

## **The Nature and Benefits of Participating in Burial Society Stokvels in South Africa**

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**Abstract:** This paper applied a quantitative research design to explore the nature of burial society stokvels in South Africa. Furthermore, the benefits accruing to members were examined. Prior studies have generally focused on mobilization of savings from households through stokvels. None have paid particular attention to the nature and benefits of participating in burial society stokvels as a conduit for savings mobilisation. This study attempts to fill this gap by using a self-administered research questionnaire on a sample of 386 respondents. Members of stokvels were surveyed from the cities of Pretoria and Johannesburg in the Gauteng province of South Africa. Data was analysed using descriptive statistics, exploratory factor and correlation analyses. The study found that more females than males participated in stokvels. Results show that burial society stokvels succeed due to their informal nature, which is characterised by a lack of lengthy and stringent formalities and low transaction costs when compared to formal financial institutions. The results also show that burial society's stokvels empower women through providing opportunities for savings. Bereaved members are able to give their deceased loved ones through the financial support obtained from the burial society stokvels. Disbursement of funds is quick due to lack of lengthy formalities found in formal insurance companies. The results show that household consumers of financial services such as funeral policies, seek speed and convenience when selecting service providers. Thus, the findings of this study have policy implications for formal financial institutions when designing products for the low end market.

**Keywords:** Stokvel; savings; burial society; households and South Africa

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## 1. Introduction

The Financial Mail (2015) reported that stokvels are growing in popularity as savings vehicles, despite official statistics indicating that South Africa has a very low saving rate. There is relatively little published academic research on burial society stokvels. Rotating credit and savings associations (RoSCAs) and burial societies are some of the most common informal financial institutions in the developing world. Research by Finscope estimates that burial societies and stokvels membership contributes between R25 and R44 billion to the national economy (South African Government, 2015). Research done by African Response in 2012 highlighted that stokvels are used by both male (42.6%) and female (57.4%) investors, with investment stokvels skewed towards males (53%), while grocery stokvel members comprised mainly women (86%). This research also indicated that stokvel members fall predominantly between the ages of 25 and 49 years (78.2%). Old Mutual's 2013 survey also showed that the number of youth aged 18 to 30 years using informal savings has increased – 63% of young people save through informal savings compared to 49% of the general population.

The latest Old Mutual Savings and Investment Monitor (OMSIM) confirms that 74% of black middle-class respondents have some form of informal savings such as stokvels, savings club or unbanked cash (Orange, 2017). The research from the 2017 OMSIM reveals that stokvels continue to grow, with 42% of black metropolitan South Africans who earn R40k+ per month belonging to more than one stokvel. Of those earning R20k+ per month, 44% belong to a stokvel and report that if they cannot meet expenses at the end of the month they will borrow from their stokvel (Orange, 2017).

The Premier of Gauteng province, David Makhura, stated at the Stokvel and Burial Society Indaba at the Soweto Theatre that research reveals that women are the main participants in stokvels, representing 61% of the total membership (South African Government, 2015). The majority of them happens to be those who are working, especially low-income workers and the elderly who benefit from social grants, although membership composition cuts across the almost entirely African working class, irrespective of their income. It is therefore important to consider savings and benefits from burial society stokvels.

As Arko-achemfuor (2012) observes, black South Africans are regarded as poor and financially excluded and are therefore unable to meet their financial commitments through formal means such as banks. Participating in burial society stokvels closes the finance gap in the South African market. The objective of this study is to gain an understanding of the attributes of funeral services offered by burial society stokvels in South Africa. The rest of the paper proceeds as follows. Section 2 presents the theoretical framework on which this paper was premised. Section 3 discusses the

methodology applied. In section 4, the empirical results are presented and discussed. The conclusion and recommendations flowing from this study are presented in section 5.

## 2. Review of Related Literature

### 2.1. Theoretical Literature

James (2015) argues that, historically, black South African communities that were economically prevented from participating in mainstream economic activities turned to stokvels in the form of burial societies. Gichuki, Mutuku and Kinuthia (2015) observe that burial societies were formed by the poor for the poor, and would see members pool their money to pay the funeral costs of any member who died. This typology of insurance often takes the shape of rotating credit associations, which use customary patterns of cooperation, mutual help and communal responsibility to regulate the emergent activities. In the past, when people were relocating from their places of origin to Gauteng province in South Africa to seek employment, because funeral costs were expensive, a group of people in the community formed a burial society stokvel to provide for the cost of funeral on the death of a member or a dependant. Membership of burial society stokvels consisted of a small group of both females and males who would agree to the payment of a joining fee and a monthly subscription, a waiting period before becoming a full member and the amount to be paid on death of a member or dependant. Members of the burial society agree on the constitution, appointing an executive committee comprising a chairperson, a secretary and a treasurer, and setting the day and place for the meeting (Murdoch, 1999; Karlan, 2007; Verhoef, 2002). The executive committee opens a bank account with one of the financial institutions in the name of the burial society stokvel, and records are kept to avoid mismanagement of funds. Joining a burial society is voluntary, no credit checks are carried out and members trust one another.

According to Calvin and Coetzee (2010), in 1996 the South African Reserve Bank (SARB) published a green paper showing its position on stokvels and introducing legislation pertaining to stokvels. The definition of stokvels regards them as falling outside the sphere of commercial banks and thus the Bank Act of 1990 was accordingly amended. The government of South Africa together with SARB view stokvels as legal, as operating outside the regulations of banks and as self-governing entities. Stokvels are affiliated to the National Stokvel Association of South Africa (NASASA). The Permanent Building Society (Perm) was the first bank in South Africa to become involved with stokvels. In 1988, the Perm developed a stokvel account known as the Club Account. This account had the following features:

- When monthly savings contributions were made, they increased the balance by the rate of interest;
- Interest was capitalised monthly;
- Stokvels could withdraw all funds available in the account and no minimum balance was required;
- There were no bank charges;
- Stokvels were issued with a book as a record of their savings and withdrawal balances;
- There was no limit on the number of withdrawals;
- Members of the stokvel executive committee were the signatories on the account.

In 2009, the South African major banks (Absa, Standard Bank, First National Bank and Nedbank) offered customised savings accounts to stokvels; these included the Absa Club Account, the Society Scheme of Standard Bank, the First National Bank Stokvel Account, the Nedbank Club Account, Bakgotsi of Postbank and Club Save of Ithala Bank. This gives us the twentieth century background on the management of stokvels by financial institutions.

## 2.2. Empirical Literature

Thomson and Posel (2002) explored the ways in which burial society stokvels develop community and establish trust. In their study, they also investigated procedures developed by burial society stokvels based on trust for the management of their risks. Finally, it considered problems relating to the insurance of mortality risks in the burial society movement. These authors recommended that burial society stokvels should improve their ability to negotiate with undertakers, banks, insurers and government. Stokvels may also contribute to the development of skills and the dissemination of knowledge that is useful in the further development of their risk-management procedures. These findings suggest that the legal framework within which burial societies and funeral insurers operate should be reviewed.

The objective of Ramsay and Arcila's (2013) study was to establish a sound basis for determining both the premium and the waiting period for burial society stokvels. They developed a discounted expected utility model of consumption by members of such stokvels and used the model to determine the optimal premiums and waiting periods subject to solvency, lapse, and participation constraints. Their assumption that households face a single shock is another simplifying assumption that can be relaxed in future research. As low-income households often face many income

shocks, their monthly net income is a stochastic process. For stochastic income, these researchers used an economic hypothesis to set household consumption levels.

Molobi (2006) explores the possible relationship between burial society stokvels and basic Christian communities in South Africa. Both burial societies and Christian communities are historical and there is a plan for the two to enter into. He found that burial society stokvels are small and cohesive, comprising members with shared rural and cultural roots. These stokvels adopt a humanist approach to social affliction and are therefore a haven for people in their own right. Semanya (2013) observed that stokvel members who are churchgoers are often absent on the last Sunday of the month, being committed to burial societies. His research found that members considered their contribution to the burial society stokvel to be more important than their tithing to church. Members of stokvels often belong to more than one burial society, and spend more money in order to receive greater support in the event of a death. Belonging to a burial society helps members to prepare for death, enables them to have a decent funeral and ensures that those who attend the funeral service do not go home hungry.

Van Wyk (2017) discusses the experience of a stokvel through an interpretive-narrative-based inquiry research paradigm. A purposive sampling method was employed in the selection of four rural women. The findings revealed that these women believed that participating in a stokvel helped them to be identified as part of a specific group. The stokvel created opportunities for belonging and was a means of sharing and socialising among members. Furthermore, specific circumstances beyond their control had forced the women in this study to become members and to participate in a stokvel as a desperate attempt at survival. It also surfaced that the stokvel played a critical role in financial support during tough times especially when a sudden bereavement strikes a family. Finally, the stokvel members in this study confirmed that a stokvel was a means of eradicating poverty and creating jobs in their respective communities. Using a literature-based research method, Mashigo and Kabir's (2016) study proposed a financial strategy that would improve access to financial services and develop poor households in South Africa. Their study recommended that village banks be established and supported adequately and used as a financial inclusion strategy for developing poor households in South Africa.

### **3. Research Methodology**

#### **3.1. Sampling Strategy**

This study follows a survey research design using a quantitative research approach. Sampling is defined by Bryman and Bell (2007, p. 182) as the selection of a fragment of the population for the research process. A multi-stage sampling strategy was

applied in this study in terms of which respondents to the study were randomly selected. In the first stage, Gauteng, one of South Africa's nine provinces, was selected because of its close proximity to the researcher and hence the low cost of travel. In the second stage, respondents were drawn from the cities of Pretoria and Johannesburg. In the third stage, primary research was conducted by self-administered research questionnaires to a sample of 400 stokvel members, of which 386 made up the final sample. Results show that of the 386 respondents, 45.15% were male and 52.3% female. This a fair representation of the sample. Table 1 below shows the gender distribution of the respondents.

**Table 1. Characteristics of respondents**

<b>Total number of stokvels members</b>	<b>386</b>
Male	45.1%
Female	52.3%

*Source: Fieldwork 2016*

This study adhered to all the principles of the University of South Africa (UNISA) Research Ethics as well as the main ethical considerations proposed by Babbie (2007). In order to comply with ethical considerations, the researcher applied and obtained ethical clearance from UNISA prior to carrying out the survey. Furthermore, prior to completing the questionnaires, respondents were provided with a consent form requesting the respondent's voluntary consent to complete the questionnaire (Creswell, 2003). The researcher ensured that the study posed no harm to the respondents (Flick, 2006), who were also not compelled to answer the questionnaire. Consistent with Cooper and Schindler (2011), all respondent information was kept strictly confidential.

### **3.2. Data Collection**

Data was collected using a self-administered questionnaire that applied a five-point Likert scale. In order to ensure the validity and reliability of the data, the research instrument was subjected to a pilot test. Results of the pilot test confirmed the reliability of the research instrument with a Cronbach's alpha value greater than the threshold of 0.7. Using confirmatory factor analysis (CFA), the research instrument was found to be valid (see Figure 1 below). After confirming the reliability and validity of the research instrument, data was collected with the aid of four field workers who were trained by the researcher.

Reliability Statistics	
Cronbach's Alpha	N of Items
.892	4
.710	5

Figure 1. Cronbach's alpha

**Inference:** A Cronbach's alpha test was performed to check the reliability of questions. The above tables display several of the results obtained. However, since  $\alpha$  of this questionnaire is far higher than 0.6, we can assume that it is reliable (Field, 2009). In addition, no question was removed from the construct.

**Reliability testing:** Cronbach's alpha is designed as a measure of internal consistency of items in a questionnaire, and ranges between zero (0) and one (1). The closer  $\alpha$  is to one (1), the greater the internal consistency of the items in the questionnaire.

## 4. Results of the Research Question

### 4.1. Nature of Insurance Stokvels

This subsection presents and discusses the nature of the insurance provided by stokvels in Gauteng province, South Africa. Data was analysed using SPSS version 24.

#### 4.1.1. Descriptive Statistics

Respondents were asked to indicate the type of organisation with which they have insurance cover from a range of service providers, namely, burial society, funeral parlour, and formal insurer with a further option stating that they were not insured. A summary of descriptive statistics for the responses is presented in Table 2 below.

Table 2. Mean and standard deviation: nature of insurance stokvels

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Burial society	212	1	5	4.35	.716
Funeral parlour	106	2	5	4.45	.692
Formal insurer	86	1	5	4.57	.952
Not insured	46	1	5	4.00	1.563
Valid N (listwise)	6				

Source: Fieldwork, 2016

Table 2 above shows the mean and standard deviation of the responses, indicating the extent to which the sampled respondents agreed or disagreed with the items in the questionnaire. The statistics reveal the mean of the variables in terms of the results for each statement. The highest mean related to "my insurance cover is with a formal insurer" with a numerical value of 4.57.

#### 4.1.2 Funeral Parlour

The second highest mean related to “my insurance cover is with a funeral parlour” with a numerical value of 4.45. Accordingly, half the number (106) of respondents were insured with a funeral parlour compared to a burial society (212).

#### 4.1.3 Burial Society

The third highest mean was in relation to “my insurance cover is with a burial society” with a numerical value of 4.35. This implies that the majority of the stokvel respondents agreed that they are members of a burial society stokvel. Wines (2004) argues that, in traditional African culture, death is a significant event that is treated with the utmost respect. The burial society stokvels were formed to assist in the event of death with expenses such as the cost of transporting the body of the deceased to their place of origin. This may prompt the bereaved to provide for food and care for people attending the funeral service. Before payment is made to the member, he or she should notify the secretary/treasurer of the stokvel of the death, who then checks whether payments are up to date. All necessary documents of the deceased should be provided and should correspond with information that have been provided to the members of the stokvel (Zungu, 2012). Payment will be made and members will assist with a helping hand; for example, preparing food for funeral. The lowest mean was found for the response “not insured” with a numerical value of 4.00. This result leads to the assumption that some respondents rely on relatives and friends for insurance, some of whom may reside outside Gauteng province.

#### 4.2 Benefits of Participating In Burial Stokvels

The study asked respondents about the benefits that accrue to members of burial stokvels. The purpose of this question was to gain an understanding of the attributes of funeral services offered by stokvels. Descriptive and correlation analyses were performed and the results are presented below in Tables 3 and 4 respectively.

**Table 3. Correlation matrix for extracted factors and benefits from burial stokvels**

		Correlations			
		Your burial society contributions are saved in a bank or Post Office	Members agree on number of dependants and amount paid	Proceeds fund burials for bereaved members	I get mutual support from members
Your burial society contributions are saved in a bank or Post Office	Pearson Correlation	1	.085	.140	.086
	Sig. (2-tailed)		.436	.343	.430
	N	163	86	48	87
Members agree on	Pearson Correlation	.085	1	.703**	.719**



number of dependants and amount paid	Sig. (2-tailed)	.436		.000	.000
	N	86	196	47	87
Proceeds fund burials for bereaved members	Pearson Correlation	.140	.703**	1	.609**
	Sig. (2-tailed)	.343	.000		.000
	N	48	47	87	48
I get mutual support from members	Pearson Correlation	.086	.719**	.609**	1
	Sig. (2-tailed)	.430	.000	.000	
	N	87	87	48	146

\*\* Correlation is significant at the 0.01 level (2-tailed).

Source: Fieldwork (2016)

### 4.3. Benefits of Participating in Funeral Parlour Stokvels

Table 4 presents the mean results of the variables showing how each of the statements performed in terms of the responses. The highest mean was “benefits of participating in funeral parlour stokvels are proceeds fund burials for bereaved members” with a numerical value of 4.76. This implies that the stokvel respondents agreed that by participating in funeral parlour stokvels members are offered services according to their monthly contributions: a coffin, cost of graveside, tent and groceries. The second highest mean was “benefits of participating in funeral parlour stokvels are quick access to service” with a numerical value of 4.70. This implies that the majority of the respondents agreed that participating in funeral parlour stokvel gave them access to quick service. The third highest mean was “benefits of participating in funeral parlour stokvels are deceased is transported to the place of burial by the parlour” with a numerical value of 4.53. This implies that the majority of respondents agreed that by participating in funeral parlour stokvels, members’ beneficiaries are transported to their place of choice by the funeral parlour. The fourth highest mean was “benefits of participating in funeral parlour stokvels are minimal formalities” with a numerical value of 4.43. This implies that the majority of respondents agreed that participating in funeral parlour stokvels is accompanied by minimal formalities. The lowest mean was “benefits of participating in funeral parlour stokvels are that you get a service according to the package/product you make payment for” with a numerical value of 4.33. This implies that the majority of the stokvels respondents agree that participating in funeral parlour stokvels member’s benefits will be according to the package/product you make payment for.

**Table 4. Descriptive statistics**

Descriptive statistics					
	N	Minimum	Maximum	Mean	Std. deviation
You get service according to the package/product for which you make payment	202	1	5	4.33	.819
Deceased is transported to the place of burial by the parlour	148	2	5	4.53	.654
Quick access to service	138	3	5	4.70	.575
Minimal formalities	83	1	5	4.43	1.095
Proceeds fund burials for bereaved	110	1	5	4.76	.589
Valid N (listwise)	52				

Source: Fieldwork, 2016

#### 4.4. Correlation Analysis

The items making up the construct “benefits of participating in funeral parlour stokvels” were subjected to Pearson’s bivariate correlation analysis. Results show that all items are positively correlated. All correlations were observed to be significant at the 0.001 level (2-tailed) for the relationships between the variable “minimal formalities” and the variables “deceased is transported to the place of burial by the parlour” ( $r = 0.208$ ) and “quick access” ( $r = 0.229$ ). The correlation matrices are presented in Table 5 below.

**Table 5. Correlation matrix for extracted factors and stokvel performance**

Correlations						
		You get service according to the package/product you make payment for	Deceased is transported to the place of burial by the parlour	Quick access to service	Minimal formalities	Proceeds fund burials for bereaved member
You get service according to the package/product you make payment for	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	202				
Deceased is transported to the place of burial by the parlour	Pearson Correlation	.820**	1			
	Sig. (2-tailed)	.000				
	N	88	148			
Quick access to service	Pearson Correlation	.820**	.898**	1		
	Sig. (2-tailed)	.000	.000			
	N	88	88	138		
Minimal formalities	Pearson Correlation	.191	.208	.229	1	

	Sig. (2-tailed)	.170	.136	.099		
	N	53	53	53	83	
Proceeds fund burials for bereaved members	Pearson Correlation	.309**	.350**	.334**	.611**	1
	Sig. (2-tailed)	.005	.001	.002	.000	
	N	81	81	81	52	110
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Fieldwork (2016)

## 5. Conclusion and Recommendations

The purpose of the paper was to gain an understanding of the attributes and benefits of the burial services offered by stokvels in South Africa. The savings clubs or accounts that pay out on the death of the insured are the mechanism that has evolved in South Africa to help individuals save for funerals, thus assuring a proper burial in the member's homeland. Such mechanism includes membership in a burial society stokvel and the purchase of a funeral policy with a funeral parlour.

The findings of this study reveal that in South Africa, working-class and educated households were the most likely to participate in burial society stokvels, followed by the recipients of social grants. High participation in burial society stokvels could be of benefit to burial societies, which weekly or monthly payments contributions to the stokvels would be made to ensure the funeral expenses of the burial would be paid for; regardless of how long a person had been a member. Such stokvels require the payment of set weekly or monthly dues, as well as the names of the beneficiaries to be covered. Burial society stokvels can therefore serve as an intergenerational commitment device.

The study recommends that government policy makers, the SARB and financial institutions (funeral directors and funeral services providers) revise death or life insurance policies in order for financial institutions to assist black South African households with designing society/club accounts benefits that

accrue to members of burial stokvels. They should also design sustainable insurance harnessing policies as these would go a long way in promoting the development of the banking sector.

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