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TITLE

Towards improved financial services and treatment of investors in retirements funds

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DECLARATION

I Michael Lindelani Gcwabaza declare that

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Abstract

It is a common practice that people earn income during their period of active employment and they save part thereof to sustain their livelihoods when they retire. A variety of investment vehicles is available to use as means of saving for retirement. Unfortunately not all persons who save for retirement do retire in a position of financial independence due to a number of reasons including insufficient funds available at retirement to cover the retiree's cost of living.

This research project aims establishing the most common reasons as to why investors' savings yield less than what was anticipated or projected at the time of putting the investment plan in place. Data was collected via a questionnaire that was distributed to a random sample of 150 users of financial services using a snow ball sampling approach.

Statistical analysis revealed that 50% of the participants were males and 50% were females. The majority of them (99%) were employed thus had less time to manage their investment portfolios, and that 68% have a tertiary qualification. Only 1.3% have ABET level of education. Of the participants 42% based their investment decisions on the advice given by the financial advisors and placed 85% of their combined investments with the banks and insurance houses. Only 2.5% of the participants had expert knowledge of the investment vehicles they opted for. Of the rest, 35% indicated that the adviser's motive was commission driven and a further 17% indicated that the adviser failed to conduct a proper financial needs analysis. Of those who suffered losses 59% lost between R1 and R5,000, 25% lost between R5,001 and R10,000, 13% lost between R10,000 and R50,000 and 3% lost more than R100,000 due to improper advice. It was observed that 53% of the participants did not know or were not sure of where to go for recourse regarding complaints relating to improper rendering of financial services. Only 47% knew how and where to lodge their complaints whilst more than 49% was of the view that literacy and awareness campaigns were not prevalent.

The study could be used by institutions like the Financial Services Board and the Office of the Ombud for Financial Services Providers to strongly consider investing in raising consumer awareness and educating consumers about remedies available to them should a need arise. It could also be used by financial institutions to improve the way they conduct business in order to build a positive reputation and restore investors' confidence in them – all which are pivotal to entrench a mutually beneficial relationship that is necessary to ensure sustainability of the industry in a longer term.

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CHAPTER ONE

Introduction

1.1 Introduction

During the period of economic activity and income earning most people put aside some of their earnings in order to sustain their livelihoods when they retire and become economically inactive. These savings are accumulated with the hope that they will be adequate to afford the retiree the desired or envisaged standard of living during retirement. Unfortunately not all people who save for retirement do retire financially independent. At retirement stage it often transpires that some of the investors receive what they expected, some get less than what they expected and some get almost nothing from their lifetime savings. There could be a number of reasons contributing to this dilemma, including poor choice of retirement vehicle, poor investment performance, exhorbitant fees/charges, and low levels of savings, economic conditions and foreign exchange fluctuations to mention just a few.

There are various options available to investors to choose from in making their investment decisions and they range from low risk to high risk investment plans. Financial institutions like banks and insurance houses are the most preferred institutions by investors when it comes to placing their savings. These institutions utilise financial models to compute various investment performance permutations using their peculiar language which is often not easily understandable to the majority of those who make use of the said financial services. It is for this reason that a financial advisor/broker is brought into the equation - to understand the financial needs of the investor and then sell (match these needs with) the “appropriate” financial product, offered by the financial institutions/investment houses like insurance companies and banks in order to realise the investor’s financial goals. The remuneration of the financial advisor often takes a form of commission based on the amount of sales/business generated for his employer.

This research project aimed to establish the most common reasons as to why investors’ savings yield less than what was anticipated or projected and advocated by the financial advisors/brokers at the time when the investment plan was put in place.

1.2 Motivation for the Study

The research project will be of benefit to users of financial services and to institutions tasked with the regulation of the financial services industry and those directly involved in the rendering of financial services. It highlights the interdependencies within the supply chain (investor, brokers/advisors, financial institutions, regulatory bodies and the broader society) and provides an opportunity for all role players to leverage on the relationship to enhance their respective service offerings.

For regulatory bodies like the Financial Services Board (FSB) and Ombud for Financial Services Providers (FAIS Ombud), the observation that 52% of the investors do not know or are not sure of how and where to lodge a complaint and get remedies for losses suffered as a result of negligence or improper rendering of financial services by the financial institution, will help to direct the regulators focus to increasing consumer education and awareness levels. A number of cases adjudicated by the FAIS Ombud did point to the common dilemma and the fact that consumers are being preyed on.

The other benefit is the identification of areas of abuse whereby financial advisors advance their own interests at the expense of the investor. The study indicated that 37% of the investors indicated that their financial advisors' motives were driven by commission maximisation as opposed to advancing the investors' interests. Further, 17% of the respondents indicated that their financial advisors failed to conduct a proper client financial needs analysis before giving financial advice to investors. This is a pre-requisite for proper rendering of financial service and giving proper advice. These are clear failures to comply with the provisions of the Financial Advisory and Intermediary Services Act (2002). This suggests to the regulators that they should be more vigilant, increase focus on enforcing compliance and follow up on cases of non compliance and impose appropriate fines where applicable to discourage such incidents from recurring.

The research revealed that the majority (96%) of investors would have more trust in the financial services industry and place more investments with the financial institutions if they could (i) treat the investors fairly and not prey on their ignorance, (ii) be transparent regarding their cost structures, (iii) educate the investors on the intricacies of the product(s) they sell and (iv) use a simplified language when explaining their product(s).

The benefit to the financial institutions such as insurance houses and banks is that they can learn from these observations and root out all the unwarranted practices, such as, (i) preying of investors' ignorance/lack of understanding of the products sold to them, (ii) advisors focusing on maximising their commission earnings at the expense of the investors all which have infected the industry. By so doing the industry is likely to win over the consumers' confidence and sustain the business in a longer term by ensuring that their business models do not tolerate any behaviour that discredits the industry and appears to exploit investors in any form or nature.

The study will benefit the investors in that it calls for regulators to be more visible and easily accessible to investors should their services be required. With increased consumer education and awareness levels, investors, knowing their rights, are likely to report cases of misconduct or improper rendering of financial services to the regulator bodies (FAIS Ombud or FSB) for such to be dealt with accordingly. As cases are brought to book, investigated and appropriate sanctions awarded to wrong doers, this will serve as a deterrent and a clear message to perpetrators that their time is over and that their behaviour is not acceptable and will not be tolerated at all.

Financial institutions are likely to treat investors fairly when investors become knowledgeable of their rights. This will help to mitigate most forms of abuse and thus position the investor well to get fair treatment, proper advice and consequently maximum returns on his investment. If most people retire financially independent, the state will be freed up, to some degree, from social grants and rather direct its limited resources to development capital projects that have a potential to propel the economy forward, create jobs and yield better returns for current and future generations.

This study will benefit all stakeholders through its contribution to the following:

- Advancing and protecting the interest of the vulnerable investors through increased awareness of regulatory bodies established to protect investors in time of need;
- Encourage the financial services industry to treat all investors fairly thus safeguarding their retirement savings and ensuring that they could retire on something, in some instances pass their wealth onto the next generation thus breaking the poverty chain;
- Weeding out the unscrupulous agents that are operating scams and defrauding the investors of their lifetime savings;
- Restoring the integrity of the financial services industry, increase consumer confidence and thus channeling more business and more profits for the industry;
- Improve the South African savings level and instill a savings culture in a longer term; and
- Relieve government on social grant spending as less people will be dependent on it thus affording National Treasury an opportunity to increase spending on capital investment projects that have a potential to grow the economy and create jobs.

1.3 Focus of the Study

The research project will focus on finding reasons that motivate people to save on one hand and why investors are vulnerable to improper selling of retirement or investment plans on the other hand. It will then make recommendations as to what interventions could be put in place by the institutions mandated to regulate the financial services industry to safeguard the interest of users of financial services (investors) and restore the credibility of the financial services industry.

1.4 Problem Statement

Since most potential investors who seek financial services are not experts in the field, they rely on advice given by the expert financial advisors who, in most cases, know the pros and cons of each financial product that they promote or sell to the users of financial services. It is in this unequal/unbalanced power or relationship that clients could at times be misled or misinformed about financial matters relating to investment choices. This happens often when a financial advisor knowingly promotes a more expensive financial product, say to maximum commission, to the detriment of a client even when a much cheaper product was appropriate for the client's financial needs.

Those who save for retirement do not always retire financially independent. This could be attributable to a number of reasons including poor choice of investment vehicle, poor investment performance or improper rendering of financial services including but not limited to offering of improper financial advice.

It is often at the end of the investment period that the investor becomes aware/is told that his/her financial goals have not been met and that he/she has to temper his/her retirement expectations now that the capital amount available is less than what was anticipated. This causes emotional and other stresses. Even worse, it makes more people dependent on the state social grant which is a problem on its own as it denies government other opportunities to direct its limited resources to strategic areas of longer term sustainability and economic advancement.

At the end a question is raised as to what could be done to mitigate the mis-selling of retirement plans thus addressing the core and all the related sub problems.

1.5 Research Question(s)

The main question to be answered is whether the rendering of financial services, particularly the selling of retirement and investment plans is done properly to serve the interest of the investors and if not, then what could be done to mitigate the mis-selling of retirement plans? The research aimed at addressing the main problem and the related sub problems including the following:

- Financial services industry prospering at the expense of vulnerable investors;
- Defrauding investors' lifetime savings thus retiring with inadequate savings if at all;
- The poverty legacy is inherited by younger generations - thus elongating the poverty chain;
- Poor social conditions aggravate the state of health and deny access to better facilities; and
- More people become dependant on the state social grant which strains the fiscus and deny the Treasury opportunities to invest in infrastructural development projects.

1.6 Objectives

The objectives of the study are to:

- Establish motives that drive investors to create savings;
- Establish where do investors place their savings;
- Determine what do investors base their investment decisions on;
- Ascertain the level of investors' understanding of the financial products sold to them;
- Establish the common factors contributing to investors realising less than what they envisaged at the time of putting the investment in place; and
- To suggest corrective measures that could be utilised by regulatory bodies such as the Financial Services Board (FSB) and the Financial Advisory and Intermediary Services Ombud (FAIS Ombud) in order to curb exploitation of investors through enforcement of compliance interventions to ensure adherence to the existing regulatory framework.

1.7 Limitations of the Study

The research does not attempt to look at all retirement related financial products available nor does it attempt to resolve all the mal-practices that prevail within the financial services industry. In the main the study was limited by the following:

- The study used a quantitative research methodology to source relevant data from 150 respondents; who
- Have used financial services for retirement or financial planning purposes; and were
- Residents in South Africa particularly in Gauteng and KwaZulu Natal and were between 20 and 60 years old; who invited to
- Participate in a survey to respond to a quantitative questionnaire that was distributed to random sample of respondents using a snowballing approach; and
- All responses were due by not later than November 2010.

1.8 Summary

Having observed from the study that only 2.5% of investors are knowledgeable about the intricacies of the retirement and investment plans it could be reasonably expected that the remaining majority could easily fall prey on the hands of unscrupulous financial advisors due to their ignorance or lack of knowledge. The mis-selling of financial products to one investor is one too many. The socio-economic consequences of losses suffered as a result go far beyond what could be imagined.

The conduct of the financial advisor whilst rendering financial services to the client has an impact on the quality of the advice given. Instances were noted where financial advisors failed to conduct a proper financial needs analysis before giving financial advice. Other financial advisors appeared to be driven by maximising their own earnings at the expense of the investor. When adjudicating on one of the complaints received relating to the Leadergaurd scheme (FAIS Ombud Case number FOC 1807/05/KZN (5) 2007: page 47) the FAIS Ombud stated that:

> "If one looks at the pertinent historical information, it is fair to say that South African citizens have repeatedly fallen prey to various bogus investment schemes. Tragically investors in many of these schemes, many of whom are pensioners, lose their life savings and are very often left destitute with only promises of attractive returns in their hands and nothing more. The perpetrators of these schemes usually get away and no money is ever recovered." He goes on to say "Loss to investors occasioned by the Leaderguard scheme is largely estimated around R300 million".

The study will contribute to raising awareness to financial services industry stakeholders with the hope that corrective action will be taken to address inherent shortcomings. The regulators will be alerted to a dire need for intensive drive for consumer/investor education in order to raise their level of understanding financial products available and their pros and cons including remedies available to them in time of need. This will enable investors to make informed investing choices when planning for retirement. It will also equip investors to rebut inappropriate advice given, intentionally or otherwise, by financial advisors during their rendering of services to investors.

In the end the corrective interventions will contribute towards fair treatment of investors and increase the likelihood of them realising their financial goals. The more people retire financially independent, the less they will depend on the state social grant system. This will ease the burden on the state resources and allow it to focus on infrastructural development programmes that could help to grow the economy, create jobs and uplift the lives of SA citizens and generations to come.

The study now turns focus to reviewing literature in order to learn what others had to say or have done in attempt to resolve the problem.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter focuses of the review of literature relevant to the research problem statement.

2.2 Theoretical framework

According to Cameron (2004) retirement planning is not just a once off event about deciding when to retire. Retirement planning is a long term process and it starts from the day a person commences to work right through to living life after retirement. Cameron (2004) emphasises the point that individuals should start very early to plan and provide for retirement and urges all concerned not to leave this until too late. The earlier a person starts saving for retirement the higher the chances of accumulating enough savings to afford one to retire financial independent, all other things remaining equal.

Missing an opportunity to start saving for retirement earlier in life than at a stage when the retirement age is looming and getting closer and closer makes it expensive and sometime unaffordable, in future to catch up with the savings level required for the investor to realise his/her financial goals. Raphaelson (1982) pointed out that retirement planning is a long term process starting from the day one commences to work, during working life and at retirement age.

According to Cameron (2004) it is necessary for one to revisit one's retirement plan and the actual financial performance during the build up stage when one accumulates savings towards provision for retirement. This should be done at regular intervals to check if one is on course to realise the financial goals set. This provides an opportunity to adjust the savings plan well in time should it be believed that the goals set are at risk of not being realised.

Schlossberg (2004) pointed out that one needs to have a proper and realistic retirement plan. This involves decisions on matters relating to (i) how much should be provided for retirement, (ii) over how long will the savings be accumulated up to retirement, (iii) for how long could they keep the retiree going at the desired level of lifestyle and living costs, (iv) when should one retire, (v) what savings and investment vehicles are available to make use of to achieve the desired financial and retirement goals. As it can be seen most of these questions could not be answered by any ordinary person without relying on the assistance from an appropriate and qualified person – the financial advisor. A proper financial needs analysis should be conducted to inform the investor's choice regarding the optimal retirement plan appropriate to deliver on his/her financial goals. During the investor's working life the structure of the retirement portfolio and vehicle(s) chosen to provide for retirement must be reviewed and assessed regularly to ascertain if they still remain relevant and appropriate to deliver the desired results given the evolving investor's financial needs and goals to be achieved at retirement and during the life after retirement.

Cameron (2004) pointed out that one can't afford to make a decision on retirement planning and then shelve it until retirement age and hope for pleasant surprise when he/she retires. Regular engagements may be initiated by either party to update the other regarding developments that may have an impact on the retirement plan.

The investor may approach the financial services provider to provide an update relating to things like changes in jobs and/or income levels, change in marital status, having a dependent(s), contracting an illness or a life changing event important enough to have an impact on the investor's financial needs. Similarly the financial services provider may require an engagement to update the investor on things like changes in tax legislation affecting provision for retirement, other new products that are better suited to deliver on the investor's financial goals quicker or cheaper than the current products or investment portfolio.

There must be regular engagements with the financial services provider to review the performance of the retirement plan taking into account factors like tax implications, changes in the investor's life circumstances (getting married, having children, changes in job and income levels etc) and age. These regular engagements and reviews provide valuable opportunity to amend/update the retirement plan taking into account the recent developments impacting on the investor's financial needs.

According to the Old Mutual Personal Savings Survey (2009) it was noted that most people forget to plan for their retirement. The survey pointed out that many people think of retirement as a pain purchase and tend to delay it not realising that one get old and will have to retire eventually. It was further noted from the Old Mutual Personal Savings Survey (2009) that more than half (57%) of the recent retirees look back on the years before retirement and wish they had saved more to prepare for retirement.

Insurance houses suggest that at retirement one needs to earn a monthly income of 75% of one's latest monthly salary in order to retire comfortably and financially independent. Based on a retirement age of 60-65, one has between 38-43 years of working life during which to save for retirement. The question relating to when one may retire depends on a number of factors including one's state of health, adequacy of the retirement savings accumulated to that point etc.

The results from the Old Mutual 6-monthly Savings Monitor (2010) showed that poor financial planning habits are at the root of poor money management and that failing to get into the habit of saving regularly is one of the biggest reasons why people don't become financially secure.

According to Manyike (2011) one does need relevant qualification(s) or technical background to become an expert at managing own finances. He adds that by changing attitudes and habits around money, investors can achieve financial goals towards prosperity. Most people intuitively understand that they need to save 'a little bit' at the end of the month. But this often doesn't work, as there always seem to be other expenses that eat into whatever is available. He believes that even if one starts with a small savings amount monthly, one will develop a savings habit that will make it easier to increase one's savings over time.

Manyike (2011) added that it helps to ensure that monthly savings are automatically deducted from one's monthly income, before one begins paying for other expenses. By paying 'savings' at the beginning of the month, it makes the money unavailable for spending. He mentioned that Old Mutual offers an 'On the Money' programme free of charge which teaches people to pay themselves first ahead of their creditors by saving at least 10% of income and live of the balance. He added that eventually one will forget about the amount invested and not even miss it. Psychologically it should just become another 'fixed expense' in one's budget because if savings are not automatic or compulsory deduction from one's income, one may soon find reasons for not putting the money away immediately, or ever, which may bring one's savings plan to a halt. He further mentioned that by implementing one of the following methods to make savings automatic one will be on the right path to disciplined savings:

- Ask an employer to deduct the money from the salary and pay it into one's savings account or investment each month;
- Arrange a stop order against one's bank account and deduct an amount towards savings; and
- Sign a debit order authorizing deduction of a sum of money into one's savings vehicle.

When getting a savings plan together, he cautioned that:

- One must always ensure that there are enough funds in the account to cover all debit or stop orders. Banks charge heavy penalties for having insufficient funds on the day that the automatic payments are due;
- Make sure the savings/investment is relatively safe and earns good interest. There are thousands of saving and investment options, with different degrees of risk. Some investments go up very quickly in value, but can just as easily lose value suddenly. These are 'high risk' investments. Until one's savings plan is well under way, it is best to steer clear of high risk; and
- When starting to save, begin by putting the money into lower-risk investments such as those offered by the banks or post office. Once into the savings habit, one can look into other investments.

According to him the following options are offered as vehicles for saving:

- **Savings Club or Stokvel Method:** Useful for short-term savings, but one should also have an own savings plan and accounts;
- **Savings Account at a Bank or Post Office:** This is a good way to start a savings plan. It is relatively easy to open an account and access it through an Automated Teller Machine card. The accounts do not earn high interest rates;
- **Notice Deposits:** Useful for saving a lump sum that one will need to access in the future;
- **Fixed Deposit:** A safe way of saving for the medium or longer term; and
- **Government Bonds:** A good medium-term investment.

He added that other popular savings plans include:

- **Unit Trusts:** A flexible way to grow one's savings if one can afford to take a medium to long-term view. There is a wide range of fund choices, each with own risk profiles and return levels;
- **Endowment Policies:** This is a long-term commitment – with best results coming through after five years or longer and can potentially provide certain tax advantages to

you. One should endeavor to keep the investment active until maturity to maximise returns; and

- **Retirement Annuity Fund (RA):** This is a great way to build up retirement savings to live off when one retires. There are a number of tax concessions to be enjoyed when investing in a Retirement Annuity (RA) fund. The proceeds of an RA are normally available only from the age of 55 years.

Cameron (2004) agrees with the notion of relying on expert financial advice in making sound investment decisions by investors as he acknowledges that normal investors do not have the necessary and requisite understanding or knowledge required to comprehend the wave of complex financial issues and terms dealt with when considering options available for retirement planning. The following are some of the challenges faced by investors.

- The **complexities of financial products used to save for retirement are** not easy to comprehend by normal investors. The study confirmed this dilemma as it indicated that only 2.5% of the investors had expert knowledge of the intricacies of the investment options sold to them. According to the Old Mutual Investor Survey (2011) 70% of the respondents indicated that they need more education to understand the financial products sold to them. Cameron (2004) indicated that saving for retirement is a long-term journey with inherent risks attached to the fact that the longer the term the more unpredictable the future becomes.

- There is a **wide choice of investment and portfolio managers** to choose from, it is not always obvious which one is an appropriate option or best performer. Cameron (2004) pointed out that one needs to make use of good and reliable professional advice as a guide in deciding on crucial matters relating to retirement planning vehicles, investment horizon and who should invested funds be placed with. The study indicated only 31% of the investors had adequate understanding of the investment options sold to then while the remaining 65% had limited or less than adequate knowledge of the plans sold to then.

- Different investment and retirement saving plans have different **tax implications or treatments** with some more favorable than others. The South African government encourages investors to invest in retirement plans by giving tax concessions to those that save for retirement either through pension fund or retirement annuity vehicles. Most retirement saving vehicles, registered under the Pension Funds Act, Act 54 of 1956, attract a tax concession to encourage the investor to save for retirement. Proper advice regarding the tax implications of each retirement vehicle should be sorted and applied in manner that maximise returns for the investor.

- There is necessity, according to Brueggeman (2005), for factoring in **estate planning** and proper writing of a will. Most investors are not aware of a requirement and implications of having to pay estate duty tax. This may have unpleasant consequences to the survivors as it erodes the capital base left by the deceased as a provision for the livelihood of his/her dependents. As much as 20% of the taxable estate value could be lost in a form of tax depending on the value of the estate. Others take out life assurance policies to cover for this eventuality.

- The **time and expertise** required to plan and manage one's own investment affairs. Most investors do not know how nor have the time to manage their portfolios properly. The study indicated that 92.5% of the respondents were employed. This suggests that they do not have the time to actively manage their investment portfolios hence a need to entrust someone to that on their behalf. Cameron (2004) pointed out that one needs to make use of good and reliable professional advice as a guide in deciding on crucial matters i.e. retirement planning. Retirement is a long-term process and by virtue has uncertainties attached to it. The long-term horizon of retirement planning increases the level of inherent risks and uncertainties attached to it. The study indicated that most investment plans extend over a period of more than 10 to 20 years.

Cameron (2004) mentioned that investors need to make sure that pension savings accumulated during working life are adequate to cover the individual self and the spouse well into and after retirement until they both pass away. Planning for retirement does not just end at retirement stage. It goes on into life well after retirement. The life expectancy indicators are improving and suggest that an individual may live for 20-25 years after retirement. All these factors and many more should be taken into account in setting goals when planning for retirement. It is necessary therefore to be realistic and comprehensive when dealing with retirement planning issues.

Moodley (2002) observed that it was clear that investment clubs have played a major role in the rural local communities and their philosophy of saving. Investment clubs are established by a pool of local individuals who commit to contribute a certain sum of money at a particular period of time. The money is left in the savings pool to accumulate over time. Alternatively the money is made available to each member on a rotating basis to afford them large sums of cash to purchase a valuable possession etc which they otherwise couldn't afford to buy from their own savings. He concluded that this has helped rural communities over decades and is the most trusted way of saving among most primitive and rural communities and is commonly known as *stokvel*.

According to the South African Saving Institute (2010) the government is concerned about the low savings ratio (18% of GDP) and lack of a savings culture and is considering introducing compulsory savings in order to improve the situation. The SANLAM Retirement Benchmarks (2010) suggest that only 1 in 10 people will retire financially independent and noted that the working class of nowadays wants instant gratification and is not willing to wait and save (accumulate funds required) to fulfill their *wants* and needs. Those who retire with less income tend to rely more on social grants to sustain their livelihoods when they retire. According to Le Roux (2012) with many governments around the world needing to focus heavily on reducing their budget shortfalls and containing their outstanding debt levels, an early casualty of fiscal tightening has been social security cutbacks such as pension benefits and lifting the retirement age.

Le Roux (2012) added that as national budgets are under heavy pressure, people worldwide will have to accept that governments will not be able to lend much support during their retirement years and therefore people will have to care for themselves and this will likely require much higher savings during their working periods and that South Africa, while less constrained fiscally compared to America and other European countries, will be no different. Sonn (2011) observed that while most people are aware that saving and planning for their future are essential to their quality of life and financial security, many do not know how to go about it. He concluded that investor's interventions should be geared towards creating a positive outlook to planning ahead because a clear vision, backed by definite financial plans, will enable South Africans to do great things with their hard earned money.

The extent of the country's low savings rate (16%-18% of GDP in 2009) was so concerning that the former Minister of Finance, Hon Trevor Manual recommended the establishment of the South African Saving Institute (SASI) in 2011 as an independent non-profit organisation dedicated to developing a robust culture of saving in South Africa. When launching SASI in April 2001, the then Minister of Finance, Trevor Manuel, drew attention to the poor savings rate; disparate living standards; lack of financial literacy and the poor growth of the economy. He noted that these concerns may all be mitigated through improvements in the savings culture by all sectors in the South African population.

Since inception SASI aimed to raise awareness among South African citizens to be a saving nation in order to create wealth and reduce debt. In the key note address by the current Minister of Finance, Gordon (2011) at the 10th anniversary of SASI highlighted the following:

- In comparison to other developing economies internationally, South Africa's savings rate has not performed well. The 2010/11 Global Competitiveness Report noted that South Africa's gross saving rate equated to 16% of GDP in 2009, compared to China's 52%; India's 37%; and Russia's 22% in the same year;

- As a consequent, economies with higher savings ratio are the ones that lead the way in the 21st Century. These are the countries whose populations are investing heavily in their nation's development;

- South Africa's savings rates have been significantly lower than its economic and structural characteristics permit. South Africa is missing out on the savings dividend that should result from having a large workforce relative to the retired population, not least because the high rates of youth unemployment means that the dependency ratio is not as low as it should be; and

- The overall lack of savings by South African households. Between 2001 and 2010, the household savings rate declined by an average of 0.1% of GDP every year. Reasons for this include people's 'short-term' outlook, the lack of transparent and cost-effective savings products, and poor financial awareness among potential investors. This was compounded by the consumerist attitude in South Africa, which often has the ultimate impact of more people being highly indebted.

Gordon (2011) added that one of the most important factors in this poor savings culture is the persistence of high unemployment, which means people may not be earning enough income to save or might have to use up their savings during lengthy spells out of work. A sub-optimal equilibrium of low rates of savings and investment, low employment-intensity of production, and slow productivity growth has emerged. Yet a positive influence to any one of the three elements can generate a positive virtuous cycle of faster capital accumulation, job creation and technological advancement.

Gordon (2011) went on to explain the importance of being a saving nation by highlighting that:

- An entrenched savings culture among South Africans would achieve important goals at both an individual level and for the country as a whole. A high savings rate would allow SA to meet its investment needs domestically, supporting the government's commitment to a developmental state without borrowing from other countries and their investors. This would save on debt serving costs, make SA less reliant on volatile short-term capital inflows for funding, which can easily reverse and pose risks of instability for SA's emerging economy;

- SASI has been spreading the message of the many benefits of savings for individuals too. For example, savings provide individuals with a decent retirement base, a basic right that only 10 per cent of South Africa's pensioners currently enjoy. The rest of the elderly population – many of whom were once able to work and provide for themselves – is forced to rely on Government or others for support when they stop working. Savings also allow individuals to protect themselves against unforeseen events. Insurance against short-term risks like car accidents and loss of property, and against longer-term risks like death or disability, is an important form of saving. Medical aid contributions also ensure that one does not need to maintain large cash reserves to meet unpredictable future health care needs;

- There is a need to go beyond what one calls 'necessities' in terms of the role of savings. An entrenched savings culture means South Africans must develop an attitude of saving for major expenses and goals, instead of relying on easy credit and long repayments to purchase whatever luxury goods seem desirable at the time;

- According to the SASI annual report (2011) one of SASI's initiatives involves teaching children to save, inculcating the importance of saving for items that they want and need. As adults one should lead by example – show the young people the value of setting money aside each month for future use, for a deposit on a house or provison for children's education; and

- South Africans should establish a culture of saving. No matter how well one manages one's finances, events occur that one doesn't have control over. Without savings, such 'rainy days' could wash away one's money and drown one in debt. In terms of what is the government doing to encourage savings, Gordon added that Government is considering a number of reforms and initiatives to support and encourage household savings including a development of a policy document, by the National Treasury, called *'A safer financial sector to serve South Africa better'*. This document touches upon important issues, such as financial inclusion, consumer protection, private and public sector retirement reforms, and the costs and transparency of financial products. A safer financial sector can go a long way in encouraging higher savings among consumers.

Gordon (2011) mentioned that Government is also engaging with the financial services industry to examine the various savings products offered, with the aim of trying to make these more transparent and cost effective as it is vital that those entrusted with looking after investors' savings and providing financial advice ascribe to the highest standards of integrity and training. He added that pension scandals, inter alia Leaderguard Scheme and Fidensure, have provided a timely and unhappy reminder of the need to enhance governance and educate trustees, if necessary, through legislation. Government will continue to engage with the industry on this matter and needs to find ways to align and orient the savings that people we have with our national goals.

Gordon indicated that Government has also developed its own set of affordable and safe savings products, available directly to savers. The RSA Retail Savings Bonds were introduced by the National Treasury in 2004; since then South Africans have invested a total of R9.3 billion in these bonds. Today, there are close to 77 000 active investments in the bonds, and over 37 000 active investors. Given the success of these products, Government was planning to introduce a New Top-Up Retail Savings Bond in 2011, aimed at attracting smaller investors. Currently, there are two series of bonds on offer – the Fixed Rate and Inflation linked bonds. Each need a minimum investment of R1,000.

He added that interactions with the public indicated that many more people would invest if they had the option to top up their investment rather than have a once-off investment. The National Treasury is therefore working on a new series of bonds, the Top-Up bonds, to meet this need. These bonds will need a minimum investment of only R500 and will also allow investors to top up this investment whenever they can. They can top-up for as little as R100. At the end of the three year investment period, they will also have the chance to rollover (or reinvest) their payout. Like all SA Retail Bonds, they will carry no fees or commission. Government hopes to see more and more South Africans, and especially the youth, take advantage of the competitive rates and the security that the bonds provide.

Gordon added that SA should also note the important role played by lower-tier banks like co-operative banks. These banks, which are member-based, encourage savings in a trusted common-bond set-up and provide an affordable, accessible and convenient alternative to those who may otherwise be financially excluded from the formal financial system. Encouraging savings in co-operative banks is particularly important because co-operative banks reach people who are situated in deep rural areas. It is because of this important role played by co-operative financial institutions that Government has put in place proper measures to supervise them through enacting the Co-operatives Banks Act in 2007.

According to Van Zyl, Botha and Skerrit (2003) when deciding which vehicle to use in saving for retirement, investors have a choice among the following:

- Pension fund;
- Provident fund;
- Retirement Annuity;
- Real estate/property investments; and
- Direct investment through the Stock Exchange (shares).

For the purposes of this study focus will only be given to the first three vehicles i.e. the pension fund, provident fund and retirement annuity.

According to Van Zyl, Botha and Skerrit (2003) **pension and provident funds** are retirement funding vehicles available to persons that are employed. The funds must be registered under the Pension Funds Act of 1956. The main purpose of these funds is to collect, invest and administer money contributed by its members. The ultimate objective is to provide retirement funding benefits to participating members on the grounds of retirement or disability. The funds further provide benefits to the survivors of the members on the death of a participating member.

Van Zyl, Botha and Skerrit (2003) added that these funds are separate legal entities from the business of the employer. Their affairs are distinct from those of the employer as they are managed by **trustees** who have a duty to report to the members/investors and to the Registrar of Pension Funds at the Financial Services Board. Therefore money invested by members into these funds are safe from many problems/risks that may be encountered by the employer including sequestration. This is aimed at securing the savings in the event that the employer's business is taken over or when the employer is bankrupt or insolvent. The trustees are entrusted with a duty to manage the fund on behalf of and for the benefit of the participating members. Using the guidance of actuaries and other experts the trustees design the most appropriate investment strategies and implement them to achieve the funds objectives for the benefit of the members.

According to Van Zyl, Botha and Skerrit (2003) there are two types of retirement funds: **defined contribution** and **defined benefit** fund. A defined contribution fund is the one that sets a certain amount of contribution to be made on a regular basis until the age of retirement. The amount that would be received by the members/investor at retirement is not known and depends on factors like regular contributions made, duration of the investment and the fund's performance during the investment period. On the other hand, a defined benefit fund is the one that stipulates the amount of the benefit that a member would be entitled to on the date of retirement, depending on his length of service, irrespective of how much he has contributed to the fund.

Van Zyl, Botha and Skerrit (2003) indicated that when both the employer and the employee contribute towards the fund, it is referred to as a contributory fund. Where only the employer contributes to the fund, it is called a non-contributory fund. **Employers prefer defined benefit funds** because of the following advantages:

- It is easy for members to understand the nature of benefits and estimate the quantum;
- Members have a wide choice of forms of benefit to choose from and thus greater flexibility; and
- There are less complications in apportioning surplus to members when it is arises.

According to Van Zyl, Botha and Skerrit (2003) a defined benefit pension/provident fund have the following **advantages to the investor:**

- Benefits are guaranteed. This means that the investor would get his/her amount promised no matter what;
- The employer takes the risk of financial markets' performance. Should returns on investments be not as expected, the employer fills up the gap; and
- There is an opportunity to receive extra income if the returns are better than expected – surplus apportionment.

According to Van Zyl, Botha and Skerrit (2003) the above attributes of the defined benefit fund are watered down by the following **disadvantages to the investor**:

- There is no room for choosing which investment portfolio to invest in since the employer takes responsibility for managing the fund and its performance; and
- There is less flexibility of benefit options to choose from. This may adversely affect those whose needs might not be catered for by the current plan chosen by the employer. Since

the employer guarantees the benefits, he/she can also set the limits and leave no room for negotiating them.

Van Zyl, Botha and Skerrit (2003) noted that nowadays both **employers and employees prefer a defined contribution fund**. This is a fund where the employer and or the employee contribute, on a regular basis, often monthly, a fixed sum of money towards retirement savings and is often a percentage of the employees' annual remuneration. According to Van Zyl, Botha and Skerrit (2003) the advantages to investors of a defined contribution fund include the following:

- Members share directly from better investment returns;
- Contribution is fixed by way of a formula and easily determinable;
- It is easy for members to understand the benefits;
- There is no cross-subsidisation among members – each investor pays for his equivalent cost and gets his fair share of the returns; and
- Benefits purchased from insurers are flexible and may be structured to suit the individual needs of most members.

According to Van Zyl, Botha and Skerrit (2003) the above are attractive and compelling reasons for opting for a defined contribution fund. But it is worth noting the shortcomings of a defined contribution scheme which are the following:

- No guarantee as to the eventual amount receivable at retirement. It could be more or less than what was expected depending on the investment returns or performance over years;
- Members carry the investment risk or burden of poor investment returns which may be beyond their control; and
- On retirement, the pension purchased by the members may be smaller thus not adequate to maintain the desired living standard envisaged prior to retirement.

Having noted the most commonly used vehicles for retirement saving, it is important to note that each has its own characteristics and pros and cons. Drew (2003) pointed out that it all depends on the circumstances of the investor at the time of making the choice. There is no one size fits all solution. There is a need to look at the age, risk appetite, the affordability, the health, the tax status of the investor before choosing the most appropriate retirement saving vehicle. Having dealt with pension and provident funds, the study now turns focus to retirement annuity.

According to Van Zyl, Botha and Skerrit (2003) a r**etirement annuity (RA)** is a vehicle for saving for retirement whereby a person agrees to pay a particular sum of money usually on a monthly basis until he/she reaches the age of retirement in return for a series of payments (annuities) to be made to his/her after retirement to sustain his / her livelihood post retirement. Depending on the amount put aside monthly and the number of years remaining before the age of retirement, the value of annuities to be paid to the retiree is determined. As withdrawals are made, the capital sum accumulated at retirement is reduced until the full sum is depleted depending on the retiree's length of life post retirement.

Van Zyl, Botha and Skerrit (2003) identified the following advantages for the RA:

- It is owned by the investor and has a say on how best it could be managed. The investor has a say on how the RA is managed, how to structure the investment portfolio, risk tolerance etc;

- It is portable in that a person may change jobs without affecting its ownership or terms. Most pension schemes are administered by employers and allow only employees to be members to the fund. Upon termination of employment the investor usually looses entitlement to the membership to the pension or provident fund;

- A person does not have to be employed – anybody may buy an RA. Self employed individuals or those appointed on temporal basis are allowed to buy an RA to save for retirement whereas membership to pension schemes is only allowed to persons that are employed on a permanent (or sometimes fixed term contract) basis;

- Savings are secured and only accessible at retirement – no risk of early encashment or misuse. When a person changes jobs the RA savings are not affected at all. The person has no option what so ever to cash in the savings already accumulated before reaching the age of retirement; and

- RA contributions are fully tax deductable (within the ambit of the Income Tax Act of 1962). All contributions to an RA are tax deductable up to 15% of the person's non pensionable income. In effect a person taxed at a marginal tax rate has to part with only 60% his RA contributions.

According to Van Zyl, Botha and Skerrit (2003) the RA has the following disadvantages:

- There is a huge cost structure associated with setting up a RA. Most RAs are administered over a long-term under a life assurance framework. They attract commission and high set up costs since it is a long-term investment;

- The value of the savings usually starts to accumulate only after three years. The high set up costs and commission makes the growth curve to be relatively flat during the initial stages of the RA and gradually pick up in later years; and

- The RA savings may only be accessed at retirement or upon death. Even when the investor has a more important and compelling reason to cash in the savings accumulated on the RA the rules do not allow access to such until at retirement.

Cameron (2004) identified four broad stages in saving up to retirement as follows:

- Build up to retirement (during working life);
- The last five years before retirement;
- At retirement (point or retiring); and
- In retirement (life after retirement)

2.2.1. In the build up to retirement

According to Le Roux (2011) one should ask a financial adviser to help to assess how much one need to save for retirement the moment they start working. He emphasises the point that starting sooner to save is better as time is one’s best asset when it comes to building capital over time. For example, if one had invested R250 a month in the Old Mutual Investors’ Fund (a unit trust) from January 1990, one would have R469,000 in 2011, having contributed a total of R68,000. This shows the power of compounded returns over time.

Cameron (2004) reminds investors to set realistic retirement income targets taking into account their living expenditures and lifestyles. The later one starts saving for retirement the most costly and heavy it becomes to realise one’s retirement goals. Investors need to be wary of the following factors:

2.2.1.1 The retirement income gap. It is common that accumulated savings at retirement do not always equate to what is ideally required to maintain the same life style or to support the envisaged living costs. According to Le Roux (2011) only six percent of retirement fund members retire financially secure, with most only realising shortly before retirement that they have not saved enough. According to the South African Saving Institute (SASI) – Savers Review (2010) the level of savings in the SADC region reduced from 16% of GDP in 2006 to 11% of GDP in 2010 compared to United Nations benchmark of 25% required to reduce poverty.

The South African Reserve Bank economic report (2012) highlighted the following:

- Savings ratio to GDP continues to perform poorly in South African economy when compared with other emerging economies in that the national savings rate decelerated to 16.1% in the second quarter of 2011 from 16.3% in the previous quarter;

- The huge challenge faced by South Africa concerning savings is the higher levels of inequality in that the larger proportion of South African citizens fall in the lower income bracket and as a result the few high income earners can't make up for the desired savings ratio; and

- It is thus of critical importance for an enabling environment which will promote employment creation to be prevalent in South African economy. Generally, South Africans consume all they earn (i.e. I=C). They cannot save enough to finance future needs hence they resort to borrowing. They end up being caught in a debt trap and as a result prolong their saving plans.

According to The South African Reserve Bank economic report (2012) some South Africans use their children as substitutes for their retirement policy. They expect their children to finance their needs during retirement and this burden on children has huge negative implications on future savings by the present youth and end up being an endless cycle of non-saving South Africans.

Le Roux (2012) indicated that dependency ratios (the number of people who depend on the state for assistance) are rising because of weak employment growth. With unemployment standing at around 25.7% and the outlook for job creation looking dim due to slowdown in the domestic economy with spill over effects emanating from advanced economies, in the short-medium term, the savings rate is unlikely to grow due to pressure mounting on consumers and fears of a double-dip recession underway according to the South African Reserve Bank economic report (2012). A dedicated effort with focused interventions from the investor community (individuals and the entire nation), the financial services industry and the state is required in order to address the current low savings ratios and the underlying issues in order to reverse this trend.

Le Roux (2012) noted that governments are struggling to meet the social demands and are cutting back on pension and other social benefits, while raising retirement ages. South Africa could be affected by these trends, so one must provide for one's retirement. It is important to take into account all related cost factors when planning for retirement. These include medical costs during retirement, the cost of living and the cost of supporting extended families, children and parents etc.

According to Madikiza (2011) most SMEs do not yet offer retirement funds to their employees because retirement funds are perceived as costly, complicated and time consuming. Umbrella funds, which addresses many of these concerns, are an option for small employers. Furthermore, he noted that many South Africans, especially those in the lower income earning brackets, view retirement savings as a luxury and not a matter of urgency.

The Old Mutual Retirement Monitor (2011) revealed that 59% of the respondents' primary savings motivation was the need to save for their children's education. Madikiza (2011) explained that this pressure on middle aged people (35-49 years) to focus on saving for their children's education meant that their retirement preparation was likely to fall short. Madikiza (2011) added that a possibility exists that some respondents regard their children as a form of substitute retirement policy and that it remains very concerning that only 54% of respondents who are 10 years or less away from retirement are actually saving for that retirement.

2.2.1.2 The effect of inflation. According to Cameron (2004) inflation is a measure of the extent to which a commodity looses its value/buying power over time. It is also relative to the time value of money in that a rand is worth more today than in future. The retirement savings plan should build into it a cushion to absorb the erosive effect of inflation. This is crucial in instances where the average return on investment is lower than inflation. In essence investors' money is not only stagnant (not growing) but it is also loosing its base capital (value of money). The savings plan should therefore realise nominal growth that is higher that inflation in order to grow in real terms.

2.2.1.3 Preserving retirement savings: More often than not investors do not preserve all their past savings for retirement when they change jobs. By consuming their retirement savings every time they change jobs, they delay the process of building up savings for retirement and make it more difficult and expensive for themselves to accumulate enough savings towards retirement during their remaining employment life. They also loose the compounding interest factor in that they forfeit income that they would have earned had they re-invested their earlier savings.

2.2.2 During the last five years before retirement

Cameron (2004) and Falkena (1998) advise the investors to take heed of the following during the last five years before retiring:

2.2.2.1 Preserve all savings and build up wealth steadily. This is to ensure that all the capital accumulated this far is preserved and not lost by any chance. Pension preservation plans are available to transfer all savings from an employer linked pension/provident fund into an individual/investor linked savings. One needs to be disciplined and not be easily tempted to spend the money that was meant for retirement income.

According to SANLAM Retirement Benchmarks (2010) there is a huge challenge in that people nowadays tend to change jobs often rather than sticking with one employer from day one until retirement age. The survey indicated that this is more common with generation X and young professionals who are starting up their careers and have many options available to choose from in terms of future employers. As they change jobs they are faced with the risk of being tempted to utilise the “sudden extra cash” that was not expected. They tend to be short-term to medium-term focused and are seldom long term orientated and this applies even in their decisions regarding setting goal and lifestyle choices.

2.2.2.2 Avoid all volatile investments and adopt a low risk profile. The investor should adopt a low risk appetite and not invest in high risk investments regardless of their potential high returns. This is to ensure that nothing wrong happens at the late stage in life as there is not enough time available to recover any losses that may occur. High risk investments should be avoided at all costs as they may cause emotional and psychological stress should something go wrong at this stage. It would be highly unlikely that the remaining five years could be enough to recoup losses suffered and reinstate capital accumulated over the investment term depending on when one started saving for retirement.

2.2.2.3 *Switch to capital guaranteed investments or protective assets*. At this stage the investor should put the money only in investments that guarantee the safety of capital invested yet yielding moderate returns. As one grows older and approaches retirement one's risk appetite should be low and one should rather opt for low risk and low returns investments that attempts to guarantee capital invested. The aim here is to refine the investment portfolio in order to preserve the capital that has already been accumulated.

2.2.2.4 Fine tune the retirement plan This includes revisiting or reassessing the date of retirement, learning more about the types of annuities that one may take at retirement, reassessing the period of the annuity after retirement and the income levels etc. Cameron (2004) suggests that during the last two years before retirement a person should keep his/her taxable income as low as possible in order to save on taxation on retirement savings. Preferably a person should retire in March of any tax year. This is because March is the first month of the tax year, thus income in that year would be very low as it comprises of only one month salary. In this way the effective tax on one's retirement savings could be lowered.

2.2.3 At retirement

According to Cameron (2004) retirement basically means (1) reach of the retirement age, (2) loss of normal earnings, and (3) use of savings accumulated over the past working years to supplement the earnings which are further reduced by taxation thereon and by inflation. At this stage the investor should source proper advice regarding the means of funding his/her living costs at retirement.

He added that one may commute a portion, normally a third, of the retirement savings and use the balance to buy an annuity, bearing in mind the tax implications of each annuity option, as a source of future regular income flows. The investors' life expectancy and the duration of the annuity should be realistically projected and matched. The investor's lifestyle and living expenses should be carefully managed to ensure that they fall within the scope of monthly income available.

Retirement is a stage when one is finally retiring. In most cases only a third of the pension savings may be commuted in cash and paid out to the retiree as a lump sum. Hamp-Adams (1992) cautions that this option may pose a risk in instances where the investor is not financially sound to intelligently utilise the cash lump sum paid out to him/her. The money may be used for inappropriate reasons rather than to sustain life after retirement.

The government and the financial services industry need to protect investors through regulation, from making any potential serious mistakes regarding the handling of their finances at this stage in life. The Pension Funds Act, 1956 (Act No. 24 of 1956) stipulates that the remaining two-thirds of the pension savings must be used to purchase an annuity that will provide the investor / retiree with a flow of steady income to support his / her life after retirement. According SANLAM Retirement Benchmarks Survey (2010) 60% of all pensioners interviewed indicated that they did not have sufficient funds to retire on. Of these, 64% had to change their life styles and reduce their living expenses in order to live within their means. A further 31% had to continue working in order to supplement their income to make ends meet.

It is important to decide exactly what one will do after retirement i.e. what is the purpose of one retiring and hence the timing thereof. The decision about retiring is influenced by, among others, the following:

- **Motive to retire.** Whether one wants to stop working at all or not. Whether one is retiring in order to change career/jobs to something that is less demanding or to do something they are most passionate about;

- **State of heath.** The state of health is an important factor as it may affect one's ability to continue working and one's productivity levels. One may retire due to ill health as one's health condition inhibits him/her from performing the allocated daily duties. Occupational Health and Safety requirements may also necessitate that someone should retire/be medically boarded in the interest of their safety and safety of the other people at work. If a person operates machinery equipment and has a problem or impaired concentration or suffers from ailment that puts his/her life or that of the fellow employees in danger, the employer may recommend that such a person be granted early retirement;

- **Disability.** A person may be injured on duty and become disabled in which case he/she may no longer be able to perform his/her duties. Subject to the provisions of the employer's group life benefits, a person may be medically boarded or assigned similar or other duties that she/he may perform comfortably;

- **Possession of accumulated wealth or lack thereof.** A person may decide to retire upon realising that he/she has enough wealth to retire on. One may receive a bequest from parents/a trust and then decide to retire early rather than at normal retirement age. Equally one may delay going on retirement upon realisation that he/she does not have adequate provision for retirement and thus opt to continue working to boost the retirement savings;

- **The retirement fund rules pertaining to retirement dates**. Fund rules may specify the ages at which one may retire. In most cases people may retire at the age of 60 to 65 years. A fund's rules normally forces people to retire at the age of 65 which is compulsory retirement age. Most group life benefits are also linked to this age and terminate upon attainment of 65 years. Whether one wants to retire or not, the fund's rules decide;

- **The tax implications on retirement savings at a particular point in time**. Changes in tax legislation have a bearing on one's decision as to when to retire. When taxes on retirement withdrawals drop, more people are eager to exercise their retirement option, and vice versa. It is recommended that a person should retire in March thus lowering his/her taxable income in the last year of employment which lowers the average rate of tax applied on the retirement savings; and

- **Decision on early retirement e.g. retrenchment, medical boarding etc**. Certain funds have provisions for early retirement at the age of 55. A person may opt for early retirement all things being equal. As discussed earlier, one may also retire due to boarding on medical grounds.

2.2.4 In retirement

According to Snyman (1988) the retiree should be careful in the use of his/her retirement income. Expenditure must be incurred with caution and any unspent pension income must be re-invested. Jordaan (1990) added that those extra savings re-invested put the retiree in a better position to supplement his/her future income with returns from those extra savings. The effect of compounding interest helps to grow the capital base and thus afford the retiree a steady flow of income over a longer time. One of the major challenges affecting retirees, among others, is inflation. Jordan (1990) added that at retirement a different basket of inflation variables applies to the retiree compared to the common basket used by Statistics SA and the Monetary Policy Committee of the South African Reserve Bank. Medical costs form the largest portion of the retiree's expenses and should therefore be adequately provided for during the build up to retirement. The inflation rate on medical and other costs usually far exceeds the published inflation figures.

At retirement the retiree should be debt free. In other words all assets and other possessions like cars, property etc should be paid up including loans and other credit facilities. This is crucial because at retirement one receives less income (about 75% of current income if at all) to sustain their livelihood during retirement. All credit facilities have a cost of financing and interest expense normally varies with interest rates and could be very taxing at times given the diminishing flow of income receivable during retirement.

According to the Liberty Life Retirement Survey (2010), the following findings are of paramount importance in planning for retirement:

- Families used to provide benefits for retirement by themselves. This took a form of family business, wealth bequests etc. These have proven not to be adequate for retirement purposes;

- One may not afford to save for retirement using the modern tools and infrastructure. Informal savings are difficult to enforce and do not multiply and grow as much as modern savings and investments plans;

- It is risky to depend on one's children being alive and wealthy enough to be able to support one at retirement. They have their own lives and needs to cater for. They might die earlier or be poor and unable to support one even if they wanted to. Retired parents nowadays have to support their children due to factors like unemployment or other dependencies etc;

- The use of (formal) life insurance investments does enhance the financial security of the investments and their returns. These funds are invested to circulate within the economy and help to create more jobs, grow the economy and yield better returns;

- Retirement annuities may incorporate provisions for life cover and disability cover;

- Group retirement plans offer better benefits at lower costs than individual contracts plans;

- Group underwriting means that members/investors with adverse health can be included at non-loaded rates thus not charging them extra fees for their high risk profile; and

- Administrative costs are lower for group schemes and better rates may be negotiated on behalf of a pool of investors.

From the above literature review it was noted that the right savings vehicle must be chosen to the best interest of the investor without compromising any of his/her financial objectives/interests**.**

2.3 The regulation of the financial services industry

According to Van Zyl (2006) the regulation of the financial services industry in South Africa is fragmented with different sections of the financial markets regulated by different institutions in that the banks are regulated by the Supervision Department of the South African Reserve Bank in respect of their banking activities while non-banking institutions are regulated by the Financial Services Board (FSB) which is independent yet accountable to Finance Ministry.

The FSB was established in terms of section 2 of the Act of Parliament, Financial Services Board Act 97 of 1990. According to Van Zyl (2006) the main objectives of the FSB are, inter alia:

- To ensure a fair treatment of both users and providers of financial services in South Africa. This is in line with the provisions of both the Financial Intelligent Centre Act (FICA) and Financial Advisory and Intermediary Services Act (FAIS Act);
- To reduce systematic risk and combat financial crime;
- To supervise the compliance of financial institutions and the provision of services through a legal and regulatory framework;
- To ensure that financial markets are fair and efficient;
- To promote consumer educational programmes and initiatives; and
- To advise the Minister of Finance on matters concerning financial institutions and international best practices.

According to Van Zyl (2006) the financial services industry employs financial advisors to give financial advice to individuals/investors and other clients when making decisions relating to financial planning and providing for retirement. These financial advisors normally take a form of a (i) tied agent, (ii) general agent or a (ii) broker namely:

- A tied agent is employed by an insurance company and is allowed to only sell the financial products provided by his/her principal. The principal assumes the full responsibility for all the products that are sold by its agent;

- A general agent is similar to the above agent but is allowed to sell financial products of the principal as well as those of other competing insurance companies; and

- A broker is not employed by any company and can sell financial services products from any insurance company. The insurance companies are not responsible for the actions of the broker. The broker assumes responsibility for all the products sold by him/her.

The financial advisor is assumed to command expert knowledge of the industry and how it operates and is thus best suited to offer a fair and proper professional advice to guide the client in making decisions relating to retirement matters. The Institute of Financial Planners controls the accreditation of financial advisors by subjecting them to examinations and award them with Certified Financial Planner designation upon successful completion of the course and passing the examinations. In addition, the financial advisor has to be registered with the Financial Services Board (FSB) as fit and proper to render financial service and give advice to investors. The FSB issues a certificate of registration once the financial advisor has satisfied all the requirements stipulated in the Financial Advisory and Intermediaries Services (FAIS) Act, Act 37 of 2004.

The Office of the Ombud for Financial Services Providers (‘FAIS Ombud’) was established by the Financial Advisory and Intermediary Services Act, 37 of 2002 (‘FAIS Act’). The FAIS Ombud’s role is to resolve complaints (disputes between financial services providers and their clients) in a procedurally fair, economical and expeditious manner.

The FAIS Ombud’s Annual report (2004) indicated that the FAIS Ombud’s jurisdiction is limited to complaints that emanate from improper rendering of financial services occurring on or after 30 September 2004 and to claims not exceeding R800 000 and that claims above this threshold are left at the on the hands of the financial service industry Ombudsman Schemes to resolve. According to Van Zyl (2006) the FSB is there to safeguard the interests of all users of financial services especially the investors as it strives to act as a balancing mechanism between the providers and users of financial services. Consumer literacy is pivotal in that investors should be able to appreciate the nature of the financial transactions they enter into and their resulting implications. Further the FSB is expected to ensure that institutions provide investors with reliable and timely information useful for decision making.

Kapoor (2006) emphasised that it is useful for investors to acquire certain levels of skills and knowledge that would help them to understand and interpret financial information available for use as basis for making their financial planning decisions.

Financial institutions have a tendency of communicating less or at times deliberately withhold critical information necessary for investors to make sound and informed retirement investment decisions. Patel (2005) upholds the view that as financial institutions are utilised in placing investments on behalf of the investors, they should be transparent in their dealings with the investors. Cameron (2004) outlined the following guidelines in choosing a financial advisor:

- One must not buy from the first person selling one financial services products. One must shop around and get different perspectives;
- The advisor must be someone that one will have a long term relationship with;
- The financial advisor must understand one's intimate financial affairs and needs; and
- Legislation allows only fit and proper persons to act as financial advisors. Therefore one must ascertain that one's financial advisor is a licensed and accredited accordingly.

According to the Financial Advisory and Intermediary Services Act (FAIS Act), Act 37 of 2002, a person who is allowed to perform the services of a financial advisor has to comply with the following:

- He/she must be fit mentally and honest in the dealings with client affairs. He/she must be properly qualified and experienced to do so;
- He/she must not advance his/her own interests at the expense of the investor;
- He/she must serve the investor fairly and professionally;
- He/she must keep a proper record of advice detailing reasons thereof;
- He/she must be licensed by the Financial Services Board as an authorised financial service provider licensed to give advice to the public;
- He/she must be solvent and comply with the operational requirements of FICA;
- He/she must keep a set of proper accounts and be audited annually;
- He/she must comply with general and special code of conduct applicable to the profession;

- He/she must not give advice that will cause financial damages or losses to be incurred by his clients; and
- He/she must treat his clients fairly.

According to the FAIS Act the Office of the Ombud is a public service available free of charge to the public to deal with all matters relating to inappropriate and wrong financial advice given to the users of financial services (investors) as a result of which the investor suffered or is likely to suffer financial losses. FAIS Act indicated that the FAIS Ombud Office is part of the consumer protection initiatives and its decision are as binding as the decision of a Court of Law.

In the FAIS Ombud 2004/2005 annual report the Office of the FAIS Ombud reported that the office is established in terms of the law and is empowered to award judgments that are as compelling as a decision of Court. Therefore the FAIS Ombud is more likely to be reckoned seriously within the financial services industry. The FAIS Ombud is neither established nor funded by the financial services industry. It is thus independent of its subjects and should not be compromised by any industry pressures or acquaintances of any sort.

2.4 Previous Researches

Shuttleworth (2006) pointed out the apparent lack of financial literacy amongst people participating in financial decision-making in South Africa. The education system in the country by not keeping pace with changes in the economy and technology, not able to enhance the capacity of the individual to understand, interpret and use financial information for decision-making, poses a threat to the investors, overall performance of the business organizations and the economy of the country and the region.

The second problem addressed by Shuttleworth (2006) is whether general purpose financial reporting produce information useful for decision-making by the different stakeholders. Information only has value if it has the potential to influence a decision. The decision-usefulness objective of accounting implies that the information produced by the accounting system will also be understood by those with the least ability. “The question that comes to mind, is whether "general purpose reports", where the users cannot be identified so readily, and assumptions have to be made by the preparers on their behalf, can really communicate information useful for decision-making” (Shuttleworth 2006). Most financial reports communicate but only a fraction of the holistic information that is required for decision making. Investors often have to do with the incomplete information available at hand and then have to do some analysis and using a bit of intuition or gut fill. Investors without good financial acumen are like pilots flying blindly without any navigation tools but just hoping to make a landing somewhere somehow".

According to **Isaacs (1992)** retirement is seldom thought about when one is young and full of plans for the immediate future yet the moment of retirement approaches much quicker than one would think it would, and it is therefore advisable to plan towards retirement. He added that retirement can take various approaches as it may be mandatory or voluntary, early or late. Irrespective of the approach followed, retirement may be stressful for different reasons. Isaacs added that in South Africa it is generally accepted that the majority of people reaching retirement do so without the necessary preparation or exposure to a pre-retirement planning programme. He noted that pre-retirement planning programmes are on the increase and it is becoming acceptable to people that such programmes foster a more positive approach towards retirement.

As per Isaacs employers offering pre-retirement programmes or allowing their employees to attend such programmes are unanimous in that it is not only part of their social responsibility programme, but also an investment that pays dividends.

Goodhind (1981) in his research attempted to addresses the position of the "white collar" worker, who seeks to formulate a retirement funding policy by a systematic review of his/her needs and the alternative methods of satisfying them. Current socio economic trends indicate that the retired sector of the total population is increasing in size in relation to the remaining sectors. His report examined employers' pension schemes, and concluded that in most cases the benefits are inadequate to afford members to retire financially well to do comfortably at retirement, due mainly to the lack of pension preservation rights, and high levels of inflation, low savings, late starting and poor investment performance.

Personal financial planning techniques are reviewed, and a suggested approach is formulated. The investment environment is examined and it is concluded that the market is sophisticated and innovative, especially with regard to life assurance and retirement annuities and other products. However, comparisons between products are difficult, and the methods of marketing them suggest that the potential buyer of these products should be on his guard".

Joubert (1999) stated that it has become very important that people make provision for their futures by planning and preparing for retirement, if they want to enjoy quality of life and satisfaction during retirement. This is especially important for blue-collar workers that form the bottom end of the income spectrum. An absence of retirement preparation programmes that can appropriately address the needs of blue-collar workers has prompted this research.

The researcher has used an exploratory-descriptive research design to explore blue-collar workers' perceptions of retirement and their expectations, as well as their level of preparedness for retirement. The ultimate goal of the research is to make recommendations for the development of a retirement preparation programme for blue-collar workers.

The research has been conducted with a sample of blue-collar workers of the Alpha group in Pretoria and includes workers from both its urban and rural operations. Research findings indicate that blue-collar workers' perceptions of a 'happy retirement' centre mainly around physiological and security needs such as 'to enjoy good health' and having a home and a secure income.

Expectations reflect ambivalence between the 'old' or 'traditional' and the 'emerging' or 'new' paradigms. It is concluded that expectations are in most instances not in line with 'real-life situations' as experienced by the elderly in the country. An exploration of the research subjects' degree of awareness and knowledge of matters that will affect their retirement planning, such as knowledge of Medical Aid rules and benefits, Retirement Fund rules and benefits, savings and investment options and home-ownership, revealed a grim picture.

It is, therefore, concluded that blue-collar workers lack sufficient knowledge to adequately prepare for retirement. It is recommended that retirement preparation should be seen as a building process that should be addressed throughout a person's working life. It should form an integral part of all efforts and initiatives at the work-place, aimed at developing, enabling and empowering employees of all levels and age groups to make informed decisions and to be self-reliant.

Moodley (2002) stated that South Africa has a very low savings rate which ultimately affects economic growth, development and macroeconomic stability. She added t socio-economic factors have contributed to poor money sense and low levels of financial literacy and that an increase in the savings rate, financial education and an improvement in the level of savings can only benefit the South Africa and its people.
Her report evaluates investment clubs in South Africa and focuses on profiles of investment club members, investment club operations, educational criteria, team-based approaches to investing and business opportunities. Fifteen investment clubs responded to her questionnaires and the results were analysed. The qualifying criteria were that clubs had to have been operating for at

least 3 years and the majority of their members were involved in regular club activities. Investment clubs had almost equal numbers of males and females with age distribution skewed toward older ages.

All respondents had post matriculation qualifications and over 55% had post graduate qualifications. Respondents were either employed or retired and had a disposable income of over R5000 per month. The major reasons for joining an investment club were Wealth Creation and Investment Educational. Clubs had 5-10 members, met at least once a month, spent an average of 15 hours per month on meetings and researched and used traditional or online stockbrokers.

Average monthly contributions were R871. A variety of methods were used for share analysis, various media were used for research and all clubs invested in JSE shares. Participation in investment clubs encouraged further financial education, helped develop financial and life skills and prepared people for individual investing. The profile of investment club members represents more affluent people who are not greatly affected by adverse socio-economic conditions. Proper time management is necessary for investment club activities. Investment clubs provide a positive, beneficial and definite means of improving investment and financial knowledge.

A team-based approach is preferred and has many associated benefits. Business opportunities were identified that have very good potential. Recommendations are provided for potential and existing investment club members. New clubs should have a mutually determined constitution and investment philosophy. A risk free, educational approach is the use of money free for clubs to gain experience and confidence. Some time must be spent on relationship building and socialising, which support a team-based approach to investing and helps to build trust".

Appana (1999) stated that the old age assistance grant receives the lion's share of the welfare budget and is a good mechanism to provide poverty relief as it is revealed that the cash transferred is expected to make provision to support for an average of five member households that goes across differing age quintiles. She added that the social system is weighed down by the huge disparity in the earning profiles and mechanisms to draw down this gap under the current scenarios are long in coming. She added that fraud within and outside the system is prevalent and means to combat it adds further pain to the system. She identified many instances where individuals are receiving the grant when they ought not to according to the criteria set, but the underlying philosophy that prevails is that the grant is a right and not a privilege, questions the credibility of these tests.

From the above researches, it was noted that the levels of consumer literacy and education needed more attention to bring people in line with the pace and complexity of the financial language and intricacies of the retirement and other investment vehicles used by the financial services industry if they are to make informed decisions regarding their choices. The role of the FSB was neither mentioned nor was a question asked as to whether its mandate was executed duly and properly. Certain researches aimed at developing tools that could assist any potential investor to understand the tools use and to make best use of information available to make an informed choice regarding the use of financial products/investment vehicles.

Sinoamadi (1992) focused her research on the role of government in providing for social pensions. She indicated that government funding will not adequately meet the retirement needs of its citizens who are dependant on the state for pension – those who did not/could not provide for their retirement income by themselves for different reasons.

Other researchers analyzed the impact of HIV/AIDS on the economic activity and productive employment of the citizens. It was noted that the more people got sick, the less they became economically productive thus putting a strain on the social grants budget.

When more citizens save for retirement they boost the country's savings position and cash available for development projects. These savings may be lent to the private sector for business expansions thus creating jobs or lent to the public sector thus allowing for increased government expenditure and boosting the demand side of the economy and growing the economy which in turn may results in more jobs being created and eradicating poverty and dependency on state social grant.

The other social-economic impact of retirement is that the institutional knowledge and experienced working class are leaving employment thus creating a skills gap. This is multiplied by the fact that young people entering the world of employment do not have sufficiently qualified or experienced mentors to guide them through the learning curve. The scourge of HIV/AIDS compounds this problem as it increases absenteeism and lowers productivity.

According to Gordon (2011) the state encourages individuals to save for retirement by giving them tax concessions / breaks on amounts voluntarily set aside in preparation for retirement e.g. retirement annuity and pension funds. The benefit is derived when state resources are freed up from social grant spending but diverted to focus on developmental and infrastructural programmes that are capital investment in nature which have a potential for yielding returns in a longer term. Millions of South African families rely on social grants for their sustainability and this weighs heavily on the fiscus.

2.5 Reformulated Problem

The original problem statement remains, being what could be done to mitigate the mis-selling of retirement plans to investors by financial services providers. The project will attempt to address the core problem and in so doing attempt to address some of the following related sub problems:

- Poor or low savings levels and lack of savings culture among South Africans;

- Investors are mislead and defrauded of their lifetime savings and forced to retire without adequate pensions – thus living below poverty line;

- Consumer literacy is a fundamental challenge as investors are being preyed on;

- The poverty legacy is inherited by younger generations – elongating the chain of poverty;

- Poor social conditions aggravate the bad state of health and deny access to better facilities and opportunities to break out of the chains of poverty;

- More people became dependant on the state grant – thus straining the government funding programmes. The opportunity cost is huge in that such funds could be used for infrastructural development project that grows our economy;

- Self governing mechanism (industry ombudsman schemes) of the financial services industry and its prospering at the expense of the vulnerable investors; and

- The FSB needs to, and be seen to, be proactive and impartial in executing its mandate to regulate the financial services industry and protecting the rights of all stakeholders concerned. The law must be vigilant and felt by offenders who commit financial crime.

The FSB needs to be proactive in protecting the rights of the investors through implementing the rules and procedures that should be adhered to by all providers of financial services, encourage and enforce compliance on one hand, and proportionately punish non-compliance on the other hand.

When adjudicating one of the complaints received relating to the Leadergaurd scheme (FAIS Ombud Case number FOC 1807/05/KZN (5) 2007: page 47) the FAIS Ombud stated that:

> **"if one looks at the pertinent historical information, it is fair to say that South African citizens have repeatedly fallen prey to various bogus investment schemes. Tragically investors in many of these schemes, many of whom are pensioners, lose their life savings and are very often left destitute with only promises of attractive returns in their hands and nothing more. The perpetrators of these schemes usually get away and no money is ever recovered." He goes on to say "Loss to investors occasioned by the Leadeguard scheme is largely estimated around R300 million".**

Other similar schemes cited in the above case include Masterbond, Prozet, Platinum Asset Management, among others. Upon chairing the commission of enquiry into the Masterbond matter, Hournourable Justice HC Nel (2006) stated the following:

> "**In many respects the typical South African Investor is also worse off than his counterparts in many other jurisdictions. He labours under the attentions of vast hordes of unregulated, unsupervised, unethical and unqualified intermediaries whose sole purpose in life seems to be to part him from his money".**

2.6 Summary

These are just some of the harsh realities of what is taking place within the financial services industry and indicate how vulnerable investors are. There is a need for a proactive mechanism to protect the investors by mitigating and discouraging the unwarranted behaviors thus ensuring that the industry is fair in rendering financial services and that investors are afforded an avenue conducive for wealth accumulation including saving for retirement.

According to Sinoamadi (2002) government social grants are not adequate to sustain one's standard of living post retirement. It was further noted that the more people depend on the state social grant, the more the system is strained and unable to provide for the needy. Some tools have been developed by other researchers to assist any potential investor to unpack the problem at hand and make best use of information available to make an informed choice of retirement savings related to financial products/investment vehicles. South Africans should develop a culture of saving as this will help to reduce people's indebtedness levels. According to Gordon (2011) improvements in the national saving levels is necessary as it makes money available locally for use in capital investment projects that are required for SA’s economy to grow and create more jobs; thus alleviate poverty levels.

According to Boudewijn (1998) and Cameron (2004) retirement planning is not a simple and once-off decision. It starts from the day one commences to work right up until life after retirement. There are four stages in planning for retirement namely: (i) build up to retirement, (ii) five years before retirement, (iii) at retirement and (iv) in retirement. One must understand the recommended investment philosophy for each of the above mentioned stages. When one is close to retirement it is important to receive the relevant training on preparing to retire. Lowering one’s risk appetite is necessary in order to preserve the capital accumulated up to that stage in life.

Having learnt what others have said/done about the problem statement, the focus now turns to discuss the appropriate research method selected and implemented to gather data required for purposes of the research.

CHAPTER THREE

Research Methodology

3.1 Introduction

This chapter outlines the method of research deemed appropriate and used for the purpose of conducting the research. A quantitative research method was used to collect data required to conduct an empirical research.

According to Leedy and Ormrod (2005) a quantitative research method ensures that responses are guided and information is easy to interpret and patterns identified. This will also allow gaining more insight about information received and help in developing new concepts or theoretical perspectives relating to the issues at hand. Finally, qualitative research allows for testing the validity of certain statistics, assumptions etc. using a real life framework of understanding.

3.2. Aim and Objectives of the Study

The main aim of the study is to establish what could be done to mitigate the mis-selling of retirement and investment plans to investors most of whom do not have the knowledge and understanding required to make informed decisions relating to retirement planning. The objectives of the study include establishing the following:

- Establish motives that drive investors to create savings;
- Establish where do investors place their savings;
- Determine what do investors base their investment decisions on;
- Ascertain the level of investors' understanding of the financial products sold to him/her;
- Establish the common factors contributing to investors realising less than what they envisaged at the time of putting the investment in place; and
- To suggest corrective measures that could be utilised by regulatory bodies such as the Financial Services Board (FSB) and the Financial Advisory and Intermediary Services Ombud (FAIS Ombud) in order to curb exploitation of investors through enforcement of compliance interventions to ensure adherence to the existing regulatory framework.

3.3. Data Collection Strategies

A questionnaire was designed to collect data from a random selected population of 150 respondents in their individual private capacity who was subjected to a quantitative questionnaire. A snowball sampling method was used whereby respondents were encouraged to forward the questionnaire to other people that may be willing to participate in the survey. Response were received via e-mail, hand delivered and or collected from participants. No use was made of any company data base for the purposes of conducting the research.

3.4 Research Design and Methods

3.4.1 Description and Purpose

The project used the quantitative research methodology to collect primary data required to conduct the study. A questionnaire was designed and distributed to a random sample of respondents to gather relevant date required for purposes of conducting the study. The data was analysed (using SPSS) in order to make observations, formulate recommendations and conclusions.

3.4.1.1 Construction of the Instrument

A questionnaire was designed to collect both demographic and strategic data relevant and useful for purposes of conducting the research. There were 20 questions to be answered. The first 5 questions related to demographic information and the remaining 15 related to strategic information relevant for fulfilling the objectives of the study. In responding to the questions the respondents had to tick the relevant box applicable to them. Application for ethical clearance was submitted to the UKZN Ethical Clearance Committee for consideration via my supervisor, Professor Walter Geach. Full approval was granted on the 9th of April 2010 – **ETHICAL CLEARANCE APPROVAL NUMBER HSS/0170/2010M.**

3.4.1.2 Recruitment of Study Participants

Upon receipt of ethical clearance, a randomly selected group of 150 respondents in their individual private capacity were approached and subjected to a quantitative questionnaire. A snowball sampling approach was used in that the individual respondents assisted in distributing the questionnaire to their colleagues, relatives and other acquaintances. The respondents were individuals that have made use of financial services products in their private capacity. No use was made of any company data base for the purposes of conducting the research.

3.4.2 Pretesting and Validation

The following table represents the case processing summary:

Table 3.1 Case Processing Summary

		N	%
Cases	Valid	26	32.5
	Excluded [a]	54	67.5
	Total	80	100.0

a List wise deletion based on all variables in the procedure.

The following table represents the reliability statistics:

Table 3.2 Reliability Statistics

Cronbach's Alpha	N of Items
.454	20

Table 3.3 Test Statistics- Gender

	gender	The motive behind my decision to create a saving pool was
Chi-Square a,b	.000	48.785
df	1	4
Asymp. Sig.	1.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 38.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 15.8.

Table 3.4 Test Statistics - Race

	race	My decision regarding the final choice of investment vehicle suitable for my investment needs, was more influenced by:
Chi-Square a,b	22.649	36.231
df	3	4
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 18.5.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 15.6.

Table 3.5 Test Statistics – Main activity

	Main activity	My savings are placed with
Chi-Square a,b	71.053	43.641
df	1	3
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 37.5.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 19.5.

Table 3.6 Test Statistics – Age groups

	Age group	Were you treated fairly and professionaly by the financial advisor
Chi-Square [a,b]	24.143	69.467
df	3	4
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 19.3.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 15.0.

Table 3.7 Test Statistics

	My observation is that my financial advisor was none of the answers are applicable	Based on 12 above did you suffer any financial losses as a result. If so provide an estimate of the amount
Chi-Square [a,b]	55.542	36.125
df	4	4
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 9.6.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 6.4.

Table 3.8 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	gender	1.5067	75	.50332	.05812
	The motive behind my decision to create a saving pool was	3.1600	75	1.13946	.13157

Table 3.9 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Motive behind my decision to create a saving pool	79	1.00	5.00	3.1519	1.14454
Decision regarding the final choice of investment vehicle suitable	78	1.00	5.00	3.1923	1.69842
My investment horizon time span extended beyond	75	1.00	5.00	2.9467	1.50578
My savings are placed	78	1.00	5.00	1.7692	.97931
My level of understanding of investments vehicle option	78	1.00	5.00	2.8846	1.08089
Were you treated fairly and professionally by the financial advisor	75	1.00	5.00	2.2400	.83569
My observation is that my financial advisor	48	1.00	5.00	2.4583	1.83301
Based on 12 above did you suffer any financial losses as a result	32	1.00	5.00	1.6562	1.00352
Valid N (listwise)	29				

3.4.3 Administration of the Questionnaire

The research data was collected via a questionnaire that was distributed to a random sample of participants living in Gauteng or KwaZulu Natal. They were invited to participate in the survey and to invite other people to participate. Responses were received via e-mail sent directly to the researcher or hand delivered to the researcher in his private capacity without access by any unauthorised person.

3.5 Analysis of the Data

The responses to the questionnaire were captured onto the SPSS computer programme for interpretation and analysis from various angles in order to make inferences in relation to the problem statement.

Observations have been made based on data outcomes and recommendations formulated followed by a conclusion. The hard copies of the responses will be submitted to the University for filing over the prescribed period of time and disposed off in accordance with Ethical Clearance Committee.

3.6 Summary

The aim of this study is to find out what could be done to mitigate the mis-selling of retirement plans to investors. Related to this the study also aims at proving insight as to what can the regulatory bodies do to mitigate the mis-selling of retirement and investment vehicles and to improve fairness in treating investors and users of financial services.

A qualitative research methodology was adopted when conducting this study. A questionnaire was distributed to a random sample of 150 individuals using a snowball sampling approach. A total of 80 responses were received from respondents that have used financial services. After capturing these responses onto SPSS a number of observations were made and some of the assumptions confirmed and new perspectives noted.

The observations from the survey are presented in detailed in the next following chapter. It is interesting to note that 42% of the respondents relied on advice given by the financial advisor in making decisions relating to investment choices. Further that 68% of the respondents' savings are placed with insurance houses and banks.

CHAPTER FOUR

Presentation of Results

4.1 Introduction

This chapter presents the research data in a form of descriptive and inferential statistics.

4.2 Headings of tables and figures

Table 4.1 Gender distribution

	Observed N	Expected N	Residual
male	38	38.0	.0
female	38	38.0	.0
Total	76		

Table 4.2 The motive behind my decision to create a saving was

	Observed N	Expected N	Residual
to buy a house	13	15.8	-2.8
to buy a movable asset	4	15.8	-11.8
saving for children's education	23	15.8	7.2
saving for retirement	36	15.8	20.2
saving for holidays	3	15.8	-12.8
Total	79		

Table 4.3 Race distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	African	34	42.5	45.9	45.9
	Asian	14	17.5	18.9	64.9
	Coloured	6	7.5	8.1	73.0
	White	20	25.0	27.0	100.0
	Total	74	92.5	100.0	
Missing	System	6	7.5		
Total		80	100.0		

Figure 4.1 Race pie chart

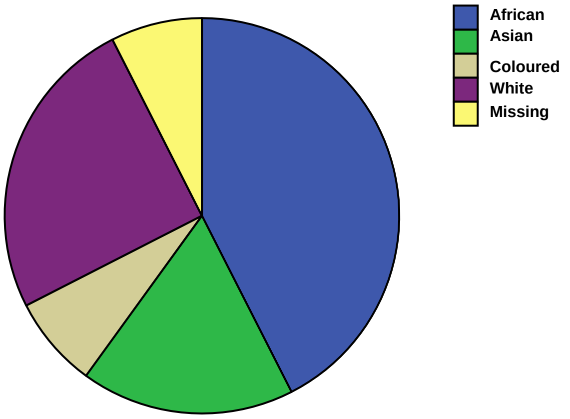

Figure 4.1 illustrates the race distribution of the respondents in the following propostions:

- Africans (45.9%);
- Whites (27%);
- Asian (18.9%), and
- Coloured (8.1%).

The majority of the respondents were Africans (45.9%) followed by whites at 27%. Asians and Coloureds participation was 18.9% and 8.1% respectively. These proportions correspond with the racial demographics of Gauteng and KZN provinces.

Table 4.4 My decision regarding the final choice of investment vehicle suitable for my investment needs, was more influenced by

	Observed N	Expected N	Residual
personal knowledge/gut feel	18	15.6	2.4
personal experience	18	15.6	2.4
advice from a friend	6	15.6	-9.6
advice from a relative	3	15.6	-12.6
advice from a broker/financial advisor	33	15.6	17.4
Total	78		

Table 4.5 Highest qualification attained by the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ABET (lower than Matric)	1	1.3	1.3	1.3
	Matric	7	8.8	9.3	10.7
	diploma	18	22.5	24.0	34.7
	degree	33	41.3	44.0	78.7
	other	16	20.0	21.3	100.0
	Total	75	93.8	100.0	
Missing	System	5	6.3		
Total		80	100.0		

Figure 4.2 Highest qualification

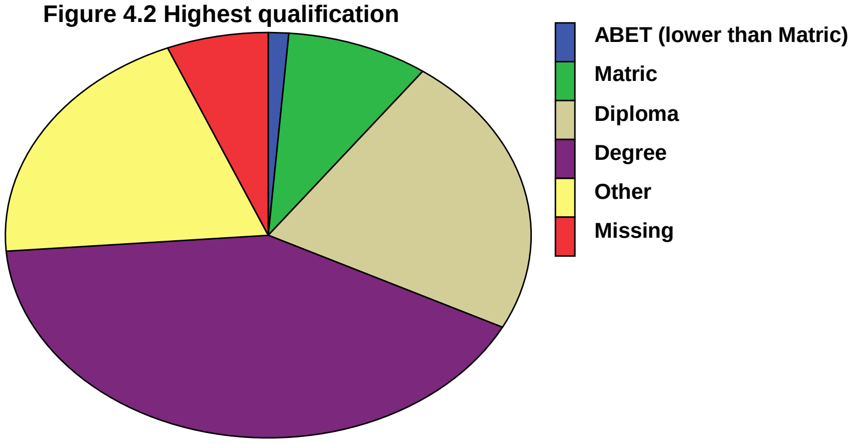

Figure 4.2 depicts the level of education commanded by the respondents. The figure indicates that the majority (44%) of the respondents have a degree followed by 24% who have a diploma. Only 1.3% has ABET (lower than Matric) education level. The majority of the respondents could be assumed to be relatively educated.

Table 4.6 Main activity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	employed	74	92.5	98.7	98.7
	self-employed	1	1.3	1.3	100.0
	Total	75	93.8	100.0	
Missing	System	5	6.3		
Total		80	100.0		

Table 4.7 Age group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	26-35 years	32	40.0	41.6	41.6
	36-45 years	27	33.8	35.1	76.6
	46-60 years	13	16.3	16.9	93.5
	above 60 years	5	6.3	6.5	100.0
	Total	77	96.3	100.0	
Missing	System	3	3.8		
Total		80	100.0		

Figure 4.3 Age group

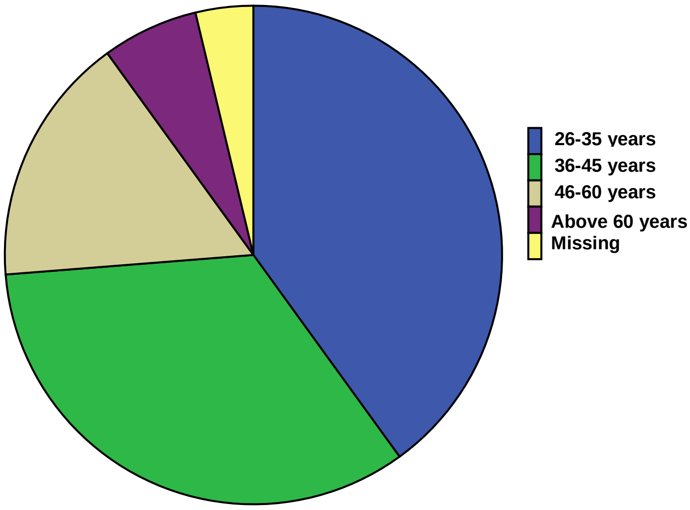

Figure 4.3 indicates that distribution of the respondents' age and highlights following:

- 26 - 35 years: This represents 41.6% and is a group that has just started working and need to provide adequately for retirement through building up savings towards retirement;

- 36 - 45 years: This represents 35.1% and is a group that is middle aged and should continue saving for retirement and consolidating its investments portfolio and moderating its risk tolerance;

- 46 – 60 years: This represents 16.9% and is a group that should be focusing on capital preservation with moderate returns. All high risk investments vehicles should be avoided at this stage since any loss of capital is unlikely to be recovered in the coming years before retirement; and

- Above 60 years. This represent 6.5% and is the group that should be receiving training on preparation for retirement and making decisions relating to their preferred lifestyle and economic activity in retirement.

Respondents came from across all age groups with the majority (41.6%) aged between 26 and 36 years followed by 35.1% aged between 36 and 46 years. Both these groups fall under a retirement stage called "build up to retirement" a stage where the investor should place more focus on building his/her retirement savings to ensure that adequate savings are in place to cover one's living costs in retirement. According to the Old Mutual Savings Monitor Survey (2009) it was interesting to note that some people within these groups change jobs frequently and often do not preserve their retirement savings when they move from one job to the next.

Table 4.8 My investment horizon time span extended beyond

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5 years	17	21.3	22.7	22.7
	10 years	18	22.5	24.0	46.7
	15 years	9	11.3	12.0	58.7
	20 years	14	17.5	18.7	77.3
	More than 20 years	17	21.3	22.7	100.0
	Total	75	93.8	100.0	
Missing	System	5	6.3		
Total		80	100.0		

Figure 4.4 My investment horizon time span extended beyond

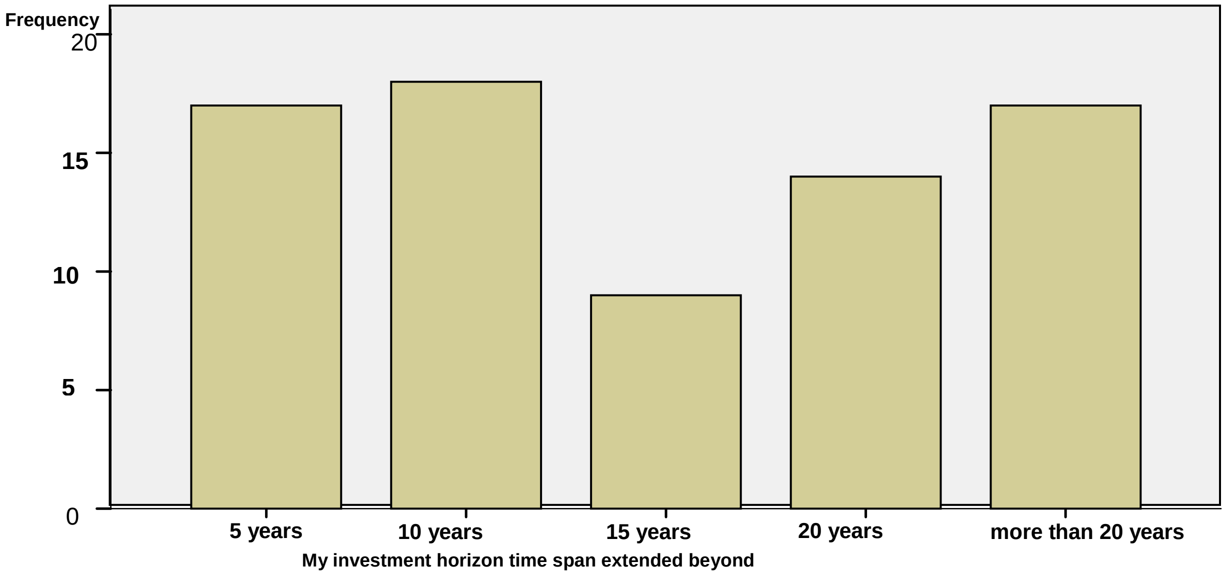

Figure 4.4 illustrates the time period over which the respondents' investment extend before maturity. The respondents' investment horizons categorised as follows:

- More than 20 years – 22.7% of the respondents. The longer the investment the more difficult it is to predict the outcome. Investments in this category include mainly investments for retirement and children education;

- 20 years – 18.7% of the respondents. That is relatively a long period of time and may include savings for retirement, children education, buying a fixed asset (e.g. house) etc;

- 15 and 10 years – 36% of the respondents. This may include saving for buying a house or dream car, children education, wedding expenses, dream holiday or creating a cash pool for use in rainy days; and

- 5 years – 22.7% of the respondents. This include savings for buying a car, holiday, wedding expenses, costs relating to the first baby (additional member) of the family or saving for unforeseen future needs.

More than 41% of the investments extend over 20 or more years which are relatively long term and is not easy to predict in terms of the investment outcome.

Table 4.9 My savings are placed with

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	the bank	36	45.0	46.2	46.2
	insurance house	32	40.0	41.0	87.2
	Johannesburg stock exchange	6	7.5	7.7	94.9
	other	4	5.0	5.1	100.0
	Total	78	97.5	100.0	
Missing	System	2	2.5		
Total		80	100.0		

Figure 4.5 My savings are placed with

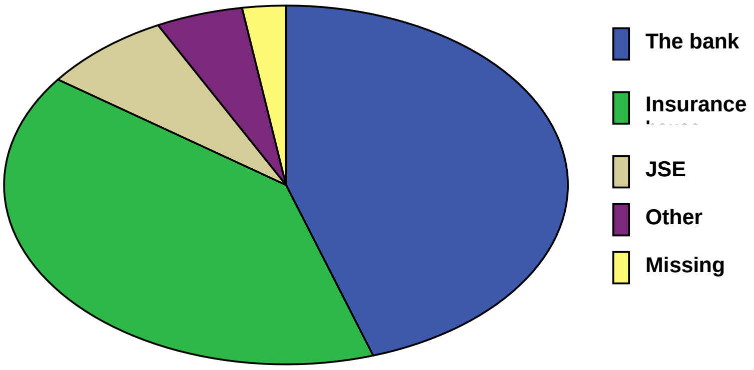

Figure 4.5 depicts the most preferred place where the respondent's savings are kept. According to figure 4.5 the majority of the respondents' savings are placed with banks and insurance house. Places where investors' savings are kept are ranked as follows:

- Banks – preferred used by 46.2% of the respondents;
- Insurance houses – preferred used by 41% of the respondents;
- JSE – preferred used by 7.7% of the respondents; and
- Other – preferred used by 5.1% of the respondents.

It is noted that the majority (87%) of the respondents placed their savings with banks and insurance houses. These institutions therefore need to look after the investors' money in a way that advances the realisation of investors' financial goals and not prey on their ignorance to advance the industry's own goals at the expense of the investor.

Table 4.10 My level of understanding of investments vehicle option is

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very limited	10	12.5	12.8	12.8
	limited	18	22.5	23.1	35.9
	fair	23	28.8	29.5	65.4
	adequate	25	31.3	32.1	97.4
	at expert level	2	2.5	2.6	100.0
	Total	78	97.5	100.0	
Missing	System	2	2.5		
Total		80	100.0		

Figure: 4.6 My level of understanding of investment vehicle option is

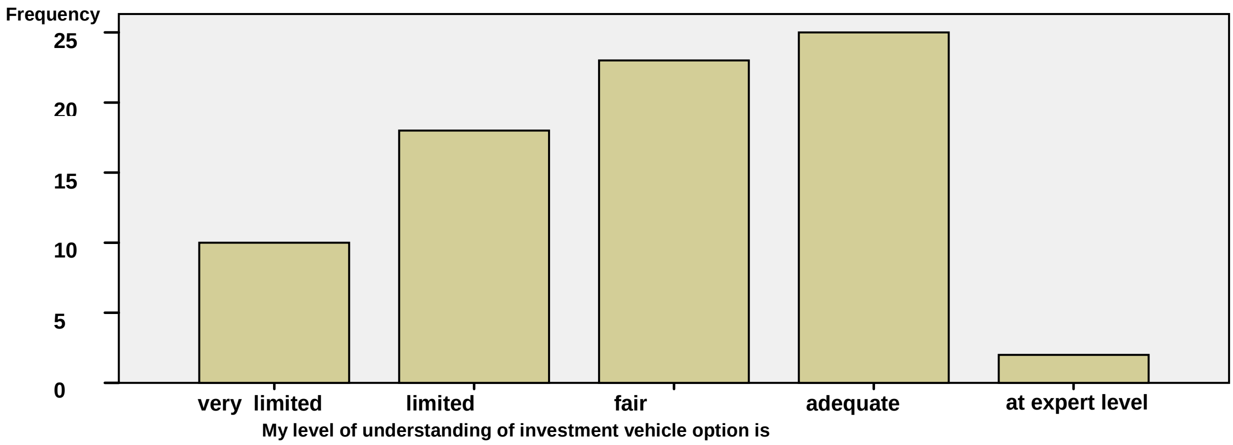

Figure 4.6 shows the respondents' literacy levels of understanding the pros and cons of the investments options presented before them when making investment choices. The results were as follows:

- Only 2.6% of the respondents has an expert level of understanding;
- 32.1% of the respondents has adequate level of understanding;
- 29.5% of the respondents has fair understanding; and
- 35.9% of the respondents has limited understanding;

It is noted that 65% of the respondents do not have adequate level of understanding required to make informed investment decisions and they have to rely on the advice given by financial services providers in making their investment decisions/choices.

Table 4.11 Were you treated fairly and professionally by the financial advisor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	11	13.8	14.7	14.7
	yes	42	52.5	56.0	70.7
	not sure	16	20.0	21.3	92.0
	no	5	6.3	6.7	98.7
	definitely no	1	1.3	1.3	100.0
	Total	75	93.8	100.0	
Missing	System	5	6.3		
Total		80	100.0		

Figure: 4.7 Were you treated fairly and professionally by the financial advisor

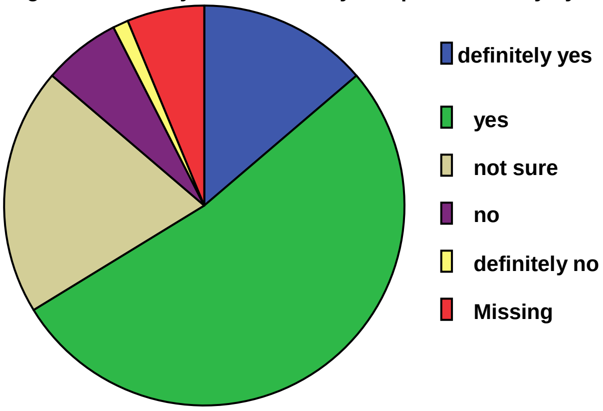

Figure 4.7 shows the respondents' view as to whether they were treated fairly by the financial advisor. The results were as follows:

- 70.7% said yes they were treated fairly;
- 21.3% was not sure if they were treated fairly on not; and
- 8% said they were not treated fairly;

Looking at the above is noted that 8% of the respondents were of the view that they were treated fairly by their financial advisors.

Table 4.12 My observation is that my financial advisor was

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Chasing commission income	28	35.0	58.3	58.3
	Giving me bad advice	1	1.3	2.1	60.4
	Not informed about the products that he/she was selling	2	2.5	4.2	64.6
	Hiding critical information required to make informed choice	3	3.8	6.3	70.8
	Failing to conduct proper needs analysis	14	17.5	29.2	100.0
	Total	48	60.0	100.0	
Missing	System	32	40.0		
Total		80	100.0		

Figure: 4.8 My observation is that my financial advisor was

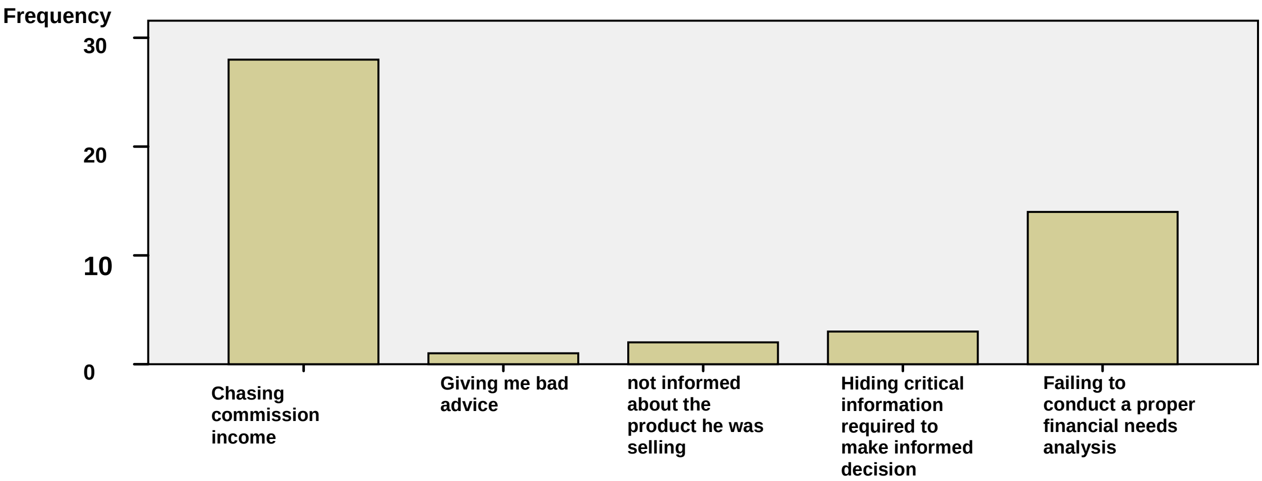

Figure 4.8 shows the financial advisors' conduct as observed by the respondents during their interaction. The results were as follows:

- 58% of respondents believe that the financial advisor was chasing commission;
- 29% of respondents believe that the financial advisor failed to conduct a proper financial needs analysis;
- 6.3% of respondents believe that the financial advisor was hiding critical information required for informed decision making;
- 4.2% of respondents believe that the financial advisor was not appraised of the product that he/she was selling/promoting; and
- 2.1% of respondents believe that the financial advisor gave them bad advice.

Table 4.13 How much was suffered in financial losses as a result of improper

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less then 5000	19	23.8	59.4	59.4
	less than 10 000	8	10.0	25.0	84.4
	less than 30 000	3	3.8	9.4	93.8
	less than 50 000	1	1.3	3.1	96.9
	more than 100 000	1	1.3	3.1	100.0
	Total	32	40.0	100.0	
Missing	System	48	60.0		
Total		80	100.0		

4.2.1 What must be done by the industry to encourage investors to place more savings with it?

Table 4.14 Treat me fairly and not prey on my lack of knowledge

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	45	56.3	57.0	57.0
	yes	29	36.3	36.7	93.7
	not sure	2	2.5	2.5	96.2
	no	2	2.5	2.5	98.7
	definitely no	1	1.3	1.3	100.0
	Total	79	98.8	100.0	
Missing	System	1	1.3		
Total		80	100.0		

Figure: 4.9 Treat me fairly and not prey on my lack of knowledge

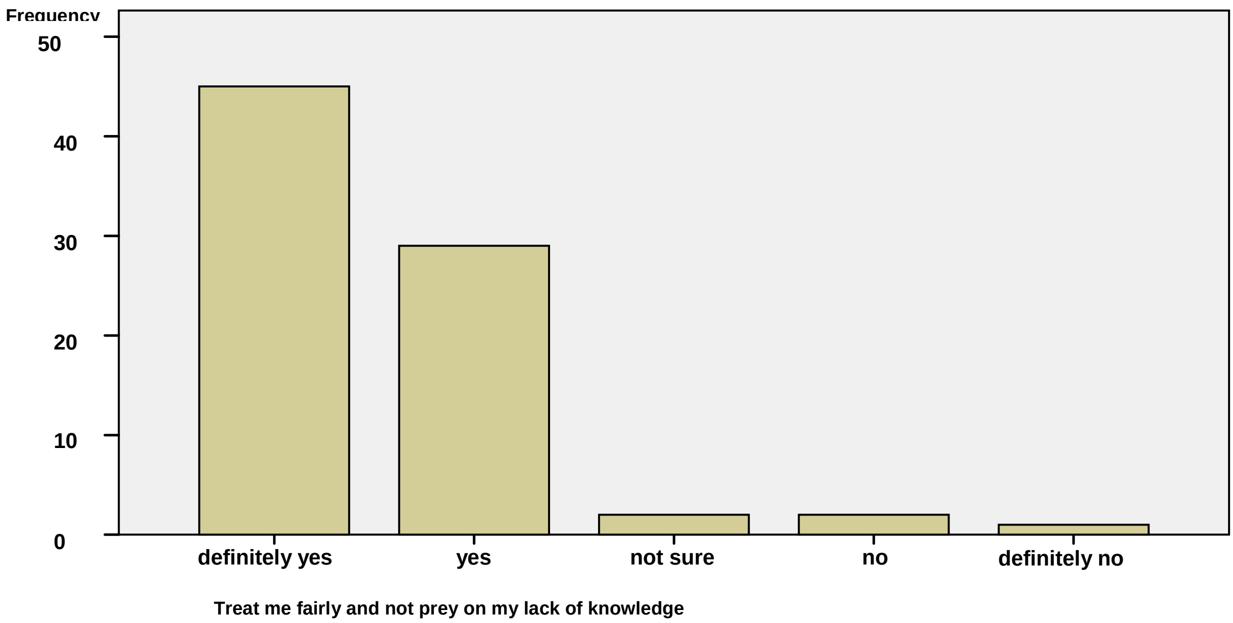

Figure 4.9 shows how many respondents would be encouraged to place more of their investments with the financial services industry if the industry was to treat them fairly and not prey on their ignorance. The results were as follows:

- 93% of respondents will be encouraged;
- 2.5% of the respondents are not sure; and
- 3.8% of the respondents will not be encouraged.

Table 4.15 Educate investors, simplify their investment products and use simple language when promoting their products

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	47	58.8	59.5	59.5
	yes	29	36.3	36.7	96.2
	no	1	1.3	1.3	97.5
	definitely no	2	2.5	2.5	100.0
	Total	79	98.8	100.0	
Missing	System	1	1.3		
Total		80	100.0		

Figure: 4.10 Educate investors, simplify their investment products and use simple language when promoting their products

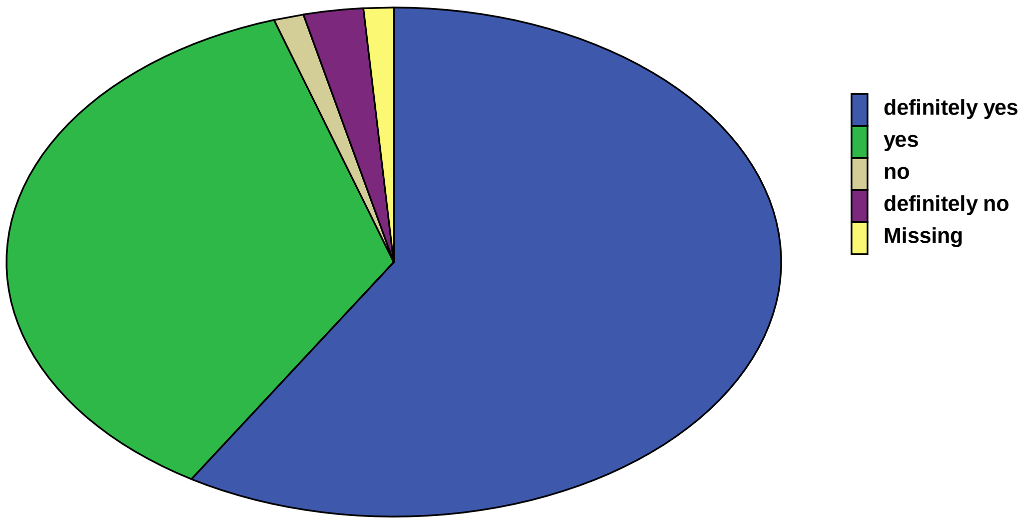

Figure 4.10 shows how many respondents would be encouraged to place more of their investments with the financial services industry if the industry educates investors and use simple language when explaining/selling the investment products/vehicles. The results were as follows:

- 96.2% of respondents will be encouraged; and
- 3.8% of the respondents will not be encouraged.

Table 4.16 Become transparent on their costs and always uphold investor's interest at all times

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	48	60.0	60.8	60.8
	yes	29	36.3	36.7	97.5
	definitely no	2	2.5	2.5	100.0
	Total	79	98.8	100.0	
Missing	System	1	1.3		
Total		80	100.0		

Figure: 4.11 Become transparent on their costs and always uphold investor's interest at all times

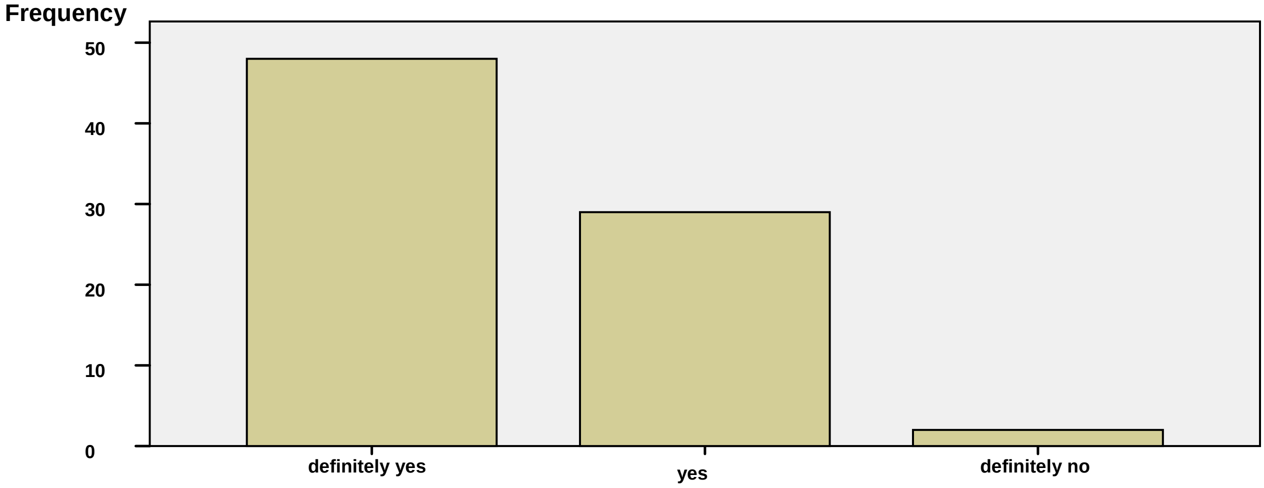

Figure 4.11 shows how many respondents would be encouraged to place more of their investments with the financial services industry if the industry becomes transparent with costs involved and always uphold investors interest at all times. The results were as follows:

- 97.5% of respondents will be encouraged; and
- 2.5% of the respondents will not be encouraged.

Table 4.17 Seek to fully understand my financial needs and give proper advice to realise my financial goals

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	50	62.5	63.3	63.3
	yes	27	33.8	34.2	97.5
	not sure	1	1.3	1.3	98.7
	definitely no	1	1.3	1.3	100.0
	Total	79	98.8	100.0	
Missing	System	1	1.3		
Total		80	100.0		

4.2.2 How is the regulatory framework doing – Are investors happy with the manner how the mandate is discharged.

Table 4.18 Investor satisfaction re the manner in which the financial services industry is regulated

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	3	3.8	3.8	3.8
	yes	24	30.0	30.0	33.8
	not sure	32	40.0	40.0	73.8
	no	16	20.0	20.0	93.8
	definitely no	5	6.3	6.3	100.0
	Total	80	100.0	100.0	

Figure: 4.12 Investor satisfaction re the manner in which the financial services industry is regulated

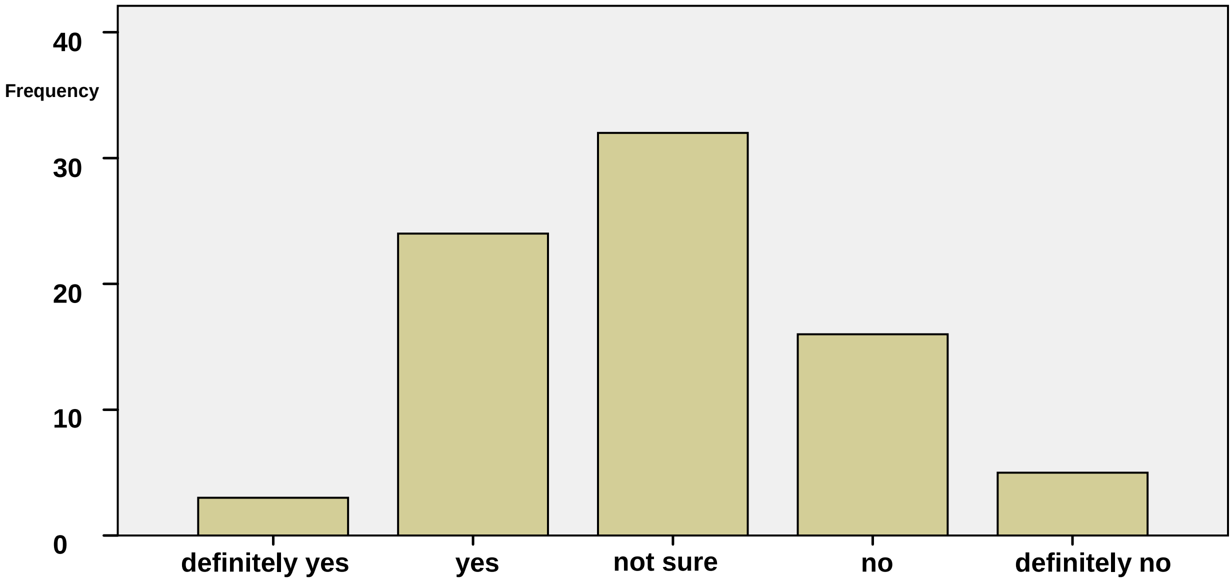

Figure 4.12 shows how many respondents are happy with the manner in which the regulators of the financial services industry are discharging their mandate. The results were as follows:

- 33.8% of the respondents are happy;
- 40% of the respondents are not sure; and
- 26.3% of the respondents are not happy.

Table 4.19 The investor literacy and awareness campaigns are prevalent and helpful

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	4	5.0	5.0	5.0
	yes	27	33.8	33.8	38.8
	not sure	29	36.3	36.3	75.0
	no	20	25.0	25.0	100.0
	Total	80	100.0	100.0	

Figure: 4.13 The investor literacy and awareness campaigns are prevalent and helpful

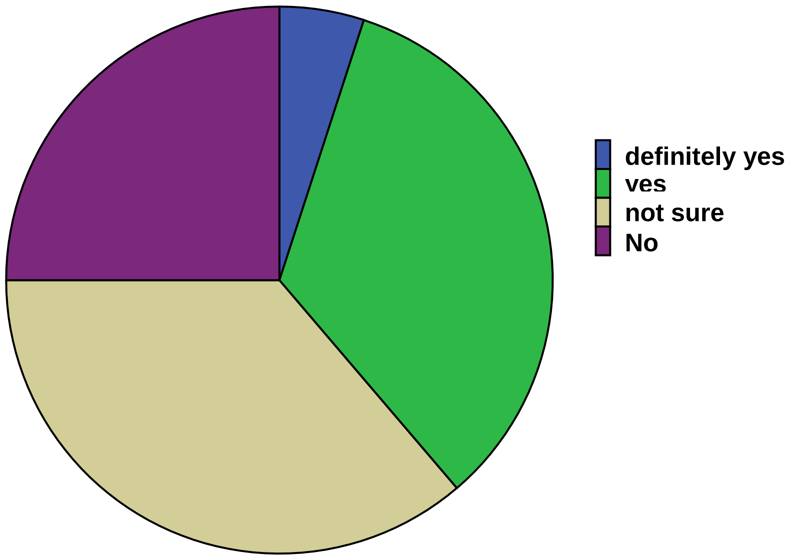

Figure 4.13 shows how many respondents believe that investor education and awareness campaigns are prevalent and helpful. The results were as follows:

- 5% of the respondents said definitely yes;
- 33.8% of the respondents said yes;
- 36.3% of the respondents were not sure; and
- 25% of the respondents said no.

It is noted that 51.3% (36.3% +25%) of the respondents are unsure/do not believe that investor education and awareness campaigns are prevalent and helpful.

4.2.3 How vigilant are the regulators to the normal investor – do investors know what services they offer and how to access those services

Table 4.20 If a person have a complaint about financial service rendered he/she knows exactly to whom and how to lodge a complaint

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	definitely yes	12	15.0	15.0	15.0
	yes	26	32.5	32.5	47.5
	not sure	15	18.8	18.8	66.3
	no	21	26.3	26.3	92.5
	definitely no	6	7.5	7.5	100.0
	Total	80	100.0	100.0	

Figure 4.14 If a person have a complaint about financial service rendered he/she knows exactly to whom and how to lodge a complaint

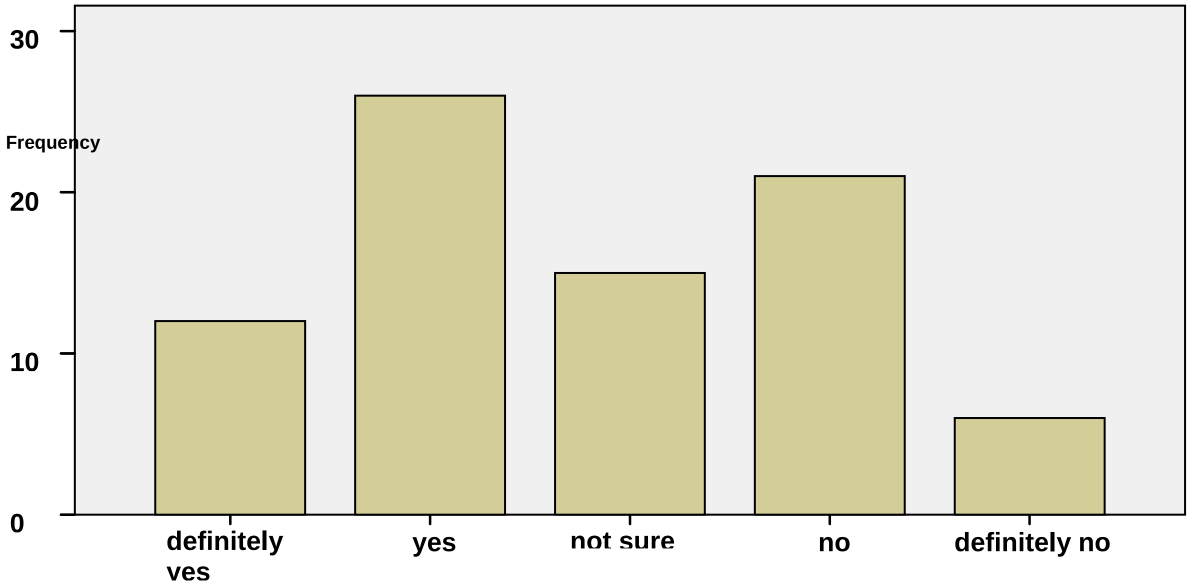

Figure 4.14 shows how many respondents know where and how to lodge a complaint relating to rendering of financial services. The results were as follows:

- 15% of the respondents said definitely yes;
- 32.5% of the respondents said yes;
- 26.3% of the respondents were not sure; and
- 7.5% of the respondents said no.

It is noted that 51.3% (36.3% +25%) of the respondents are unsure/do not believe that investor education and awareness campaigns are prevalent and helpful.

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	gender	1.5067	75	.50332	.05812
	The motive behind my decision to create a saving pool w as	3.1600	75	1.13946	.13157

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	race	2.1528	72	1.26335	.14889
	My decision regarding the final choice of investment vehicle suitable for my investment needs, was more influenced by	3.2083	72	1.73560	.20454

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	race & My decision regarding the final choice of investment vehicle suitable for my investment needs, was more influenced by	72	.043	.719

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Age group & My investment horizon time span extended beyond	72	.108	.365

4.3 Summary

It was noted that a significant amount of investors rely on the advice given by the financial services providers to make decisions relating to retirement planning. Most of the investors savings are placed with financial institutions mainly banks and insurance houses.

In the next chapter the project proceeds to discuss the observations in detail in conjunction with the existing literature and previous researches conducted locally.

CHAPTER FIVE

Discussion of findings

5.1 Introduction

This chapter discusses the observations made based on the analysis of the research data.

5.2 Demographic data analysis and discussion

It was noted from table 4.1 that gender distribution was equally spread among males and females. It could be inferred that females are no longer passive in employment and financial matters but are equally taking an active role in earning their living and running their financial affairs or that of their families without necessarily relying on their male counterparts.

The race distribution of the respondents was in line with and representative of the demographics of South Africa. Africans' participation was 46%, followed by Whites at 27%, then Asians at 19% and Coloureds at 8%. It was observed that 73% of the people came from previously disadvantaged backgrounds and were making use of the financial services provided in the country.

It was noted in table 4.5 and figure 4.2 that the majority (64%) of the investors had a diploma or a degree and could reasonable be classified as educated for the purposes of this study. Of the respondents 9% had only Matric and 1% had only ABET level of education. Even though there was two thirds that was deemed educated 42% of them still relied on the advice given by the financial advisor. This suggests that most people are neither equipped to deal with the intricacies of the financial services products nor have the understanding of the language that is spoken by the financial services industry.

Most of the investors were engaged in some form of employment as indicated in table 4.6 whereby it was observed that the majority (99%) of the respondents were employees and only 1% was self employed. It was observed that very few individuals were opting for self employment which may be risky especially in light of the 2008/9 global financial crisis and economic meltdown. It was noted that even though most people were employed they still felt a need to supplement their retirement benefits provided by their employers, if there were any.

It was observed that 76% of the respondents were between the age of 26 and 45 years and were deemed to be energetic, young and highly economically active. According to Cameron (2004) people should start saving for retirement at their early stages (as soon as they start working) and not leave it until it is too late. An observation was made on the research data (table 4.7 and figure

4.3) that 41% of the respondents were between the age of 26 and 35 years and 35% were aged between 36 and 46 years. At that age people are deemed to be energetic, young and economically active. Only 6% of the sample population was older than 60 years of age and closer to retirement. At that stage employees should be exposed to training interventions aimed at preparing and making them ready to retire. It was noted that even at the age of 60 and above people were still doing something to supplement their retirement savings. At 60 years of age which is 5 years before retirement a person should adopt a lower risk appetite and opt for investment vehicles that guaranty capital while yielding moderate returns.

5.3 Research data analysis and discussion

Regarding the question of what influenced the investors' choice of the investment vehicle, it was observed (table 4.4) that 42% of the investors were influenced by the advice given by the financial advisor in making the final choice of the investment vehicle option. This supports other studies in this field that most investors do not command the adequate knowledge of the financial products and tend to rely on the expert advice provided by the financial advisor. It is important therefore to make sure that the advice given is proper or else people may suffer financial losses due to acting on improper advice and find themselves not being able to retire financially independent. This may cause a lot of harm and results in a series of social distress, such as being dependent on one's children or relatives etc, which may have negative impact not only to the investor but to his/her family or even the community.

It was observed (table 4.2) that saving for retirement had the highest frequency at N = 36. This meant that 45.6% of the respondents' reason for saving was to provide for retirement income. This was almost half of the sample population and indicated that people do take retirement planning serious and were prepared to put away money to support their lives after retirement. With more consumer education and awareness campaigns, this number could increase towards a more comfortable level thus positioning most South Africans to retire financially independent and not rely on the limited state social grants.

It was observed (from table 4.8 and figure 4.4) that 58% of the investment time horizon extended between 5 and 15 years and that the remainder (41.4%) were extending over 20 years and beyond. A retirement annuity as an investment for retirement is not accessible in the short term but only at retirement. Since the majority (76%) of the respondents were aged between 26 and 45, it is expected that they were the ones whose investments horizons extended over 20 years.

The banks and insurance houses render most of their financial services products through a financial adviser. It is therefore inferred that people's investment decisions have been made after consultation with a financial adviser or an equivalent. In terms of the study only 7% of the investments were placed with the Johannesburg Securities Exchange (JSE). As noted earlier on the study indicated that 99% of the respondents were employed which suggested that they did not have the time (and or skills) required to manage their direct investments placed with the JSE.

Regarding the question of what level of understanding do investors have on various retirement and investment vehicle options, it was noted that only 2.6% of the investors (table 4.10 and figure 4.6) commanded an expert level of knowledge whilst 32% command a fair knowledge required to understand the intricacies of each investment vehicle. This means that the remainder of 65% have knowledge that is not adequate to unpack and understand most of the language and intricacies of the financial products and therefore have to rely on the advice given by a financial adviser. It is in this predicament that most investors find themselves and at times falling prey in the hands of unscrupulous financial services providers whose aim is to exploit the investor and capitalise on his/her lack of knowledge.

Whilst relying on an expert for advice appears to be good and beneficial, at times this relationship lends investors into trouble. This is when financial advisers prey on the ignorant investors and give them improper advice. The research findings revealed that 30% of investors felt that they were not treated fairly and professionally by the financial adviser as shown in figure 4.7.

It was noted (table 4.12 and figure 4.8) that 58% of the respondents were of the view that the financial advisors' motives were to maximise commission income instead of giving advice that was best suited to meet the investors' financial needs. A further 29% indicated that the financial adviser failed to conduct a proper needs analysis which should form the basis of advice to be given going forward. Of the remaining 10% there was 4% that felt that their financial advisors did not command a good knowledge of the financial products that being sold and 6% felt that their financial advisors were hiding critical information that was crucial for them to make informed decisions.

The choice of the appropriate financial adviser is important as linked to it is a question of proper and quality advice. It was observed (table 4.13) that improper advice resulted in 40% of the investors suffering financial losses. Of them 59% suffered losses of up to R5,000 and 38% lost between R6,000 and R50,000 and 3% lost more than R100,000 due to improper advice. These sums of money could yield better returns if invested properly and compounded over time.

It was observed that investors were willing to place more savings with the financial services providers on condition that they treat them fairly and not prey on their ignorance. The research data revealed the following:

- The majority, namely 93%% (table 4.14 and figure 4.9) of the investors indicated that financial advisors must stop capitalising on their ignorance and exploiting them when dealing with their financial planning matters. By addressing these concerns the financial services industry will be encouraging investors to place more savings and increase its dealings with them, thus growing the industry business and profitability. The industry must endeavour to remove or discourage unscrupulous financial advisers that are commission driven instead of advancing the interest of the investors. A small number (4%) of investors indicated that they will not place more savings with the financial services providers even if they do not prey on them. This may be due to bad encounters experienced by the investors in the past. If this is true, it may result in loss of business/income and negative publicity.

- Over 96% of the investors (table 4.15 and figure 4.10) indicated that the industry should endeavour to educate the public, simplify investment plans and use a more understandable language when promoting or explaining the intricacies of their financial products.

- The majority at 97% (table 4.16 and figure 4.11) would like the financial services providers to be transparent regarding their cost structures and uphold the investors' interest at all times. Financial institutions have a tendency to communicate less than necessary or at times deliberately withhold certain critical information required by investors to make sound and informed retirement investment decisions.

- Another 97% (table 4.17) of the investors called for the financial advisers to seek proper understanding of the investors' financial needs first before giving any advice. Conducting proper financial needs analysis is important as it points the financial adviser to the right direction as to what advice should be given to the investor having understood his/her financial needs. It was observed that 17% of the respondents reported that their financial advisors failed to conduct a proper financial needs analysis. It would go without saying that the advice given was inappropriate as it could have failed to address the needs of the investor (which were not identified by the financial advisor).

It was observed that only 38% (table 4.19 and figure 4.13) of the respondents indicated that the investor education and awareness campaigns were prevalent and helpful. Some (36%) were indifferent while some (25%) indicated that education and awareness campaigns were not done at all. This creates an opportunity for the FSB to increase its consumer education and awareness campaign focus and call for the financial services industry at large to embark on consumer education to increase their level of understanding of financial products sold/promoted to them.

The study observed that only 34% of the respondents were happy with the way the financial services industry was regulated. A further 40% (table 4.19) indicated that they were neither happy nor unhappy and the balance of 26% indicated that they were unhappy with the manner in which the financial services industry was regulated. The last two groupings add up to 66% (those that are not sure and those that are not happy) which suggested that the manner in which the regulation of the financial services was conducted was not satisfactory to two thirds of the respondents. This was a significant indictment and an indication of lack of visibility and accessibility by institutions that are charged with the mandate of regulating the indistry.

The FSB and the Office of the FAIS Ombud are both located in Pretoria, Gauteng and not easily accessible by most people living elsewhere in the country. Only those who have access to electronic media (e-mail, internet, fax and telephone) have a privilege of knowing and accessing these institutions and their services. The survey indicated that only 47% (table 4.20) of the respondents know how and where to lodge a complaint relating to improper rendering of financial services. More is required to be done to increase consumer awareness regarding the existence of these institutions and their service offerings should be clearly communicated to the vast majority in order for them to be known and utilised for the purposes that they were established for.

As this chapter draws closer to the end, it was noted that the most unfortunate truth revealed by this research was that:

> **Only 47% (table 4.20 and figure 4.14) of the respondents knew how and where to lodge a complaint relating to the rendering of financial services should a need arise. This means that more than 50% of the respondents did not know how and to whom they should lodge a complaint relating to improper rendering of financial services**.

This suggests that more than 50% of the investors could fall prey to unscrupulous financial services providers without getting any remedies, but left in the dark and further exploited to his/her last cent.

5.4 Summary

It was noted that the research data confirmed some of the observations made by previous researchers on one hand and how the existing literature backed some of the findings while refuting some on the other hand. Some of the findings and discussions were eye opening and it is hoped that they will contribute to the existing body of knowledge and assist all those concerned about finding means of addressing the problem statement for the benefit of all.

The interrelatedness of all stakeholders involved was noted. Further that urgent attention should be paid to consumer education in order to increase investors' knowledge and capability to partake in the complex financial transactions on a meaningful and informed basis.

The following chapter outlines the research project recommendations and conclusion.

CHAPTER SIX

Recommendations and Conclusions

6.1 Introduction

A number of observations have been noted during the research project. A body of knowledge relating to the problem statement was an eye opener and humbling at times.

6.2 Solving the problem statement

The problem has been solved to an extent in that the causes for the mis-selling of the retirement and investments plans have been identified as the following, inter alia:

- **Relating to the question of what level of understanding do investors have on various retirement and investment vehicles,** it was noted that only 2.6% of the investors (table 4.10 and figure 4.6) commanded an expert level of knowledge while 32% commanded a fair knowledge required to understand the intricacies of each investment vehicle. This means that the remainder of 65% have knowledge that is not adequate to unpack and understand most of the language and intricacies of the financial products they are dealing with are therefore left with no option but to rely on the advice from a financial advisor. This predicament may result in most investors falling prey in the hands of unscrupulous financial services providers whose aim is to exploit the investor and capitalise on his/her lack of knowledge. Since the investors do not have a good understanding of the financial products sold to them, they have to rely on the advice received from someone else to explain the intricacies of those products.

- **Regarding the question of what influences the investors' choices of the investment vehicles**, it was observed (table 4.4) that 42% of the investors relied on the advice given by the broker in making the final choice of the investment vehicle option. This supported other studies in this field where it was noted that most investors do not command the adequate knowledge of the financial products and tend to rely on the expert advice provided by the financial advisor. It is important therefore to make sure that the advice given is proper and aligned to investors' financial goals. The study indicated that 42% of the investors suffered financial losses due to improper advice given and could ran the risk of finding themselves unable to retire financially independent.

- It was noted that 87% (table 4.9 and figure 4.5) of the investors placed their investments with the banks (46%) and insurance houses (41%). The banks and insurance houses render most of their financial services through a financial advisor. It was therefore inferred that people's investment decisions have been made after consultation with a financial advisor or an equivalent. Only 7% of the investments were placed with the JSE which suggested that there were less investors who could/wanted to actively manage their portfolios by themselves. As noted earlier, 98% of the respondents were employed which suggested that they did not have the time (and or skills) required to manage their direct investments placed with the JSE.

- **Relating to the question of whether financial services providers treat their investors fairly and not prey on their ignorance,** it was observed (table 4.12 and figure 4.8) that 58% of the respondents were of the view that their financial advisors' motives were to maximise commission income instead of giving advice that was best suited to meet the investors' financial needs. A further 29% indicated that the financial adviser failed to conduct a proper financial needs analysis which should form the basis of appropriate advice necessary for attaining investor's financial goals. The remaining 10% felt that the 4% of the financial adviser did not command a good knowledge of the financial product being sold and that 6% of the financial advisers were hiding critical information that was crucial to making an informed decision. All these factors suggest incidents of unfair treatment of investors by financial services providers.

- The choice of the appropriate financial adviser is important as linked to it is a question of proper and quality of advice. It was observed (table 4.13) that improper advice resulted in 40% of the investors suffering financial losses. Of them 60% suffered losses of up to R5,000 and 38% lost between R6,000 and R50,000 and 3% lost more than R100,000 due to improper advice. Investors must be educated on how to exercise good judgment when choosing a financial adviser. The provisions of the FAIS Act were noted as to what constitute a fit and proper financial advisor.

It was observed that investors were willing to place more savings with the financial services providers provided that the industry changes its mode of operation and:

- Cease from capitalising on the investors' ignorance and exploiting them when dealing with their financial planning matters;
- Endeavour to educate the public, simplify investment plans and use a more understandable language when promoting or explaining the intricacies of their financial products;
- Be transparent regarding their cost structures and uphold the investors' interest at all times; and

- Seek proper understanding of the investors' financial needs first before given any advice.

Relating to the regulatory framework of the financial services industry, the following questions were answered:

- **Relating to the questions of whether the regulatory framework effective in delivering on its mandate**, the research findings indicated that only 34% of the respondents were happy with the way the financial services industry was regulated. A further 40% (table 4.19) indicated that they were neither happy nor unhappy and the balance of 26% indicated that they were unhappy with the manner in which the financial services industry was regulated. The last two groupings add up to 66% (those that are not sure and those that are not happy) which suggested that the manner in which the regulation of the financial services industry was conducted was not supported by two thirds of the respondents.

  This was a significant indictment and an indication of lack of visibility and accessibility by institutions that are charged with the mandate of regulating the industry. The FSB and the Office of the FAIS Ombud are both located in Pretoria, Gauteng and not easily accessible by most people living else where in the country. Only those who have access to electronic media (e-mail, internet, fax and telephone) have a privilege of knowing and accessing these institutions and their services. The research indicated in table 4.20 that 53% of the respondents did not know or were not sure of how and where to get remedies should they suffer financial losses due to improper rendering of financial services. More is required to be done to increase consumer education and awareness regarding the existence of these consumer resolution institutions and, their service offerings should be clearly communicated to the vast majority in order for them to be known and utilised for the purposes that they were established for.

  Consumer education was emphasised by Gordon (2011) where he indicated that in support of SA savings initiatives the government is considering a number of reforms and initiatives to support and encourage household savings. To this extent the National Treasury released a policy document called, *'A safer financial sector to serve South Africa better'*. This document touches upon important issues, such as **financial inclusion, consumer protection, private and public sector retirement reforms, and the costs and transparency of financial products.** Gordon (2001) added that a safer financial sector can go a long way in encouraging higher savings among consumers. When it comes to retirement, a task team on Retirement and Social Security reform has been established by National Treasury to ensure that pensioners receive a decent income in their old age.

- It was observed that only 38% (table 4.19 and figure 4.13) of the respondents indicated that investor education and awareness campaigns were prevalent and helpful. Some (36%) were indifferent while 25% indicated that education and awareness campaigns were neither effective nor reaching to them at all. This creates an opportunity for the FSB to increase its consumer education and awareness campaigns and for the financial services industry at large to embark on consumer education initiatives to increase their level of understanding the financial products sold/promoted to them.

- It was noted that 47% (table 4.20 and figure 4.14) of the respondents knew how and where to lodge a complaint relating to improper rendering of financial services should a need arise. This meant that more than 52% of the respondents did not know/are not sure how and to whom they should lodge a complaint relating to improper rendering of financial services.

6.3 Implications of this Research

This research has contributed to the body of knowledge by identifying the main reasons driving the mis-selling of the retirement plans to unsuspecting investors. It has identified the circumstances that are fuelling this unwarranted behaviour among all those involved in the rendering of financial services.

This research project has established the most common reasons why investors' savings yield less than what was anticipated or projected as advocated by the financial advisers / brokers at the time when the investment plan was put in place. It has been revealed that lack of knowledge (since only 33.8% of the respondents had adequate understanding of the investment vehicle they opted for) was the main reason for investors to be vulnerable to be misguided in making investment decisions.

It has also been revealed that the complaint resolution mechanism was not widely known since 52% of the investors neither knew how nor where to get recourse for losses (already) or likely to be suffered as a result of improper rendering of financial services. The study indicated that only 47% of the investors knew of how or where to lodge a complaint in respect of improper rendering of financial services.

The research project will be of benefit to all users of financial services and to institutions tasked with regulating the rendering of financial services. For regulatory bodies like the Financial Services Board and the Office of the Ombud for Financial Services Providers, the observation that 52% of the investors do not know or are not sure how and where to lodge a complaint and get remedies for losses suffered as a result of negligence or improper rendering of financial services by the financial institutions, will help to direct their focus on increasing consumer education and awareness levels.

The study identified areas of abuse or non compliance as in where 58% of the investors indicated that their financial advisers' motives were driven by commission maximisation and that a further 29% failed to conduct a proper needs analysis. These are clear areas of failure to comply with the provisions of the Financial Intermediaries and Advisory Services Act (2002). This suggests to the regulators that they should be more vigilant, increase focus on enforcing compliance and follow up on cases of non compliance and impose proportionate fines where applicable. The industry may consider providing focused training to up skill its intermediaries and change their mind set so that going forward they always uphold the investors' interest at all times. Appropriate sanctions should be imposed on wrong doers. This is necessary for the sustainability of the financial services industry as improvements in the compliance levels may result in restoring investors' confidence in the industry and ensure continued business where both parties mutually benefit.

The research revealed that the majority (96%) of investors would have more trust in the system and place more investments with the financial institutions if they (i) treat them fairly and not prey on their ignorance, (ii) become transparent regarding their cost structures, (iii) educate investors on the intricacies of the products they sell and (iv) use a simplified language when explaining their products. Financial institutions could learn from these observations and undo all the unwarranted practices thus winning over the consumer confidence and sustaining their business in a longer term by ensuring that their business models do not tolerate any behaviour that appears to exploit investors in any form or nature.

The study will benefit the investors in that it calls for the regulators to be more visible and known to them should a need arise to make use of their services. Financial institutions are likely to treat investors fairly if investors become knowledgeable of their rights. This will help to mitigate most forms of abuse and thus position the investors well to maximise returns on their investment. If most people retire financially independent, the state will be freed up, to some degree, from social grants and rather direct its limited resources to capital intensive projects that yield better returns.

In conclusion, the study will benefit users of financial services and other stakeholders through its contribution to the following:

- Identifying incidents of abuse of the vulnerable investors and hope that the regulators of the financial services industry will consider taking appropriate action to ensure protection and advancement of investors’ interest;

- Pointing out industry shortcomings that investors want to be dealt with in order for them to do more business with the industry. Positive response to this plea may results in the restoring the integrity of the financial services industry;

- Pointing out elements of non-compliance and the resultant losses suffered by the investors. If all stakeholders take appropriate action to minimise/eradicate such losses, such could result in safeguarding investors’ retirement savings and increase their likelihood of retiring financially independent and, in some instances, enabling them pass their wealth onto the next generation thus breaking the poverty chain;

- Identifying negative perceptions that investors have about the industry so that the industry may take necessary steps to remedy correct those perceptions. Correction of these perceptions may have a potential to encourage more people to save more. As more people save more, they increase their chances of retiring financially independent. This may reduce government’s spending on social grants as less people will be dependent on it. This may further allow the government to spend its limited resources on capital and development projects that have a potential to grow SAs’ economy; and

- By pointing incidents of investor abuse as in where the financial advisors were hiding critical information required by investors to make informed decision. The industry may take a decision that it does not want to identify with such behavior and take steps towards weeding out the unscrupulous agents/advisors that are operating scams and defrauding the investors of their lifetime savings.

6.4 Recommendations for Future Studies

This study looked at the users of financial services that are residents in Gauteng and KwaZulu Natal. Important observations were made and informed the recommendations made and identified benefits that could be enjoyed by investors, financial services providers and the regulators of the financial services industry.

For future studies it would be important to conduct a study across all provinces to get a bigger sample that is representative of the country's nation. There are a number of focus areas that this study was not able to look at. Future studies could consider attempting to answer the following questions:

- How can the services offered by the complaint resolution mechanism be brought closer to people and made easily accessible to most – including those that have no access to electronic media?

- How can the FSB effectively run its consumer awareness programmes and initiatives?

- How can South Africans be encouraged (forced) to save so much that it becomes part of our culture and passed on to next generations?

- How can the financial services providers restructure its remuneration structure in a manner that would obviate the temptation for financial advisers to drive commission earnings at the expense of the investor? And

- How can the compliance information/status of the industry stakeholders be made public information so as to hold them accountable and shamed if they are not complying with the applicable regulatory framework?

6.5 Summary

It was observed that the misselling of the retirement investment plans was due to the fact that the majority of the investors did neither know nor understand the intricacies of the financial products sold to them. They therefore rely on the advice given by the financial adviser. Some of the financial advisers capitalise on the ignorance of the investor and prey on their ignorance.

These unwarranted practices are taking place on a daily basis and more than half of the investors do not even know where and how to lodge a complaint relating to improper rendering of a financial service. The consumer education and awareness campaigns are not prevalent enough to increase the public knowledge of their rights and remedies available to them should a need arise. Two thirds of the sample indicated that they were in doubt or unhappy with the effectiveness and manner in which the financial services industry was regulated.

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