

Types of organisations and their advantages and disadvantages are outlined below.

► **Bank of England**

- This is the UK's central bank with responsibility for maintaining a healthy level of financial stability for the UK as a whole.
- Responsibilities include issuing legal tender, setting interest rates and controlling the national debt.

► **Banks**

- A bank is an organisation that handles financial transactions and stores money on behalf of its customers.
- Services offered will include holding deposits, making payments when instructed to do so and supplying credit.

► **Building societies**

- These are organisations that handle financial transactions and store money on behalf of their members.
- The members, or account holders, are part owners of the building society and have a right to vote and receive information on the running of the society.
- Unlike banks they do not have shareholders on a stock exchange which allows costs to be kept down.

► **Credit unions**

- These are not-for-profit organisations that handle financial transactions and store money on behalf of their members.
- Often there is a responsibility or desire to support a community made up of its members.
- Members are the owners and have a voting right.

► **National Savings and Investments**

- This is a government-backed organisation that offers a secure saving option.
- It offers a range of options including ISAs, premium bonds and gilts and bonds.

► **Insurance companies**

- These are businesses that protect against the risk of loss in return for a premium.
- They are profit-making organisations.

► **Pension companies**

- These are businesses that sell policies to individuals, either privately or through employers, to allow them to save now to fund retirement in the future.
- Pension companies normally invest the money paid to them in contributions in order to increase its value. However this is not risk free.

► **Pawnbrokers**

- These are businesses or individuals who loan money against the security of a personal asset, for example an item of jewellery or piece of electronic equipment.
- If the item is not bought back from the pawnbroker within a specified period of time then it will be sold on.

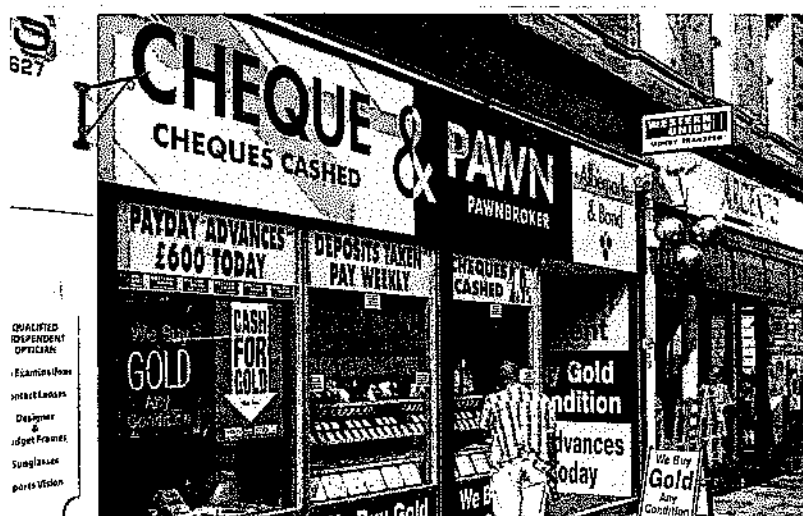
► **Payday loans**

- These are organisations that offer a short-term source of finance used to bridge the gap between now and next receiving a wage; they are normally only available for relatively small amounts at very high rates.
- They may be suitable in an emergency to meet cash shortages.

The pros and cons of different financial institutions are summarised in Table 3.8.

► **Table 3.8:** Advantages and disadvantages of types of financial institution

Type of organisation	Advantages	Disadvantages
Bank of England	<ul style="list-style-type: none"> Responsible for protecting the financial stability of the economy as a whole Sets interest rates at a level designed to help achieve a stable economy Lends to banks 	<ul style="list-style-type: none"> Not a bank for members of the general public Can raise interest rates making borrowing more expensive
Banks	<ul style="list-style-type: none"> Offer a range of services and account types Provide a secure place to store money Pay interest on credit balances on most types of accounts 	<ul style="list-style-type: none"> Savings are only protected up to the value of £75,000, so if a bank goes bankrupt savings above this would be lost Profit-making organisations owned by shareholders, therefore costs to individuals may be higher than necessary in order to fulfil shareholder objectives
Building societies	<ul style="list-style-type: none"> Offer a range of services and account types Provide a secure place to store money Pay interest on credit balances on most types of accounts Owned by members and therefore costs can be kept down allowing for higher interest payments 	<ul style="list-style-type: none"> Savings are only protected up to the value of £75,000, so if a building society goes bankrupt savings above this would be lost May lack the business drive of a commercial bank
Credit unions	<ul style="list-style-type: none"> Offer a range of services and account types Provide a secure place to store money Owned by members and therefore costs can be kept down allowing for higher interest payments Often offer additional benefits to the community or a good cause 	<ul style="list-style-type: none"> Savings are only protected up to the value of £75,000, so if a credit union goes bankrupt savings above this would be lost May lack the business drive of a commercial bank
National Savings and Investment	<ul style="list-style-type: none"> Government-backed, therefore offering security on 100% of savings with no upper limit Offers additional services/methods of savings, e.g. premium bonds 	<ul style="list-style-type: none"> Rates are variable Not as easy to access due to lack of a high street presence Often required to give notice on withdrawals
Insurance companies	<ul style="list-style-type: none"> Protect against unexpected losses or financial expenses Easy and regular monthly payments make planning easy Wide range of services and levels of cover to suit the needs of individuals 	<ul style="list-style-type: none"> Premiums are assessed on the estimated degree of risk which may be seen to penalise some members or groups of society too harshly Profit-making organisations, therefore premiums will be charged to ensure shareholder needs are met
Pension companies	<ul style="list-style-type: none"> Provides a structure to help plan for financial security after retirement Deductions can be taken directly from pay and be fully or partially matched by an employer's contribution Experts are employed to make investment decisions 	<ul style="list-style-type: none"> Poor investment decisions by the pension company may result in a disappointing return Money already invested in a pension cannot be released prior to the dates agreed in the policy
Pawnbrokers	<ul style="list-style-type: none"> A quick way of acquiring cash needed for a short period of time The asset can be brought back within a set period of time Interest is not charged 	<ul style="list-style-type: none"> The amount given for the asset is often substantially lower than its actual worth If the money is not repaid within the agreed period, the asset will be sold on
Payday loans	<ul style="list-style-type: none"> A quick way of acquiring cash needed for a short period of time 	<ul style="list-style-type: none"> Interest charges are likely to be very high Often results in paying back a final sum substantially higher than the initial amount borrowed



- A pawnbroker's business can thrive during times of financial hardship. How do you feel about this?

Communicating with customers

Traditionally, banking was carried out face to face where there was a personal relationship between the bank manager and clerk and the customer. The bank manager was seen as a figure of authority in the community. Over time, this relationship has become less common and, as banking organisations have grown, the service has become less personal.

Changes in technology have also changed the way in which the banking industry operates.

Discussion

In small groups, discuss how technology changes have affected how banking operates. As a whole group, discuss whether these changes have had a positive or negative impact on banking. Consider this from the point of view of employees, banks, customers (of different ages) and other businesses. Think about whether this has affected other industries or just banking. Think of examples.

Methods of interacting with customers include:

- branch:
 - physical places where the customer will visit to carry out transactions which can be face to face, for example over the counter transactions or using computerised facilities, such as automatic teller machines (ATM)
 - offer additional facilities and services such as advice.
- online banking:
 - the use of the internet to carry out banking transactions.
- telephone banking:
 - when transactions are carried out over the telephone.
- mobile banking:
 - the use of mobile devices such as mobile phones and tablets to conduct financial transactions.
- postal banking:
 - the use of the postal service to carry out paper-based financial transactions.

The pros and cons of different ways of interacting with customers are summarised in Table 3.9.

► **Table 3.9:** The advantages and disadvantages of different methods of interacting with customers

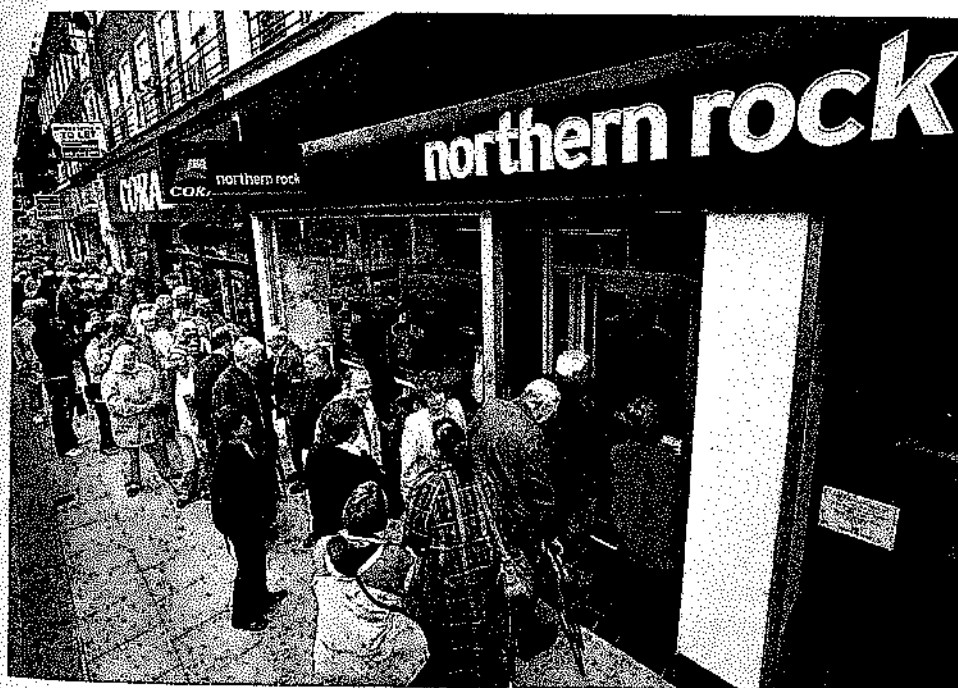
Method	Advantages	Disadvantages
Branch	<ul style="list-style-type: none"> Opportunity to build a relationship developing trust and brand loyalty Transactions can be conducted there and then Additional services such as advice can be offered Gives the customer a high level of confidence 	<ul style="list-style-type: none"> Need to travel to a branch which is likely to incur travel costs, e.g. parking or fares for public transport Restricted to bank opening hours May be long queues plus travel time, making the process time consuming
Online banking	<ul style="list-style-type: none"> Available 24/7 High degree of privacy Convenient 	<ul style="list-style-type: none"> Takes time at the beginning to set up or apply for Not suitable for cash withdrawals Increased risk due to cyber crime If just an online account, the facilities may be limited
Telephone banking	<ul style="list-style-type: none"> Convenient, especially to access basic functions such as checking a balance No additional charges 	<ul style="list-style-type: none"> Full access may be limited to set hours Call centres and automated telephone systems can frustrate customers Higher risk of fraud and identity theft
Mobile banking	<ul style="list-style-type: none"> Convenient Available 24/7 No additional charges 	<ul style="list-style-type: none"> May need to download specific apps to access mobile banking for a particular bank Higher security risk due to increased risk of loss or theft of mobile devices Can be prone to hackers sending texts asking for bank details
Postal banking	<ul style="list-style-type: none"> Traditional method that many customers will feel comfortable with Does not require any additional technology or devices 	<ul style="list-style-type: none"> Can be slow due to the postal system Post can get lost

Consumer protection in relation to personal finance

There are laws and organisations responsible for protecting the rights of consumers. In relation to personal finance, they are there to help ensure that the consumer is not treated unfairly or exploited. The following organisations and laws are concerned with protecting consumer rights.

- **Financial Conduct Authority (FCA)**
 - The FCA is an independent organisation with a remit to regulate the actions of providers of financial services.
 - It is funded by membership fees charged to financial service providers.
 - The organisation's work focuses on three key areas:
 - authorisation – permitting financial service providers to trade
 - supervision – ensuring procedures and practices are in the interest of the consumer
 - enforcement – using powers to ensure standards are maintained.
- **Financial Ombudsmen Service (FOS)**
 - The FOS is an organisation appointed by the government to represent the interests of the consumer in disputes with financial service providers.
 - It is funded by compulsory fees charged to all regulated financial institutions plus additional fees when actions are taken against an institution.
 - The FOS becomes involved in disputes only if they cannot be satisfactorily sorted between the consumer and the financial institution prior to involving the FOS.

- ▶ Financial Services Compensation Scheme (FSCS)
 - The FSCS is the organisation in the UK that will pay compensation to a consumer of financial services if the service provider is unable to.
 - The FSCS, for example, protects all savers in banks and building societies up to £5,000, i.e. if the financial institution goes bankrupt the savings will be refunded by the FSCS.
- ▶ Office of Fair Trading (OFT)
 - The OFT is a government organisation that was established to regulate all markets, including financial markets.
 - The OFT's aim was to encourage fair practices and healthy competition between financial institutions.
 - Since 2014 responsibility for financial institutions has been passed to the FCA.
- ▶ Legislation: consumer credit
 - These are laws passed by the UK government to enforce the regulation of any firm offering credit to consumers.
 - Any firm offering credit, for example leasing, hire purchase agreements or credit cards, must be registered with the FCA.



- ▶ How confident are you that your savings are safe in the bank?

Information guidance and advice

Personal finance is a complicated matter and it is important to all individuals. There are a number of government-funded and independent organisations which offer guidance and advice to individuals on personal finance. These are outlined below.

- ▶ Citizens Advice
 - This is an organisation, run by charities, that offers advice on a wide range of issues both financial and non-financial.
 - Advice is offered at physical centres as well as online and via email and telephones.
 - Financial advice covers areas including, debt, benefits, banking, pensions and insurance.

Research

Visit the websites below to carry out research on the roles and responsibilities of these organisations and consumer credit laws.

www.fca.org.uk/

www.financial-ombudsman.org.uk/

www.fscs.org.uk/

www.gov.uk/offering-credit-consumers-law

Do you think that it is necessary for the government and other organisations to regulate financial institutions? Or should they be trusted to self-regulate?

- ▶ Independent financial advisor (IFA)
 - IFAs are professionals who offer independent advice to their clients on financial matters including savings, investments, mortgages and pensions.
- ▶ Price comparison websites
 - These websites collate prices for similar goods and services within an industry allowing consumers to make comparisons easily and find the best deals.
- ▶ Money advice service
 - This is a government organisation set up to offer free and impartial financial advice in the UK.
- ▶ Debt counsellors
 - This is a professional who offers independent advice on how best to manage debt.
- ▶ Individual Voluntary Arrangements (IVAs) bankruptcy
 - This is a government organisation that allows an individual to declare themselves bankrupt while agreeing to pay all or part of the money they owe to creditors through an insolvency practitioner.
 - Regular payments are made to the insolvency practitioner who then spreads this across the creditors deciding how much to pay each one.

The pros and cons of different providers of financial information and guidance are summarised in Table 3.10.

▶ **Table 3.10:** Advantages and disadvantages of different providers of financial information and guidance

Provider	Advantages	Disadvantages
Citizens Advice	Free service Offers face to face as well as online and telephone advice Wide range of areas covered	Trained volunteers are not necessarily professionals in financial issues and therefore knowledge may be limited
Independent financial advisor (IFA)	Advice is offered by professionals in the field Services offered are regulated by the FCA and FOS Advisers will take time to understand an individual's full financial situation	Services will be charged for Advice offered is not guaranteed to be 100% up to date or unbiased
Price comparison websites	Easy to access 24/7 Free service	Not guaranteed to be 100% up to date, accurate or unbiased Do not always cover all of the available options Potential for bias
Money advice service	Government-funded therefore advice is free and impartial Covers a wide range of financial matters	Advice is only available online or over the telephone – no physical presence Can take time to find and understand the exact advice that is being searched for Advice can be generic rather than personal
Debt counsellors	Advice is offered by a professional who specialises in debt management Services offered are regulated by the FCA and FOS	Services will be charged for Advice will focus just on debt management rather than the whole package of financial concerns
Individual Voluntary Arrangements (IVAs) bankruptcy	Helps manage debt repayment with regular payments making budgeting easier Independent advice, without bias	Set up and handling fees are charged for the service Will affect future credit ratings