

Financial Services

Introduction to Financial Services

Financial Services is a growing industry, which provides for the financial needs of individual consumers and businesses. This unit explores the needs of and products available for both the consumers and businesses. The term financial service covers a wide range of products including accounts for depositing money, loans, savings and investments, pension and financial advice.

Financial Services for individual consumers are available from banks, building societies and also from organizations such as supermarkets and insurance companies, over the counter, by telephone or over the Internet.

Businesses have financial needs when they start up, expand and carry on day-to-day business activities. These needs include financing, insurance, bookkeeping, payment services, investment and general financial advice. A variety of financial institutions can provide these services banks, insurance and investment companies and firms of accountants.

In this assignment I will produce a report which analyses the financial needs of three different types of customers and investigate the ways in which these needs can be satisfied by a range of financial service providers. Two of the customers are personal customers of contrasting types. In this case I will be talking about a graduate from university and parents of two children. I will estimate their likely expenditure and income in the form of a personal budget.

In the 2nd task I will recommend how those needs can be met and from which type of financial institution (an assessment of the cost, returns, risks and benefits of the products).

To: Business Studies Department of S.G.M
From: Demet Gocer

Ref: 1122
Date: 02/11/04

Title: Analysis of financial needs of a graduate from university and a married couple both employed with children.

Terms of Reference

On Monday 7th September 2004, I was asked to write a report on financial services by the business studies department. This report is written by Demet Gocer, and is based on an analysis of two customers, and an estimate of their likely income and expenditure, in a form of a cash-flow forecast, and an assessment of their financial needs, I also need to identify the financial service needs of a business, and explaining how the size of an organization can be a significant factor. The final part of the report will include how the advances of technology has affected the level of customer service provided to all three customers by the financial service providers, and I also need to explain how the financial service providers chosen in the report are regulated under current legislations. This report is due back on the 10th December 2004.

Financial service providers

Below are some of the financial providers

- ✓ Investment companies
- ✓ Insurance companies
- ✓ Government

I will talk briefly about each one and explain the benefits and the disadvantages of each.

Investment companies

Investment companies provide people with wide range of product types, to meet their certain needs.

People that have money to invest should know clearly what they want to do, achieve for example:

- ✓ Capital growth
- ✓ Income
- ✓ Or both

The investment company they prefer should help them meet this objective, bearing in mind a number of other factors such as the person's risk profile, the amount that can be invested and how long for.

Insurance companies

Insurance companies provide policies, designed to pay out if some particular event happens. They offer products aimed at satisfying our needs for protection.

People may want to ensure against:

- ✓ Damage to your house through fire
- ✓ Breakage or loss of your possessions
- ✓ Death of the main family earner

Insurers charge a premium for the policies their customers take out, which is effectively the price the customer pays for the protection he has obtained. Some premiums are one off amount (single premium policies) but are paid for on an ongoing basis.

The government

The government is one of the most important providers, for many people. However it doesn't fit precisely into the category of commercial financial provider. In many ways it is complementary to the commercial sector-it fills in the gaps that banks, building societies, insurers etc doesn't fill

Procedure

In this assignment I have used several sources of information; I have collected leaflets on loans, overdrafts insurances from different banks, and compared them in order to provide my customers with the best possible advice. I have also visited the Tesco's website and other websites that are relevant, to find out more information on benefits risks, and costs. Another way I managed to get hold of information is through the library books.

Task 1; Analysis of two personal customer's income & expenditure in the form of a personal budget and an assessment of their financial needs

1st customer

Graduate from university

The first person I will be talking about is a graduate from Brunel University that has studied Business Management. Martin lives on his own, pays 350.00 pounds rent every month, the water rates are included in this price. He occasionally goes to visit his parents during weekends.

At the moment Martin doesn't have a car, so he uses London Transport, and spends up to £50.00 every month as he buys a weekly travel card, he prefers to buy a travel card as he goes out during weekends too.

Martin had been given a student loan when he was at university and as he has managed to get a full-time job at a bank starting 1st October 2004, he will have to pay back 270.83 pounds every month, he is going to get paid £450 a week. He currently holds a current account with Barclays and has £650 in his account.

<u>Income</u>	
✓ Balance at Bank	£650.00
✓ Salary	£5,400 a year
<u>Expenditure</u>	
✓ Sheltered Housing	£350.00 a month
(Including water rates)	
✓ Household Insurance	£30.00 year
✓ Power	
✓ Gas	£60.00 every 3 months
✓ Electricity	£75.00 every 3 months
✓ Council Tax	£600.00 a year
✓ Repayment of student Loan	£270.83 a month
✓ Transport	£50.00 a month
✓ Entertainment	£120.00 a month
✓ Emergencies	£100.00 a month
✓ Personal use	£40.00 a month

Martin is also considering to buy a new car, and as this is a very expensive asset, he will not be able to afford it in the short term he will need to take out a loan from a bank, and pay back within a certain amount of time but obviously with an interest. I will be talking about this in more detail later on in this task.

According to the cash flow forecast Martin will not have any financial needs during the year, as he is working and as he lives on his own, but as he is considering to buy a car, I would advise him to take out the loan in April as it is the middle of the year, where he would have put some money aside, for himself, therefore he will never have financial difficulties.

I have also researched a family's income and expenditure on a yearly basis. Mr. and Mrs. Reynolds have been married for over 15 years, and are both employed in different business sectors.

Mr. Reynolds is an accountant and works full time for a well-known Accounting firm, and Mrs. Reynolds is a nursery teacher. They currently hold a Current Account at Barclays and have £1,700 in their bank account.

<u>Income</u>	
Mrs. Reynolds	Mr. Reynolds
£1,800 monthly £33,000	£2,750 = monthly
<u>Expenditure</u>	
✓ Housing	£6,000 a year/£500.00 a month
✓ Insurance	£60 a year
✓ Power	
Gas	£70 a quarter
Electricity	£80 a quarter
✓ Council Tax	£1,400 a year £116.000 a month
✓ Petrol	£35.00
✓ Insurance of car	£400 a year
✓ Repairs	£250.00 a year
✓ Road Tax	£190.00 a year
✓ Emergencies	£70.00
✓ Entertainment	£100.00
✓ Shopping	£120.00
✓ Children's Expenses	£240.00 a month
✓ Clothing	£250.00 a month
✓ Babysitters	£80.00

As stated above Mr. and Mrs. Reynolds are both employed, but they are planning to buy new furniture and redecorate the house, which is going to need a large sum of money, which at the moment they cannot afford so they are likely to take out a loan from the bank, later on in this task I will be giving them alternative choices on taking out a loan from different banks, and which one is less risky and easy to pay back.

An assessment of their financial needs:

Martin and the Reynolds

Firstly I believe they should identify their financial needs, and avoid wasting time pursuing occupations that cant meet their bottom line financial needs, they can also try to cut down on non-essential expenses such as entertainment, but continue to put aside a little money for fun, and also try to postpone expenses whenever possible especially major purchases such as buying a brand new car, do take care of all the critical needs such as illness and car repairs, and finally don't

use their credit cards, take out a loan instead, but only they are sure that they will pay it off immediately.

Both Martin Cox and the Reynolds family have financial service needs, but one that is pretty obvious is most probably Banks, because they all hold bank accounts for several reasons:

- ✓ To keep their money safe
 - ✓ Easier method these days to pay off bills
- And many more benefits.

“Living within our means” is a goal we all should strive to achieve. It’s absolutely vital when you’re between jobs and don’t have much savings to tide you over. It means spending only what you have and saving up to buy items that you can’t currently afford. It means relying on loans only to pay large ticket items, such as a house or a car like Martin, or the Reynolds family that want to redecorate the house. This means paying credit cards in full each month. They both need to take out a loan in order to buy a new car and to redecorate the house, later on in this chapter I will be making recommendations on how these needs can be met and from which financial institution.

There are various types and sources of finance that these customers can use. The banks are the largest providers of finance to all types of businesses. Forms of lending vary from bank to bank, and there are various schemes and procedures when they have to be paid back. A bank will be able to arrange:

- ✓ Overdrafts
- ✓ Factoring services
- ✓ Short and medium term loans
- ✓ Leasing for equipment purchase and hire purchase
- ✓ Commercial mortgages
- ✓ Venture capital

Financial advisers

Financial advisers are able to recommend products from a variety of providers, If Martin and the Reynolds get financial help they will have more advantage in gaining information to manage their finance. Perhaps the financial adviser would recommend banks etc, with really low interest rates, so they can pay less interest on the money they borrowed, so they will be saving a lot of money. Without financial advice they can make wrong decisions and loose a lot of money.

A recommendation of how these needs can be met

Advice for Martin

Looking at the budget sheet for Martin, I would say he needs the following financial services providers:

- ✓ Banks
- ✓ Loans

Banks

He needs banks as he pays for all his bills through the bank, and he gets paid his wages into his bank account. But I would advise him to put some money aside just in case, because you'll never be able to predict what's going to happen in the future, so the money he's put aside will be a guarantee for him. In order for him to do this he can open a savings account, as he's already working with Barclays and he's pretty happy, I reckon he should stick to it.

Loans

Loan is a sum of money usually borrowed for a specific reason (to obtain an education, buy a car etc.). The entity lending the money (i.e., a bank) usually charges interest for the use of the money. The amount of money borrowed is typically repaid with interest over a period of time.

Banks lend thousands of million pounds each year to its customers.

Customers finance everything from automobiles to new homes. Loans interest rates are reviewed monthly to ensure they are competitively priced. The interest rates of many loans may be discounted by one and a half percent, if customers have direct deposit and automatic payments on their loans certain banks charge more interest rates than others which means that you will have to pay more in return.

Banks usually set their own interest rates at a set percentage.

Another option that the customers can use are Overdrafts, this is a short term borrowing on a bank current account It is relatively cheap, because interest is only paid on what you borrow, but you are likely to pay an agreement fee when a overdraft is set up.

I personally would advise Martin to go and get advice about overdrafts, if one day he runs out of cash, and there is no way he can find money from elsewhere, he can take out the overdraft and pay back once he gets money.

Martin is financially secure at the moment, I wouldn't really advise him to take out a loan to buy a car just yet, because he may have difficulties when he does apply for one, as he doesn't have any property on his name such as a house. The

banks prefer to give out loans to the people they are sure of. I think he should collect some money and consider taking out a loan in the long term.

Below is a table showing the companies that provide loans, I will advise him to take out a loan from Tesco because it has the lowest APR of 6.9%.

Lender	APR	60 monthly repayments of	Total amount to be paid	Savings over 60 months
TESCO	6.9%	£149.21	£8,952.60	-
MBNA	7.9%	£150.74	£9,044.40	£91.80
Egg	7.9%	£150.87	£9,052.20	£99.60
Norwich Union	7.2%	£153.32	£9,199.20	£246.60
Co-op	8.9%	£154.03	£9,241.80	£289.20
Barclays Bank	9.9%	£157.93	£9,475.80	£523.20
HSBC	11.9%	£164.19	£9,851.40	£898.80

Risks

Local banks have been urged to take "reasonable risks" in vetting loan applications from small- and medium-sized enterprises, especially for business ventures in new areas and technology. Borrowing Loans carry risks, before taking out a loan he should get financial advice and ask himself these questions:

- Are these long term loans? What are they for?
- How can I measure my risk level?

As Martín is on a fixed income and is pretty sure that his income may not rise in the future then loans will probably bear a much greater risk for him. He should consult a financial advisor who is aware of his unique situation before entering into any agreement with a lender. He should never rely on the sole words of a loan officer.

Returns

By taking out his loan he does not get any returns.

Benefits

Fast Approvals When you need money, you need it now. Unlike most lenders, Tesco will approve Martín's loan within just few days, with loan proceeds available to him within a week after approval. Nothing compared to the several weeks, if not months, normally associated with obtaining a loan from the most qualified lenders.

Easy Application Process Unlike the tremendous amount of paperwork that lenders traditionally require, all they ask you do is complete a one-page financing application to get started.

Unrestricted Use of Loan Proceeds Tesco's clients have complete freedom to use their loan funds however they desire. Most lenders traditionally will require you to submit a specific plan for how you plan to use your loan proceeds and often at times require progress reports before the release all of the funds.

Save Time Tesco's service will save him a tremendous amount of time. Martín will have the freedom to continue with your daily affairs, with very little interruption, while we handle most of the tedious time consuming work

Complete Confidentiality It's never anyone's business, but his own, when he is borrowing money. With Tesco's service he can handle almost everything from the privacy of his home or office. They will always keep his loan request and personal information strictly confidential.

Better Interest Rates Due to their consistent monitoring of today's most active lenders, Martín can have confidence that his loan interest rate will be the best available for his credit situation.

Reasons for taking out a Tesco Loan

- Typical rate of 6.9% APR!
- Take a two month repayment break at the start of your loan:
 - By taking a payment break you will make no repayments for 3 full months from the date that funds are issued.
 - If you're using the loan to pay off existing borrowings, just think what you could do with the spare money!
- You can borrow from £3,000 up to £25,000.
- No set up fees.
- Transfer balances from other cards and loans too.
- Fixed interest rates so your repayments will never change.
- Pay your loan back on the day of your choice and over a timescale that suits you.
- Added peace of mind with the option of payment protection insurance
- 99% of our customers would recommend us Tesco.
- All it takes is a few minutes of your time to apply.
- An award winning loan provider!

Costs

- Cancellation fee. If you pay choose to cancel the loan, you may be required to pay this fee.
- If you do not pay on time, extra interest may be added

Advice for the Reynolds Family

By looking at the information on the Reynolds family I would say their financial service providers are:

- ✓ Banks
- ✓ Insurance companies
- ✓ Loan

Savings Account

They need banks, to pay electric, gas, water bills etc, their wages gets paid in their account. Also an account is somewhere to store the loan they are going to get. I would also recommend a savings account because they never know what is going to happen tomorrow, make sure they have money safe in hand when they need it. They get a return by having a savings account because the bank puts in up to 13p a month, depending on the amount of money you already have.

I recommend Barclays to my customer because it has a low rate of interest if he/she needs to borrow money and it has a high rate of return if he wants to leave money in the bank.

Insurance

If you drive a car, you must have insurance, but why should the Reynolds family pay more for it than they have to. According to my research at Halifax Car insurance they are committed to providing cover at the lowest possible prices. And Halifax's customers receive a 10% discount, making their prices even lower and customer's savings greater.

Their insurance and benefits include:

- ✓ A free courtesy car while they repair the customers at one of their recommended repairers
- ✓ 5 year guarantee on repairs carried out by recommended repairers
- ✓ personal accident cover up to 5,000 pounds
- ✓ unlimited windscreen repair or replacement by a specialist
- ✓ 24 hour emergency helpline

I would recommend the Halifax car insurance to the Reynolds family, as they get good value for money.

Loans

The Reynolds family want to take out a loan in order to buy new furniture, I personally would recommend Barclays, as they are already working with them, it will be an easier applying process, as the bank already has a profile of their customers including the Reynolds.

You will be amazed at how quick and easy it is to arrange a loan at Barclays, if they apply within their branch they can get a reply within minutes, which means they don't need to wait for the bank to make a decision on providing the loan etc. By going to the branch you could also get financial advice, by talking to a personal banker, which is my advice to them. Depending on how reliable the Reynolds family are, the bank will charge them interest rates.

