Topic 7: Providers

Learning outcomes:

- Differentiate between different types of financial services provider; and
- Critically compare the communication methods used by financial services providers.

Types of providers:

- Banks
- Building Societies
- Credit Unions
- National Savings and Investment (NS&I)
- Post Office

Factors to consider when choosing a provider:

- How they wish to operate their accounts and communicate with their provider (such as by visiting a branch, via the internet or by mobile phone); and
- How safe their funds are (such as membership of the Financial Services Compensation Scheme, which is covered in detail in Topic 8).

Methods of communication:

- Branches
- Online Banking
- Telephone
- Mobile Banking
- Post

Key ideas:

Differences between banks, building societies, credit unions, NS&I and the
Post Office in terms of their:
– products;
– ownership;
– size;
– history; and
– trade associations.

- The different communication methods that providers offer:

– branch;
– online;
– telephone;
– mobile; and
– post.

- The advantages and disadvantages of each method.

Key questions:

Key terms:

AER	Annual equivalent rate is the interest that will be earned on the money in one year and takes into account how often the provider pays the interest (for example, monthly or annually), the effect of compounding the interest and any fees and charges.
Assets	Things that a person or a business owns. For a person their assets might include property, jewellery or financial products such as company shares.
Bonds	See savings bonds.
Cash card	A card used to withdraw cash from ATMs or branch counters.
Cash ISA	(individual savings account) An account that pays interest tax-free on cash savings up to a certain level.
Chancellor of the Exchequer	The British Cabinet minister responsible for financial and economic matters and in charge of the Treasury.
Cheque	A written instruction to the provider (eg the bank or building society) to pay a specified amount to a specified person or organisation. (The law relating to cheques is quite complex so this is a simplified explanation for the purpose of these study materials.)
Children's Bond	An investment bond taken out by a parent, legal guardian or (great) grandparent for a child under the age of 16. Investing between £25 and £3,000, the investor is guaranteed interest at a fixed rate for five years, after which the Bond matures. A nominated parent or guardian controls the Bond until the child reaches 16.
Common bond	An interest or circumstance shared by a group of people, for example working for the same employer or living in a certain area.
Communication channel	The medium through which information is transferred to its intended recipient, eg email, telephone. In financial services, it refers to the way a customer can contact their provider and manage their account. It is also referred to as a distribution channel
Credit card	A card that allows the holder to make purchases face to face, online or over the phone, and to withdraw cash from an ATM. Unlike a debit card, where the money is taken from the holder's own account, transactions are paid by the card provider. The card holder repays the amount owed to the provider either in one payment or in instalments. The provider charges interest on cash withdrawals from the time the withdrawal is made and on purchases after a certain period.
Credit union	A mutual organisation (that is, owned by its members) that provides a range of financial products to members, eg savings accounts and personal loans. Members of a credit union must share a common bond, eg all work for the same employer or all work in the same district.
Current account	Bank or building society accounts where people can store their money in the form of electronic balances and withdraw it to make payments.
Debit card	A card that can be used to withdraw cash, to make face-to-face transactions in, for example, shops, and to make payments online or over the phone.
Demutualisation	The process whereby a mutual organisation (eg building society) legally becomes a shareholder-owned joint stock company (eg a bank).
Direct debit	An electronic payment out of an account. The amount and frequency of a direct debit payment can vary.
Dividend	A payment of profits from a company to its shareholders, often at twice-yearly intervals, either as cash or (depending on the plan) as further shares or reacquisition of shares.
Financial ConductAuthority (FCA)	One of the two main regulators of financial services in the UK (the other is the Prudential Regulation Authority).
Financial Services Compensation Scheme	A compensation scheme that pays compensation to accountholders of up to a certain amount per provider if the provider goes into default (in other words cannot pay account holders the money they have in their accounts).
Insurance	Products that give financial protection against certain events. For example, someone who has travel insurance might be able to claim back the cost of a holiday if they have to cancel through illness.
Interest rate margin	The difference between the interest rate that a bank charges on borrowing products and the interest rate that it pays on savings.
Life assurance	A type of insurance policy that pays out a sum of money if the insured person dies.
Life cover	See life assurance.
Mortgage	A loan taken out to pay for a property, usually over a long term such as 25 years.

What are the advantages and disadvantages of each provider? What type of provider would suit an elderly person and why? Should they stay with their existing provider or buy a product from a different one? What types of negative news stories could lead to customers leaving a provider	**Mutual organisation**	An organisation owned by its customers, who are also its members, rather than by shareholders.
	NS&I	National Savings & Investments, a provider that is backed by the Treasury (the government department that manages the UK's finances).
	Overdraft (authorised and unauthorised)	A facility that allows an account holder to withdraw more money than they actually have in their account. An authorised overdraft is agreed with the bank in advance within certain limits. Exceeding those limits or going overdrawn without permission is an unauthorised overdraft, and attempted withdrawals may not be honoured.
	Personal loan	A product that allows someone to borrow a fixed amount over a fixed period at a fixed amount of interest.
	Premium Bond	A lottery bond, issued by NS&I, entered into a monthly prize draw with tax-free prizes or 'premiums'. Bonds must be held for a full calendar month after the month in which they were purchased, and retain an equal chance of winning until cashed in.
	Prudential Regulation Authority (PRA)	One of the two main regulators of financial services in the UK (the other is the Financial Conduct Authority).
	PLC (Public Limited Company)	A large company whose shares are sold and traded to the general public. The shareholders have limited liability, up to the value of their investment, for the company's debts.
	Rate of return	The amount a saver gains in interest on their savings. For instance an account paying 0.2% AER offers a lower rate of return than one paying 0.4% AER.
	Savings bonds	A savings product held for a fixed period, eg two years. The holder can only make a limited number of withdrawals, or none at all, during that period without incurring a penalty.
	Standing order	An electronic payment out of an account. Standing orders are used to make regular payments of the same amount.
	Stocks and shares	Stocks, shares and equities are all words used to describe an investment that gives the holder part ownership of a company. If the company's value increases, so does the value of your share; if its value falls, so does the value of your investment. Shares are bought and sold on stock exchanges.
	Travel insurance	A product providing coverage for unexpected events such as trip cancellation, medical expenses, travel delays and other losses incurred while travelling.
	Treasury	Her Majesty's (HM) Treasury, the government department responsible for development and implementation of financial and economic policy.