global AgriTrends, [told *Time.*](http://time.com/5580126/china-swine-fever-pork-industry-spreading/)  This, in turn, has had a major impact on the U.S. agriculture industry, which was once the main supplier of the soybeans and corn that China used to feed its pigs. As Chinese farmers have lost or culled their herds, demand for U.S. soybeans and corn has plummeted. By this time in 2018, American farmers had [sold](https://apps.fas.usda.gov/psdonline/circulars/oilseeds.pdf) 28.7 million tons of soybean meal to China; so far in 2019, they have sold less than half that, 12.9 million tons. In mid-April, U.S. soybean [exports sank](https://www.bloomberg.com/news/articles/2019-04-15/as-trade-war-simmers-u-s-soybean-shipments-hit-one-year-low) from 888,700 metric tons one week to 460,700 tons the next—a fall likely due to African swine fever and swine herd losses in China. One commodities expert [predicts](https://www.porkbusiness.com/article/asf-causes-train-wreck-slow-motion-soybean-market) 2019 and 2020 will both see a drop of 2 billion bushels in U.S. exports to China, dubbing the disease a “ train wreck in slow motion” for the American soybean market.  And that’s before accounting for the impact of new Chinese tariffs, in retaliation for the Trump administration’s tariffs on Chinese goods. In China, U.S. soybean meal is now $10 to $25 per ton [more expensive](https://apps.fas.usda.gov/psdonline/circulars/oilseeds.pdf) than Brazilian soybeans due to the tariffs. Even if the swine fever epidemic were to miraculously come to a halt before the 2019 soybean harvest, experts say, China will not quickly rebuild its herds and restore U.S. soybean demand. Market recovery—at both ends of the trade dispute—could take three years or more. Assuming African swine fever continues to plague China for several years, as has been the case in Eastern Europe and Russia, America’s soybean farmers could be in [dire straits](https://www.bloomberg.com/news/articles/2019-04-14/deadly-pig-disease-to-reshape-global-soybean-markets-for-years) for a long time. And this will only worsen if the Trump administration pushes tariffs still higher.  The Xi government also imposed tariffs on U.S. pork, totaling 62 percent, but demand in China for U.S. pork products is nevertheless high; Chinese orders for U.S. pork meat quintupled this March and April. That means the cost of bacon, pork chops, and other pork products [will climb steadily](https://www.reuters.com/article/us-china-economy-output-pork/china-warns-of-soaring-pork-prices-as-virus-curbs-output-idUSKCN1RT0A5) for American consumers—and everybody else in the world—as the United States struggles to meet that demand. And inside China, economists are nervously watching soaring inflation in pork prices and spillover increases in costs for substitute meats like chicken, duck, and beef. The fear is that African swine fever could push the broader Chinese economy into runaway [inflation](https://www.profarmer.com/markets/policy/asf-now-found-all-parts-china-pork-prices-imports-expected-surge).  Lurking in the background of this swine fever and tariffs situation in China are concerns about the [world’s heparin supply](https://www.nature.com/articles/d41586-019-01269-5). The primary blood thinner used worldwide to prevent some post-operative and dialysis patients from suffering or dying from blood clots, heparin is made from boiled pigs’ intestines. In China, slaughterhouses and pig farmers boil the swine offal until they have a crude mucus, which is then sold to Chinese pharmaceutical manufacturers, which isolate the key blood-thinning ingredient, formulate it in injectable form, and sell the heparin worldwide. In 2007, a different pig virus, causing porcine reproductive and respiratory syndrome, took a huge toll on China’s swine population, decreasing offal supplies. In the absence of sufficient crude product to meet their global heparin orders, Chinese manufacturers [substituted](https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2012/05/16/heparin-a-wakeup-call-on-risks-to-the-us-drug-supply) a similar chemical, oversulfated chondroitin sulfate, which is about 100 times cheaper than the pig-derived ingredient—so the Chinese manufacturers stood to make a tidy profit.  The primary Western distributor, Baxter Healthcare, did not notice the difference. Nor did the U.S. Food and Drug Administration, which at the time lacked a testing system sophisticated enough to detect the swindle. The results were grim for patients. In the United States, 574 dialysis patients suffered [allergic reactions](https://www.pewtrusts.org/-/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/health/pewheparinfinalhrpdf.pdf) to the oversulfated chondroitin sulfate, which killed 68 of them. European countries also had cases, and deaths, but no European Union agency published a detailed accounting of the problem. Nearly 80 percent of the world’s heparin ingredient supply is made in China, which is why a halving of the nation’s swine population should also be a major pharmaceutical concern for the world.  If trade negotiations stay sour between the United States and China, and tariffs increase, the worldwide markets for soybeans, pork, heparin, and dozens of other agricultural products could be disrupted. But that process would be grossly exacerbated by the African swine fever epidemic in China. As U.S. soybean producers suffer the double whammy of tariffs and lowered demand for hog meal, there will be ripple effects across agricultural economies in the United States. The only good news may be for Brazil, where soybean supplies, thanks to President Jair Bolsonaro’s [assault](https://www.theguardian.com/world/2019/jan/02/brazil-jair-bolsonaro-amazon-rainforest-protections) on Amazon rainforest protections, are expected to soon grow rapidly. | The article discusses the effects of the outbreak of African swine flu on Chinese and American economies and the impact that this may have on the global economy. |
| **4.2.3 The Impact of global environmental factors on South African investment returns** | THE CONVERSATION, 2019  How Droughts will affect South Africa’s Broader Economy  Retrieved from  <http://theconversation.com/how-droughts-will-affect-south-africas-broader-economy-111378>    **How droughts will affect South Africa’s broader economy**  March 6, 2019 4.40pm SAST  **Author**   1. [Mmatlou Kalaba](https://theconversation.com/profiles/mmatlou-kalaba-180824)   Senior Lecturer in Agricultural Economics, University of Pretoria  **Disclosure statement**  Mmatlou Kalaba receives funding from National Research Foundation (NRF). He is affiliated with the Bureau for Food and Agricultural Policy (BFAP) and the Agricultural Economics Association of South Africa (AEASA).  **Partners**  [University of Pretoria](https://theconversation.com/institutions/university-of-pretoria-1645) provides funding as a partner of The Conversation AFRICA.  The Conversation is funded by the National Research Foundation, eight universities, including the Cape Peninsula University of Technology, Rhodes University, Stellenbosch University and the Universities of Cape Town, Johannesburg, Kwa-Zulu Natal, Pretoria, and South Africa. It is hosted by the Universities of the Witwatersrand and Western Cape, the African Population and Health Research Centre and the Nigerian Academy of Science. The Bill & Melinda Gates Foundation is a Strategic Partner. [more](https://theconversation.com/africa/partners)  Droughts have become more commonplace in South Africa in recent years. [In the past two decades since 1990,](https://www.news24.com/SouthAfrica/News/how-severe-is-cape-towns-drought-a-detailed-look-at-the-data-20180123) 12 of those years were defined as drier years compared to only seven years in the previous 20 years.  The latest period included three consecutive years of drier conditions, between 2014 to 2016. In some regions, such as the Western Cape, the country’s second largest province in terms of economic contribution, the drought continued into 2017.  These droughts are associated with [climate change](https://www.climaterealityproject.org/blog/facts-about-climate-change-and-drought) – [the effect of human behaviour](https://iopscience.iop.org/article/10.1088/1748-9326/aae9f9/meta) on the planet’s temperature.  Over the past two years the Western Cape was forced to set [strict water restrictions](https://www.iol.co.za/news/south-africa/western-cape/cape-town-gets-even-tougher-on-water-restrictions-7512713) – including curbs on irrigation – as dam levels dropped to below 20%. This had a direct effect on agriculture and food production, as well as ripple effects across the country.  **Get news that’s free, independent and based on evidence.**  In the province more than [R5 billion](https://www.enca.com/south-africa/western-cape-drought-impact-on-agriculture-estimated-at-r5bn) was lost to the economy, largely due to the drought. This matters for the country as a whole because the Western Cape contributes [22% to national agricultural GDP](https://agbiz.co.za/news/632/105/Western-Cape-drought-weighs-on-broader-agricultural-economy). And the deciduous fruit and wine industries, and increasingly the citrus industry, are key exports and contribute significantly to South Africa’s [overall agri-economy](https://www.iol.co.za/business-report/why-western-cape-agriculture-matters-to-sa-economy-10007415).  The economic implications of all of these outcomes are dire. From 2015 to 2017 South Africa’s economic grew by a mere 1.1% average per annum, with the [agricultural sector](http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2018.pdf) growing at a rate of less than 0.5%. That’s not enough to make a dent on the country’s biggest challenges, which include high rates of inequality, poverty as well as unemployment.  **Western Cape as a case study**  **Tourism sector:** The drought negatively affected the province’s tourism sector. Even though the impact hasn’t been quantified, the number of tourists visiting the province [went down during the drought period](https://www.businessinsider.co.za/the-impact-of-the-cape-town-drought-on-tourism-was-rather-tiny-2018-7). This was also reflected in the fact that year-on-year overnight guests in the region grew at a mere 1% from 2016 to 2017, compared with 7% a year earlier. Some hotels had bookings declining by between 10% and 15% in 2018, compared to 2017.  Tourism in Western Cape is estimated to employ about [300 000 people](https://www.countrylife.co.za/news/38380).  **Food prices:** the impact of drought on food prices was severe with staple food items such as maize increasing. This affected mostly poor households which spend relatively large portions of their income on food – as much as [34% of their total income](http://www.statssa.gov.za/?p=2564).  Also, lower agricultural production has affected food supplies. This in turn could increase food prices and food insecurity.  **Jobs:** The Western Cape has the biggest agricultural workforce in South Africa – nearly a [quarter of the country’s](https://www.iol.co.za/business-report/why-western-cape-agriculture-matters-to-sa-economy-10007415) farm workers are employed in the region. And agriculture and agro-processing are responsible for [18% of employment opportunities](https://www.iol.co.za/business-report/why-western-cape-agriculture-matters-to-sa-economy-10007415) in the province.  The drought has led to job losses in the province’s agriculture sector. The 2017 [third quarterly labour force survey](http://www.statssa.gov.za/?p=10658) showed that approximately 25,000 jobs were lost from the agricultural sector nationally. More [than 20 000 of these were](https://agbiz.co.za/news/632/105/Western-Cape-drought-weighs-on-broader-agricultural-economy) lost in the Western Cape province. Many were associated with the drought.  Most farm workers are unlikely to get jobs elsewhere, which means that job losses will worsen poverty.  **Impact on the fiscus**  If the pattern of drought continues, it’s likely to affect the country’s financial standing too. This is for a number of reasons.  Firstly, the National Treasury will have to continue spending money on disaster relief, as opposed to other economic activities. This year, for example, the South African government may need close [to R3 billion sought by farmers](https://www.forbesafrica.com/agriculture/2019/01/27/south-africa-farmers-seek-220-million-in-drought-aid/) severely affected by the drought.  Future assistance could be in the form of helping build infrastructure like boreholes and supporting farmers who need to reduce stock.  Secondly, continuing droughts could force up the country’s import bill. Declining agricultural production could lead to shortages of some food items like maize, wheat and some protein sources such as meat and eggs. This could, in turn, force South Africa to import more.  Thirdly, a shortage of local produce could push up prices. This could affect food inflation and push up the consumer price index. Given that the South African Reserve Bank uses interest rates to control [inflation](https://www.fin24.com/Economy/sa-reserve-bank-sees-higher-rates-to-curb-inflation-20181030), this could lead to higher interest rates which will affect the broader economy.  **Climate change a reality**  Climate change poses a threat to everyone. Governments, farmers and society in general need to take proactive steps to deal with the outcomes of changing weather patterns.  Over time, agricultural production will need to adapt to new methods and approaches. These may include the use of drought-resistant seed varieties, modern technologies to adapt and taking up more crop insurance. These approaches are readily available to farmers who have the resources. It’s the developing, smallholder and emerging farmers that remain at risk.  Governments can assist farmers by providing infrastructure support making new laws that support the conservation of resources. And government can provide financial support for the development of new technologies as well as seed varieties that are adaptable and can withstand severe weather patterns.  This requires better planning. In addition, government must work closely with the agricultural sector. | The article discusses global warming and how it has caused recent droughts and quantifies the effect of the Drought on the South African Economy and Western Cape in particular. |