TOPIC 6

Direct investments: cash and fixed-interest securities

LEARNING OBJECTIVES

When people have more money than they need to spend immediately, they tend to invest it with a view to making a return. In Topics 6–10 we are going to look at different ways of investing, beginning with a look at direct investments.

By the end of this topic, you should have an understanding of:

- the main asset classes;
- the difference between direct and indirect investment;
- bank and building society deposit accounts and interest-bearing current accounts;
- National Savings and Investments products;
- offshore accounts;
- gilts;
- other fixed-interest investments including local authority bonds, permanent interest-bearing shares, corporate bonds and Eurobonds;
- ‘alternative finance’, such as peer-to-peer lending.

This topic covers Unit 1 syllabus learning outcomes U2.1, U2.2 and part of U7.7.

THINK . . .

Some of the products covered in this topic will probably already be familiar to you. For example:

- Do you have savings in a building society or bank deposit account? Why did you choose that type of account?
- Have you ever bought Premium Bonds, or any other product from National Savings and Investments? What was it about these products that appealed to you?

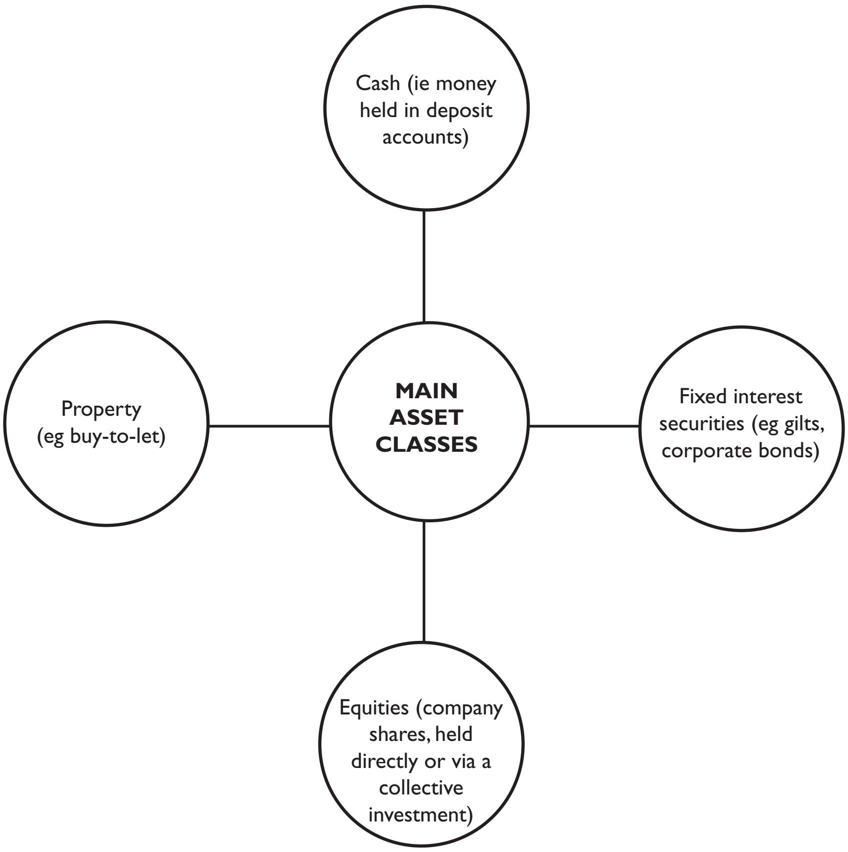
Investments such as gilts or corporate bonds might be less familiar, but you might have seen references to these products in the financial media.

6.1 What are the main financial asset classes?

Investments can be separated into several main asset classes according to their underlying characteristics.

The main asset classes are shown in Figure 6.1.

FIGURE 6.1 MAIN ASSET CLASSES



A possible fifth asset class comprises so-called ‘alternative investments’, which would include things such as fine wine, works of art or antiques.

A generally accepted principle of investment is that the greater the risk presented by an investment, then the greater the potential return. Each of the asset classes listed above will offer differing levels of potential return and different levels of risk. For example:

- cash can offer variable but generally low levels of return, through interest, with limited risk to capital;

- shares offer no guarantee of either income payments or future capital values – at the extreme, an investor could lose all their money.

A further consideration is that different asset classes will tend to perform better at different stages of the economic cycle.

It is generally advised that investors who have sufficient funds to do so should diversify their holdings between different asset classes to balance different risk and reward profiles.

6.2 Why do people choose deposit-based investments?

The most widely used type of direct investment is a deposit account and the most familiar example is the bank or building society savings account.

Investors place money in deposit-based savings accounts for several reasons.

- **Security of capital** – some investors choose deposit-based investments because they do not want to put their capital at risk. However, inflation reduces the value of capital over time and, in periods of high inflation, this erosion in value can happen very quickly. There is also the risk of loss of capital if the institution becomes insolvent. This is rare with banks and building societies, but is not unknown. In the event of insolvency, investors may be able to reclaim some of their funds through the Financial Services Compensation Scheme (FSCS, see Topic 25 for more information).

> **CAPITAL**
>
> In the case of a savings account, capital is the cash that is deposited. It differs from ‘money’ in the sense that it is being used to generate wealth rather to purchase goods and services.

- **Convenience** – banks and building societies are readily accessible; it is believed that, to some extent, inertia inhibits investors from looking for a more rewarding home for their deposits.

For short-term savings (eg next year’s holiday or a new car), few would argue that a deposit-based savings account is a sensible place in which to invest the money. It is prudent to have part of an investment portfolio that is easily accessible in, for example, a no-notice deposit account; this is often referred to as an emergency fund. Institutional investors (eg pension funds or life assurance companies) maintain a part of each of their funds in readily accessible form.

6.3 Bank and building society accounts

Banks and building societies offer a similar range of accounts, which fall into two basic categories:

- current accounts, for everyday money needs;
- savings accounts, where money not required for day-to-day spending is set aside.

Savings accounts and some current accounts pay interest, which tends to vary according to the amount invested and whether there are restrictions on access to the money. Savings accounts provide the holder with a passbook or cash card as the ‘token’ to enable withdrawals to be made.

6.3.1 Traditional current accounts

A current account is a transactional account into which an individual can have their salary or wages paid. There are then a range of ways in which money can be drawn from the account or used to pay regular bills; these include a debit card (which can also be used to withdraw cash), a cheque book, electronic transfer such as faster payments, standing orders and direct debits.

It may be possible to arrange an overdraft and to operate the account via the internet or phone, without the need to visit a branch office.

6.3.2 Basic bank account

A basic bank account is a simplified current account designed to encourage people who have not previously had an account to open one. These accounts are aimed at people (typically those on low income or receiving state benefits) who might not otherwise be able to open a current account.

The accounts are able to receive money by a wide variety of methods but the methods of withdrawing money are limited. Cash can be obtained with a card from ATMs and from post offices. Payments can be made by direct debit but no cheque books are issued on these accounts and there is no overdraft facility.

6.3.3 Interest-bearing current accounts

Interest-bearing current accounts have developed as a result of increased competition between the banks and building societies. They provide investors with immediate access to their funds without loss of interest, in addition to the usual current account services such as a cheque book, ATM facilities and overdrafts.

More sophisticated versions of interest-bearing current accounts are available. It can be possible to earn interest and receive cashback on spending on household bills. To earn these benefits there are normally requirements in terms of a minimum amount to be paid into the account each month and a certain number of direct debits being paid out. Such accounts may also carry a monthly fee.

Many banks have, for several years, offered high-interest cheque accounts. As the name implies, higher rates of interest are available with these accounts that, as a consequence, have higher minimum levels of investment, typically from £1,000 to £10,000. These accounts are normally free of charges, subject to the minimum balance being maintained. Some accounts, however, allow only a limited number of cheques to be drawn in a given period without charge.

PACKAGED CURRENT ACCOUNTS

A packaged current account offers the holder a range of ancillary benefits such as breakdown cover, mobile phone insurance and travel insurance in return for a monthly or annual fee. A packaged current account may also enable the holder to open other accounts that offer preferential rates of interest.

6.3.4 Instant access savings accounts

An instant access account can normally be opened with as little as £1 and the account holder can have immediate access to their savings. As there are few limitations on the account, the interest rate paid is comparatively low and is usually linked to the bank's base rate. Such accounts may be suitable for short-term 'emergency' funds.

Interest rates are usually variable. Interest may be tiered, with higher levels of deposits paying increasingly higher rates. Higher rates are also paid when the account can only be operated via the internet or ATM, or by post or phone. The higher rates reflect the fact that much of the administration is performed either by the account holder and/or by a centralised function, thus costs are lower.

6.3.5 Restricted access accounts

If access to an account is restricted, the provider has certainty that the funds are available to it for a longer period. Rates are therefore higher on this type of account than on an instant access account.

Access may be restricted by:

- limiting the number of withdrawals that can be made each calendar year;
- requiring a minimum period of notice be provided before funds can be drawn (a notice account);
- specifying an agreed period during which the saver may not access their money (a term account).

In respect of a notice account it is generally possible to breach the notice requirements if access to funds is urgently required, but a charge is normally applied in the form of a much-reduced (or even zero) rate of interest.

With a term account the money may be locked away for a period of between one and five years, sometimes in return for a fixed interest rate. Generally, the longer the term and/or the higher the amount held in the account, then the higher the rate of interest.

A further variation is the fixed-term bond, which offers a fixed rate of return if money is saved for a fixed term. Typically there is no access at all to savings during the term. In return, a higher rate of interest is offered than would be available on an account that allowed access.

DEPOSITOR PROTECTION

Savings in bank and building society accounts are protected by the FSCS, up to a level of £85,000 per investor per financial services provider. You will find out more about the FSCS in Topic 25.

CHECK YOUR UNDERSTANDING 1

Can you remember how interest from savings is taxed? Write a brief summary to check how much information from your earlier studies you have retained. Look back to Topic 3 to see how well you have done.

6.4 What is National Savings and Investments?

National Savings and Investments (NS&I) offers a range of saving and investment products backed by the government. The risk associated with the products is very low because the government guarantees the return of capital invested.

There are NS&I products to suit most types of investor, with different terms, interest rates and taxation. Table 6.1 shows a comparison of some typical NS&I products.

TABLE 6.1 COMPARISON TABLE OF NS&I PRODUCTS

Investment	Term	Tax	Limits	Additional information
Direct Saver	None	Taxable, paid gross	£1–£2m	Min. age 16. Managed online or over the phone. Interest variable.
Investment account	None	Taxable, paid gross	£20–£1m	Min. age 16. Interest variable. Investment into an NS&I investment account can be made on behalf of someone under 16.
Income bonds	None	Taxable, paid gross	£500–£1m	Min. age 16. Interest variable (paid monthly).
Direct ISA	None	Tax-free	£1–£20,000 (2021/22)	Min. age 16. UK residents only. Interest variable. Managed online or over the phone.
Premium Bonds	None	Tax-free	£25–£50,000	Min. age 16 (can be bought on behalf of under-16s). No interest paid, monthly prize draw. Max. winnings £1m.
Junior ISA	None	Tax-free	£1–£9,000 (2021/22)	Min. age 16. No access before age 18.
Green Savings Bonds	3 years	Taxable, at maturity	£100–£100,000	Min. age 16. Fixed interest rate. No access until end of term.
Guaranteed Income Bonds*	1 year and 3 years	Taxable	£500–£10,000	Fixed monthly interest available to those aged 16 and over.
Guaranteed Growth Bonds*	1 year and 3 years	Taxable	£500–£10,000	Fixed rate of annual growth. Min. age 16.

* New bonds are no longer available for sale. Holders of existing bonds can renew them for a new term or they can cash them in.

FACTFIND

NS&I products are reviewed regularly. For the latest information refer to the following website: www.nsandi.com/

CASH ISAs

Individual savings accounts (ISAs) are a form of tax-free personal savings scheme. ISA investment can take a number of forms, and we will look at these in more detail in Topic 9. One form of ISA investment is cash (also known as a cash ISA): it is basically a means of obtaining tax-free interest on a bank or building society deposit account, subject to certain limits and regulations.

6.5 What are offshore accounts?

The term offshore is usually applied to any investment medium, whether it is a bank or building society account or some other form of investment, which is based outside the UK in a country that offers a more advantageous taxation of investments. Such countries (sometimes referred to as tax havens) include the Channel Islands, Luxembourg and the Cayman Islands.

HMRC AND OFFSHORE ACCOUNTS

Offshore accounts are often perceived as a vehicle to hold monies that are not declared to the tax authorities. Under legislation introduced to support implementation of the US Foreign Account Tax Compliance Act, and effective from 2016, British Crown dependencies and overseas territories exchange financial information with HMRC. This includes the names and financial details of those holding accounts.

Offshore investment can potentially expose an investor to greater risk than a similar onshore investment:

- The account might not be denominated in sterling; if the investment is to be converted back to sterling at some point, its value might be affected by unfavourable exchange rates.

- Not all offshore accounts are protected by investor protection schemes. Investors should check what protection is available through local regulatory regimes.

Offshore investments may be useful to an investor who needs money to be available outside the UK, for example someone who owns a property abroad or plans to move abroad in the future.

The interest on an offshore deposit is paid gross. A UK resident must declare the income to HMRC and may have to pay tax on it. However, if the country where the investment is held has a reciprocal tax treaty (double taxation arrangement) with the UK, and the interest has already been taxed overseas, tax relief may be available on some or all of it.

There are specific rules governing whether individual is resident or non-resident as far as their liability to UK taxation is concerned. Care should be taken to determine an investor's residence status.

CHECK YOUR UNDERSTANDING 2

Can you remember the rules relating to residence and domicile? It's important for financial advisers to understand these rules. Try to write a brief summary of the rules and then check back to Topic 3 to refresh your memory.

6.6 What are gilts?

'Gilts' belong to a category of direct investment called 'fixed-interest securities'. Their full name is 'gilt-edged securities', and they are a form of borrowing by the UK government. Gilts are regarded as safe investments because the government is not expected to default on capital repayments or interest.

KEY TERMS

REDEMPTION DATE

The date on which the government must redeem the gilt by paying back its original issue value or par value, normally quoted as a nominal £100. This works in the same way as redeeming an interest-only mortgage.

COUPON

The interest rate payable on the par value of a gilt. It is a fixed rate, paid half-yearly, gross but taxable.

A gilt is categorised primarily according to the length of time left to run until its redemption. All gilts currently in issue have a specific redemption date, although, in the past, there have been undated gilts, with redemption at the discretion of the government, and also dual-dated gilts with redemption between two specified dates. A gilt with a coupon of 5 per cent and a redemption date in 2025 might be designated as Treasury 5% 2025.

FIGURE 6.2 CATEGORIES OF GILT

Short-dated gilts	• Also known as 'shorts' • Less than 5 years to run to redemption
Medium-dated gilts	• 'Mediums' • 5–5 years to run to redemption
Long-dated gilts	• 'Longs' • More than 15 years to redemption

The definitions used in Figure 6.2 are those typically used in the financial press. The UK Debt Management Office, which issues gilts, defines short and medium gilts slightly differently, as follows:

- **Short-dated gilts**: less than 7 years.
- **Medium-dated gilts**: 7–15 years.

Index-linked gilts are gilts where the interest payments and the capital value move in line with inflation. For the investor, this means that the purchasing power of their capital and interest received remain constant, unlike all other fixed-interest investments where inflation erodes the purchasing power of fixed-interest payments.

The government will, periodically, make new issues of gilts, often when an existing issue has reached redemption date. When a new issue is made, investors can purchase those gilts. Once issued, gilts cannot be redeemed by investors prior to the redemption date but can be sold to other investors. The price at which they are sold depends on a number of factors:

- the level of market rates of interest;
- the amount of time left to the redemption date;
- supply and demand.

Gilt prices are quoted either 'cum dividend' or 'ex dividend'. If a stock is bought 'cum dividend', the buyer acquires the stock itself and the entitlement to the next interest payment. If, however, the stock is bought 'ex dividend', then while the buyer acquires the stock itself, the forthcoming interest payment will be payable to the previous owner of the stock (ie the seller).

Gilt interest is normally paid gross without deduction of tax, although investors can elect for net payment. The income is classed as savings income so would be tax free if it fell within an individual's starting-rate band for savings income or their personal savings allowance (see Topic 3, section 3.4.4).

If the interest, when added to other savings income, falls outside the starting-rate band for savings and exceeds an individual's personal savings allowance it will be taxed at 20 per cent, 40 per cent or 45 per cent with the actual rate determined by the individual's gross income.

Many investors who buy gilts do not intend to keep them until their redemption date. They buy them because they believe that, by speculating on future movements in interest rates, they can sell them for a profit. Alternatively, they may be able to buy gilts for less than par and then make a gain upon redemption. Any capital gains made on the sale or redemption of gilts are entirely free of capital gains tax (CGT).

BUYING AND SELLING GILTS

A higher-rate taxpayer buys £100,000 par value of Treasury 5% 2025 at a price of 80.0, ie she pays £80,000 for the stock.

She receives half-yearly interest of £2,500 (ie £5,000 annually), which represents a yield of 6.25 per cent on her investment of £80,000.

The interest is paid gross but she must pay tax of 40 per cent on any interest in excess of her personal savings allowance of £500.

Later she sells the stock for £90,000. There is no capital gains tax to pay on her gain of £10,000.

HOW DO INTEREST RATE MOVEMENTS AFFECT GILT YIELDS?

Rising interest rates

Robert owns £10,000 of gilts with a coupon of 3 per cent. This means that he receives £300 per year interest.

He wants to sell the gilts, which have six years to run until their redemption date. However, interest rates have risen since he bought them and new six-year gilts are now being offered with a coupon of 5 per cent.

Carmen offers to buy Robert's gilts from him, but she won't offer him £10,000 for them because she can buy new six-year gilts for £10,000 that gives her a coupon of £500 per year, instead of the £300 that Robert's pay.

She offers him in the region of £9,000 for his gilts. The effect of rising interest rates is that the price on Robert's gilts has fallen. Although a price of £9,000 would reflect a return of 3.33 per cent (ie £300 interest on £9,000 invested) in terms of the income provided by the gilts, it is important to remember that if Carmen buys the gilts and holds them until redemption she will also make a capital gain of £1,000 as £10,000 is returned on redemption.

Falling interest rates

Imagine if, instead of rising, interest rates have fallen and new 6-year gilts are only paying a coupon of 2 per cent. An investment of £10,000 would only return £200 per year, compared with the £300 per year that Robert's gilts are paying.

Carmen may therefore pay Robert substantially more than £10,000, in which case Robert will make a profit (which is exempt from capital gains tax).

Carmen will need to bear in mind that if she pays more than £10,000 she will make a loss if she holds the gilts to redemption.

CALCULATE

Mark is considering buying gilts and is attracted to 5% Treasury 2025. He finds that this gilt is currently trading at a price of £130.73. Mark understands that, should he buy this gilt, he will get income of £5 per year (par value of £100 x 5%) every year to 2025. He also understands that, should he hold the gilt until redemption date, he will suffer a loss of £30.73 on each one as only £100 will be paid on redemption.

To understand whether the income offered is a good rate it is necessary to calculate the running yield as follows.

Running yield = coupon ÷ price paid

£5 ÷ £130.73 = 3.82%

The 3.82% rate of income looks attractive, based on current interest rates, but it should be remembered that if the gilt is held to redemption it will lose £30.73 of capital value, which reduces the overall return.

6.7 What other kinds of fixed-interest stocks are available?

6.7.1 Local authority bonds

Like the government, local authorities can borrow money by issuing stocks or bonds, which are fixed-term, fixed-interest securities. They are secured on local authority assets and offer a guaranteed rate of interest, paid half-yearly. The bonds are not negotiable and have a fixed return at maturity.

Return of capital on maturity is promised, but these are not quite as secure as gilts since there is no government guarantee.

6.7.2 Permanent interest-bearing shares

Permanent interest-bearing shares (PIBS) are issued by building societies to raise capital. They pay a fixed rate of interest on a half-yearly basis. Interest is paid gross, although it is taxable as savings income according to the investor's tax status.

Investors should note that PIBS rank below ordinary accounts in priority of payment, should a building society become insolvent. As a result, they are higher risk, because depositors will be paid before shareholders.

If a building society converts to a bank by 'demutualising', the PIBS it has issued are converted to perpetual subordinated bonds (PSBs). Perpetual subordinated bonds have similar characteristics to PIBS in that they have no redemption or maturity date and will provide a fixed income stream.

6.7.3 Corporate bonds

Generally, a company will seek to finance its activities by using its profits, but there are situations in which profits, even if retained over many years, will not be sufficient to meet the company's requirements and it has to seek other sources of finance. The two main ways in which a company might seek to raise additional money are by issuing shares and/or by borrowing. It can, of course, borrow from banks or other lenders. It can also issue corporate bonds to meet its long-term financing needs, or commercial paper if funds are needed over a shorter period. We will look at commercial paper in section 7.8.3.

Corporate bonds are similar to gilts issued by the government. The bond is issued with the promise to pay a fixed rate of interest until redemption date, with the loan repaid in full at redemption date. The borrowing is usually over the longer term, which helps the company to make long-term business plans.

The bonds can be bought by institutional investors (such as life companies and pension funds) and by private investors.

A bond may be secured or unsecured. If it is secured, a charge is made on company assets. This means these assets could be taken by the creditor and sold in the event that the company defaults on interest payments or repayment at redemption date.

A bond that is backed by security is typically referred to as a debenture. The security is provided by a charge over company assets. A bond that is not backed by security is generally referred to as loan stock.

Some corporate bonds are convertible, giving the holder the right to convert the loan into ordinary shares of the issuing company. There is no obligation to do so and if the option is not exercised, the loan continues unchanged.

Interest, rather than dividends, is payable and the company is obliged to pay the interest promised, whether or not sufficient profit has been made by the company. Whether the bond is secured or not, the holder is a creditor of the company so, in the event of the company being wound up, would have priority over shareholders. If the lending is unsecured, the bondholder ranks with ordinary creditors. As mentioned, a corporate bond that is secured on company assets is referred to as a debenture and the holder has the extra security of the assets on which it is secured.

The risks associated with corporate bonds relate to the viability of the issuing company, its prospects and financial strength. Corporate bonds are riskier than gilts because gilts are backed by the government. Corporate bonds will therefore pay higher rates of interest than similar gilts. A bond that is unsecured presents a greater level of risk to the investor than one that is secured.

CHECK YOUR UNDERSTANDING 3

Why does the fact that corporate bonds are regarded as riskier than gilts mean that they generally pay higher rates of interest than similar gilts?

6.7.4 Eurobonds

A Eurobond is a bond issued or traded in a country that uses a currency other than the one in which the bond is denominated. This means that the bond operates outside the jurisdiction of the central bank that issues that currency.

Eurobonds are a form of borrowing used by multinational organisations and governments. For example, a UK company might issue a Eurobond in Germany, denominating it in US dollars. It is important to note that the term has nothing to do with the euro currency, and the prefix 'euro' is used more generally to refer to deposits outside the jurisdiction of the domestic central bank.

6.7.5 Taxation of income

Local authority bonds, corporate bonds, PIBS and Eurobonds pay interest gross (without deduction of tax).

The income is classed as savings income so would be free of tax if it fell within an individual's starting-rate band for savings income or their personal savings allowance (see Topic 3, section 3.4.4). If the gross interest, when added to other savings income, falls outside the starting-rate band for savings and exceeds an individual's personal savings allowance it will be taxed at 20 per cent, 40 per cent or 45 per cent with the actual rate determined by the individual's gross income. Where tax has been taken at source, this can be deducted from the amount owed.

6.8 What is a structured deposit?

The return from a bank account is generally in the form of interest and linked to general interest rates. With a structured deposit, the return paid is linked to the performance of an index measuring the performance of equities, such as the FTSE 100. The investment is normally arranged over a fixed term, five years for example.

Unlike a traditional fixed-rate savings account, the return generated through a structured deposit is variable because it is linked to the performance of a particular stock market index or indices. The benefit of using structured deposits is access to equity-based returns with a promise that, regardless of stock market performance, depositors will always get back their initial investment. This reduction in risk is offset by the lowered potential for reward, meaning investors probably will not receive the full benefit of any index rise and they will not receive dividend payments. Structured deposits are complex and are normally purchased via a financial adviser.

6.9 What is 'alternative finance'?

Alternative finance or peer-to-peer lending (P2P) involves a saver placing their money with a P2P lender who will then lend the money out to businesses that are seeking funding. This type of lending is usually arranged via aggregating companies, examples of which include Wellesley & Co, Zopa and Funding Circle.

P2P lending is not a deposit proposition but has a number of elements in common with deposit-based savings, notably that funds are aggregated and distributed, normally for a return, and it is possible to arrange both on an easy access and fixed-rate basis over an agreed term. P2P lenders are regulated by the FCA.

In some cases, returns can be very competitive with traditional deposits but there are more risks. While the lender will perform due diligence on the businesses to which funds are being lent, there is a risk that loan repayments might be missed, in which case the returns to the saver would reduce. Importantly, P2P lenders are not covered by the Financial Services Compensation Scheme (see Topic 25).

THINK AGAIN ...

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- describe the four main asset classes – and a possible fifth one?
- explain why deposit-based savings might appeal to an investor over other forms of investment?
- explain why an offshore investment is potentially riskier than an onshore one?
- describe how a gilt works?
- explain what a corporate bond is?
- explain how a structured deposit differs from an ordinary bank or building society deposit account?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Test your knowledge

?

Use these questions to assess your learning for Topic 6. Review the text if necessary.

Answers can be found at the end of this book.

1) A bank deposit account is a good place to hold a 'rainy day fund'. True or false?
2) What, if any, is the minimum age at which a person can take out an NS&I Direct Saver?
   a) There is no minimum age.
   b) 16.
   c) 18.
3) Interest on NS&I Income Bonds is tax-free. True or false?
4) State two reasons why offshore bank accounts might be more risky than similar UK deposit accounts.
5) In relation to gilts, what is the 'coupon'?
6) Jane has invested in short-dated gilts. According to the UK Debt Management Office (DMO) definition, this means that:
   a) the gilts will have a redemption date within the next seven years.
   b) interest on the gilts will not be paid to her until the end of the term.
   c) the gilts will have a redemption date within the next ten years.
   d) she will be unable to access her capital until the end of the term.
7) Rubina is considering buying a gilt, 3% Treasury 2025. The gilt is currently trading at a price of £107. What is the running yield?
8) The main difference between corporate bonds and gilts is that corporate bonds:
   a) usually pay a variable rate of interest.
   b) are usually for larger amounts of money.
   c) normally have no specified redemption date.
   d) are considered to be higher-risk investments.

9) The main difference between a debenture and other types of corporate bond is that a debenture:

   a) carries the right to vote at the company's annual general meeting.

   b) is usually secured on the assets of the company.

   c) can be converted to ordinary shares of the company.

   d) pays a fixed rate of interest.

10) A Eurobond is the equivalent of a gilt, but issued by a government within the eurozone. True or false?

11) Jack opens an account so that his wages can be paid into it. He can use his account to pay bills such as utilities and rent via direct debit, and he can use his debit card to make purchases online and in shops, but he cannot have an overdraft. What kind of account does Jack have?

   a) Packaged account.

   b) An interbank account.

   c) A basic bank account.

   d) A debit account.