# Financial Services for Individuals

# Unit 2

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I have been recruited as a Financial Advisor at Canada Life as a School leaver trainee. I will be placed on a comprehensive training campaign but before this begins my new boss, Mr Carter, wishes to ascertain my current financial acumen.

**Task 1**

Mr Carter has requested that I research the financial needs of potential and current Canada Life customers based on their stage in life. I have been given seven generic stages life stages.

**Table 1**

| | **Financial Needs** | **Appetite to Risk** |
|---|---|---|
| School age/ youth (-16) | People at this life stage have limited needs. A Savings account would be enough, since they do not have much money to invest or spend. A cash card would do this. Their money may come from a paper-round job. Also, they may have savings from grandparents etc. This can then be used in a premium bond or a national saving bond. Most financial institutions are unavailable to people in this age group as they cannot be held accountable for any contract by law since they are under 18, so financial institutions may be unwilling to give credit to people in this age group as they is a high risk of them not paying back their money. | There is a low risk because they are not yet mature enough to think of saving for the future, and since they have limited needs, they would not want to risk the little income they have. |
| Teenagers and students (17-22) | Slightly more diverse than the -16 category. They might be earning money and have a current account; this would enable them to have overdrafts and credit cards as they have expenses, such as telephone bills, which need to be paid on a regular basis. Savings account, Direct debits, which would enable them to automatically pay their bills. They might borrow money i.e. a student loan for university or for living expenses. Some people in this age group work; it is common to be a part-time job because they are students. | The appetite to risk here is medium because someone may have inherited a large amount of money and may want to spend it. At this stage majority they have no intention of investing as they have little money and the fact that they have focused their mind into their education. |

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| | This limits the amount of money they have and they find themselves often short of money. An overdraft would be used during times they are short of money. | |
| Post education pre-families (23-30) | Have greater financial needs than students. They will borrow and save. May have a mortgage, current account, credit cards, debit cards, loans, a bank overdraft, paying off student loans and a current account. Also, they could have an endowment, ISASs, shares/bonds and net saving. They need credit cards and debit cards as they may need to buy goods from stores and credit cards would enable them to obtain credit. Loans may be taken out to fund any endeavour such as starting a business or buying a car or to pay off mortgage. | At this stage of life the appetite to risk is quite high. This is because if they have a sum of money they will invest into, whereas if they lose the money they can recover the losses over the years with their income or salary. |
| Young families (30-40) | They would have the same needs as the 23-30 category but more assorted. They could have a Pension, Life Insurance, and Savings for children and derivative products – significant risk reward and Hedge fund. They may also have mortgages to pay and endowments; non-profit endowments and unit linked endowments to pay off mortgage. | The risk appetite here is medium. They may have investments, but will have more savings as they may have a newborn on the way and the requirements will be expensive. So they will be saving for future expenses. They may be still paying mortgages, loans, debts etc. |
| Established families (40-50) | The financial needs of an established family are similar to a young family. The variation is that it is not likely for this age group to pay into an endowment fund (although they may have done so earlier in their life). The reason may be because they have paid off their mortgage. | At this stage of life the appetite of risk will be low. This may be because they now have a family to support and losing the money they have may mean a shortage of income. |
| Mature households (50-60) | They have limited needs. They will have much insurance such as protection in the event of death and also they will have pensions. They have extra money saved, as they may not have any investments in property, no debts and no other members of family. | Here the appetite to risk will be very low as they will be now thinking of retiring fairly soon. They may have grandchildren now. |
| Retired pensioners (60+) | People at this life stage are no longer working but still require an income for day-to-day expenses, by having a pension. | Here the appetite to risk will be very low, as they have retired. They may have grandchildren now and may not want to invest their savings with a risk of losing it. |

**Task 2**

I have just finished my first week of training at Canada Life. It is clear that the pressure is on to sell products to customers, but it is also clear that the product must be suitable. As a task I have been requested to select what services/ products would be considered appropriate to the likely financial needs of a customer at a given life stage by completing the table below:

| | School age/ youth (-16) | Teenagers and students (17-22) | Post education pre-families (23-30) | Young families (30-40) | Established families (40-50) | Mature households (50-60) | Retired pensioners (60+) |
|---|---|---|---|---|---|---|---|
| **Retail Banking** | | | | | | | |
| Current Account | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Overdraft | | ✓ | ✓ | ✓ | ✓ | | |
| Secured Loan | | | | ✓ | ✓ | | |
| Unsecured loan | | ✓ | ✓ | | | | |
| Credit Cards | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| **Savings and Investment** | | | | | | | |
| Non-profit endowments | | | | ✓ | ✓ | | |
| Unit linked endowments | | | | ✓ | ✓ | | |

| | **School age/ youth (-16)** | **Teenagers and students (17-22)** | **Post education pre-families (23-30)** | **Young families (30-40)** | **Established families (40-50)** | **Mature households (50-60)** | **Retired pensioners (60+)** |
|---|---|---|---|---|---|---|---|
| **National Savings Products** | | | | | | | |
| Gilt-edges securities | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| PEPS/ISA | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| TESSA | | | ✓ | ✓ | ✓ | | ✓ |
| Shares | | | ✓ | ✓ | ✓ | ✓ | |
| Unit Trusts | | | | ✓ | ✓ | ✓ | |
| Derivatives | | | ✓ | | ✓ | | |
| **Other Financial Services** | | | | | | | |
| Insurance | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Life Assurance | | | | ✓ | ✓ | ✓ | ✓ |
| Pensions | | | ✓ | ✓ | ✓ | ✓ | |
| Mortgages | | | | ✓ | ✓ | | |

## Task 3

The Canada Life trainer has been impressed with my previous work. He has now asked me to produce a brief report, using the table format below, to explain the features of the product and justify the suitability of the product for a given age group.

| | **Key Features of Product** | **Justification of suitability of product (based on Task 2 answers)** |
|---|---|---|
| Current Account | Current accounts have some or all of the following features to help you manage your day-to-day transactions:<br>➢ Cash (ATM) card - lets you get cash from your account through cash machines, at your bank or building society branch and by using cash-back facilities at supermarket tills<br>➢ Cheque book - lets you make a payment from your account to someone else<br>➢ Cheque guarantee card - makes cheques up to the guarantee limit widely accepted because the person you're paying gets their money whether or not you have enough in your account<br>➢ Debit card - this works like an electronic cheque. When you pay by debit card, the money is automatically taken from your account<br>➢ BACS payments - people who are paying you (for example, your employer) can transfer money direct into your account<br>➢ Direct debits - payments made on a regular basis (for example, for your gas and electricity) can be taken directly from your account each month<br>➢ Standing orders - you can arrange for a payment to someone to be made direct from your account on a regular basis (for example, an allowance to a student son or daughter). | Would be apt for all people at different life stages except the under 16 category. Suitable for people with regular incomes which needs to go into a safe place and people who have to make regular payments such as bills because they can use the direct debit or standing order facility available with the current account. Suitable for people who may prefer to pay by cheque as it eliminates the need to carry large sums of money. A cheque guarantee card would mean most businesses would be willing to accept the cheque. |
| Overdraft | An overdraft is an agreed amount by which your bank account can be overdrawn. Generally you will be charged a set fee for the provision | This feature won't be suitable for everyone. I think this will be suitable for people in the life stages between 23-50. People under the life stage may |

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| | of an overdraft facility. This fee is often calculated as a fairly high percentage of the total value of the overdraft. An overdraft is a cheaper form of borrowing than the credit options that major credit-card companies offer. If there is a prior agreement with the account provider for an overdraft facility, and the amount overdrawn is within this authorised overdraft, then interest is normally charged at the agreed rate. If the balance exceeds the agreed facility then fees may be charged and higher interest rate might apply. | not be able to repay the overdraft as they may have student's loans to pay off. People over that age might have a low amount of money and may be living off their pensions and therefore don't want to incur interest cost associated with overdraft. |
| Secured Loan | A secured loan is a loan in which the borrower pledges some asset (e.g. a car) as collateral for the loan. The loan is thus secured against the collateral — in the event that the borrower defaults, the lender takes possession of the asset used as collateral and may sell it to regain the amount originally lent to the borrower. As the loan is secured, the lender is relieved of most of the financial risks involved; he may thus offer attractive terms for the borrower on interest rates and repayment period. A mortgage loan is a secured loan in which the collateral is property, such as a home. Auto loans and home mortgages are examples of secured loans. Educational loans are generally not secured. | This option would be useful for people in the 30-40 age group as it means they are able to buy property with a mortgage. People at this life stage would be looking to settle down and buy a permanent home. This would provide them with security. Established families may also take out a secured loan if they are in debt with various credit card companies and would prefer to consolidate their debts. This would reduce their interest payments, as they would pay of the credit card companies that have a higher rate of interest and concentrate on paying the secured loan, which has a lower rate of interest. |
| Unsecured loan | An unsecured loan is not backed by collateral, and hence represents greater risk to the lender. The lender may require a co-signer on the loan to reduce their risk. If you default on the loan, the co-signer will be held responsible for repayment. Most educational loans are unsecured loans. In the case of federal student loans, the federal government guarantees repayment of the loans. Other examples of unsecured loans include credit card charges and personal lines of credit. | These would be suitable for teenagers and students (17-22), as they have no property to offer as collateral. They would need it to pay for tuition fees and living expenses while they are still students. For example, people In the post education pre-family stage would need this would need to pay debts from their student years and they may need to get a loan, as they may need to buy a car or furnish their homes. This product is suitable for the people in these life stages, as it does not require to be secured against any property, which people at this stage do not have. |
| Credit Cards | A credit card system is a type of retail transaction settlement and credit system. A credit card is different from a debit card in that the | This is suitable for all people with a regular income. It is a way of borrowing money and paying it back over monthly payments. Credit cards can be used |

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| | credit card issuer lends the consumer money rather than having the money removed from an account. It is also different from a charge card in that charge cards require that the balance be paid in full each month. In contrast, a credit card allows the consumer to 'revolve' their balance, at the cost of having interest charged. Credit cards are good for: convenience, cheap short-term way to borrow and a period of interest free credit. | to make purchases in stores and to make payments to companies such as utility companies. People from 18 year olds to people who are about 60 would be most likely to use credit cards. It enables people to spend money although they do not have the cash to immediately pay for it. It is suitable as people between these ages may meet unexpected expenses, such as bereavement. It is also an alternative to carrying cash, which would be preferable for teenagers and students as it provides security as a credit card can be insured against unauthorised transactions. |
| **Savings and Investment** | | |
| Non-profit endowments | With a non-profit endowment, in return for monthly premiums, a guaranteed sum is paid to the policyholder when the policy matures or upon the death of the policyholder, whichever occurs first. | Young families and established families would prefer this option because it offers a guaranteed sum at end of policy regardless of the non-profits phase. This would appeal to young families, as they would know that their children would be financially secure if they were to die as the full sum is paid upon death. Established and mature households would consider getting this as it could be used to pay off a mortgage when the policy matures. This would guarantee a debt-free retirement. Mature households would also consider this option as it would provide a lump sum when they retire, and with it financial independence during their retirement years. |
| Unit linked endowments | A Unit Linked Endowment Policy is more appealing to investors and offers a wide range of different fund options. The policy premiums are invested in "units".<br><br>There is no bonus allocation or guaranteed sum and the investment growth depends on the performance of the fund. As the unit price will change according to the fund performance, so will the value of the endowment policy. | This would appeal to young families as they provide life assurance, meaning that in the event of death, a lump sum is paid. This would ensure the financial security for their children. There is also the possibility for making a profit if the fund invests in the correct shares. Established families would also favour because while it is higher risk than non-profit endowments, it has the possibility of earning the policy holder tax-free returns. |
| National Savings Products | The range of products is accessible directly from National Savings and Investments, from Post Offices or through Financial Advisers. National Savings Products are of a low risk nature, some of which are | It will be suitable for people under the age of 16 because it is risk-free and they would not want to risk their little income they have on a high-risk scheme. Pensioners may also be suited by this because they will not invest |

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| | tax-free. | their money in a high risk scheme such as shares because they may save their retirement money for their grandchildren etc. so investing in a National Savings Products they may receive interest as well as there initial invested money on top. |
| Gilt-edges securities | Stocks and shares issued and guaranteed by the British government to raise funds and traded on the Stock Exchange. A relatively risk-free investment, gilts bear fixed interest and are usually redeemable on a specified date. A guilt could also be a bond issued by a Blue Chip Company. Gilts can be short 0-7 years, medium 7-15 years and long, 15 or more years | This would appeal to people in at all life stages except students and school age youth, as they probably do not have the money to invest for the period of time required. They are attractive because they have a guaranteed interest rate, and payment is guaranteed upon maturity as governments, who can decide to print more money if necessary to pay the debt, mainly issue them. Blue chip companies also issue them, so the chances of them failing to meet their obligations are slim. This is risk free with larger investments over a longer period of time. |
| PEPS/ISA | Individual Savings Account (ISA) – is a way of saving or investing, tax-efficiently accrue capital gains. You can save in cash or invest in stocks and shares (equities) or a combination of both. Under the Government's ISA scheme there are two kinds of ISAs: Mini and Maxi ISAs.<br>A maxi ISA allows you to invest your full allowance with one company and get the full benefit of a stock market based investment.<br>A mini ISA allows you to split your £7,000 allowance between two different investment companies in the following ways: Mini ISA = £4,000 Mini Stocks and Shares ISA, £3,000 Mini Cash ISA. | This will only be suitable for people over the age of 23. This will be suitable for them because it doesn't carry that much risk that a normal shares. With ISA's who can invest money, which pays out more interest that a normal savings account offers and shares can be bought using the money in the ISA. |
| TESSA | A government backed scheme introduced in 1991, where a special savings plan held by an approved institution (usually a bank or building society) will generate interest, free of income tax. TESSAs were designed to provide some tax shelter for relatively modest savings. There are a number of conditions relating to TESSAs, which include a maximum annual investment and minimum holding period. | TESSAs were designed to provide some tax shelter for relatively modest savings. There are a number of conditions relating to TESSAs, which include a maximum annual investment and minimum holding period. However they have now been replaced by ISA's. However if this were available, I would say that it would be apt for people in the stage of 23-60 in their life. |
| Shares | Shares are small stakes in a company. When you buy shares you | Shares are high-risk investments. They would appeal to people with an |

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| | become a joint-owner of the company along with all the other shareholders.<br>You can buy either:<br>New shares when a company first sells them to raise money to invest in its business; or<br>Existing shares, which are traded on a stock market.<br><br>Although there is the risk that shares can go down in value, people invest in shares because there is also the possibility that they can make money through growth in the capital they have invested and through being paid dividends on their shares. | appetite for risk. They would particularly appeal to people in the "post-education pre-family", "young families" and "established families" life stages as they have a risk for appetite and there is potential for huge returns if share price of shares held increases. Shares bought for a low price can be sold for a higher price, making the seller a profit. People at these life stages are generally trying to make as much money as possible and shares are a good way of making money. Though, there is a huge risk of losing everything. |
| Unit Trusts | A unit trust is an investment fund shared by lots of different investors. It is an 'open-ended fund' which means the fund gets bigger as more people invest and gets smaller as people withdraw their money. A fund manager who makes the investment decisions runs the fund. | Young families and established families would prefer this option because it is low risk and a guaranteed sum is paid. This would appeal to young families, as they would know that their children would be financially secure if they were to die as the full sum is paid upon death. Established and mature households would consider getting this as it could be used to pay off a mortgage when the policy matures. This would guarantee a debt-free retirement. Mature households would also consider this option as it would provide a lump sum when they retire, and with it financial independence during their retirement years. |

| | Key Features of Product | Justification of suitability of product (based on Task 2 answers) |
|---|---|---|
| Derivatives | Financial instruments or contracts, which are valued, based on (derived from) the value of other financial instruments. This is a financial *Risk Financing* strategy. These financial instruments can be highly *Leveraged* and therefore highly *Volatile*. A common form of derivative is a foreign currency hedge contract to finance overseas trade: the purchase of an option to buy or sell a foreign currency at a certain date for a certain price. This *Hedging* example reduces the risk of future price fluctuations by trading an uncertain price in the future for a certain (guaranteed) price now, for a fee. | This is very similar to shares as they both are high-risk investments. They would appeal to people with an appetite for risk. They would particularly appeal to people in the "post-education pre-family", "young families" and "established families" life stages as they have a risk for appetite because they like to grasp the fact that there is a high reward at the end. However, the downside is that there is a likelihood of losing all their money invested in a derivative. |
| Insurance | Insurance helps to protect you against unpredictable risks. Promise of reimbursement in the case of loss; paid to people or companies so concerned about hazards that they have made prepayments to an insurance company. These are all types of general insurance i.e. they only pay out when an insured event occurs:<br>➢ Motor insurance<br>➢ House contents insurance<br>➢ House buildings insurance<br>➢ Travel insurance<br>➢ Payment Protection Insurance sometimes referred to as Accident, sickness and unemployment (ASU) insurance.<br>➢ Mortgage payment protection insurance<br>➢ Other creditor insurance<br>➢ Private medical insurance<br>➢ Income protection insurance<br>➢ Critical illness cover<br>➢ Long-term care insurance | Your age has quite a bit to do with your car insurance premium. Teenagers and less experienced drivers are likely to have higher rates, even if they have not been in an accident. Most policies give a reduction at 21 years of age, or with 5 years experience. A further reduction can be expected at around 24 or 25. Married men, however, also receive a reduction. The reasoning is that married men think more about their responsibility to their families. Families would take out House insurance when they start owning a house. Travel insurance will appeal to anyone who is travelling, in case if there is an accident in their holiday they will have insurance. Payment protection insurance will be apt to the category over 16+ and under the 60 category, because that is the lifetime where they will start working. Mortgage payment protection insurance will be suitable for people who have a mortgage to pay off - likely the category of 21-50. Critical illness cover will be suitable for the pensioners because they may die any time, and the insurance may help support the family once they die. |
| Life Assurance | Investment-type life insurance pays out if you die and if you don't (with the exception of whole life insurance) - and may sound ideal. But investment- | This will only be suitable for people over the age of 40. Under some circumstances younger people may take out life assurance. But nobody |

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| | type policies cost a lot more than protection-only insurance. Usually, it's best to keep your insurance and investment needs separate. | under the age of 30 will take out a life assurance scheme. This will be a waste of money, which they can spend elsewhere. I think that it will only be suitable for the specific age groups because they may be coming towards their and may have a family to look out for once they are dead. |
| Pensions | A pension is a retirement plan intended to provide a person with a secure income for life. Although a lottery may provide a pension, the common use of the term is to describe the payments a person receives upon retirement. | I think that only people over the age of 23 should be sorting out a pension scheme. After the age of 50 they should make that they have a paying scheme set up. If they don't they may not have a source of income when they are in their 60's and above. |
| Mortgages | A 'mortgage' is a loan secured against your home. 'Secured' means that if you do not keep up the payments, the lender can sell your home to get its money back. | This will only be suitable for people who are buying a house. The only people that I will say that a mortgage will be suitable for are people in the life stage between23-50. The reason for this is that younger people may not have the money and for older people bank may not trust them as most mortgages are set for 25 years and may end up paying high interests on their mortgage. |

**Task 4**

I have finished my training and Mr Carter wants to give me one more written test to understand what I have learnt from my training and to determine what customers he will let me advise. To this end I have been given seven possible customers to advise and suggest an integrated financial service package to. The Characteristics of these seven customers are as follows:

| Customer Name | Age | Personal Characteristics | Financial Characteristics |
|---|---|---|---|
| Paul Clarke | 15 | Currently a year 11 pupil in a comprehensive school.<br>Has a paper round which supports small weekly expenditure.<br>Wants to go to University and become a Dentist.<br>Has no understanding of finance. | Has an inheritance of £25,000 from a deceased Uncle.<br>Does not have any other savings or financial accounts. |
| Ifter Ali | 21 | Last year of University (4 months remaining), studying Business Studies.<br>He would like to own property as soon as possible.<br>He currently lives at home with his mother.<br>Has limited understanding of finance. | Has a student loan of £13,000, an overdraft of £1,000.<br>Has been accepted onto the Pricewaterhouse graduate trainee programme on a starting salary of £25,000. |
| Mariya Begum | 26 | Educated to A' level.<br>Worked in the Social Care Unit of Tower Hamlets for 4 years.<br>Wants to travel the world for 6 months and go to the Hajj in Saudi Arabia.<br>Would like to own property as soon as possible.<br>Rents accommodation with a friend.<br>Wants to get married before her thirties and pay for wedding herself.<br>Has no understanding of finance. | Earns £27,500 per annum.<br>Savings of £6,000 in high interest account.<br>£3,000 cash ISA.<br>Has student loan debt of £1,500.<br>Owes £4,500 on a car to a finance company paying in excess of 20% APR. |

| Customer Name | Age | Personal Characteristics | Financial Characteristics |
|---|---|---|---|
| David Vaz | 34 | Educated to A' level.<br>He owns and runs his own plumbing business and employs one-person full time and another on a part time basis.<br>Married for 6 years.<br>Two daughters (aged 6 years and 6 months).<br>Wants to have enough money to pay for daughters wedding.<br>Does not believe in stocks and shares due a lack of understanding.<br>Would like to have a property abroad for retirement.<br>Owns a property with a mortgage. | His company has revenue of approximately £100,000 per annum.<br>Has a floating rate mortgage of £150,000.<br>Property value of £280,000.<br>Wife does not work.<br>He has no life assurance.<br>Has savings in a low interest account of £5,000.<br>£5,000 in premium bonds but rarely wins.<br>A credit card debt of £1,000.<br>Has no pension provision. |
| Dirk van Locke | 43 | Head of Currency Trading at CSFB.<br>Divorced with two children.<br>One child is 19 and just started university<br>The other child goes to private school and is in year 9.<br>Lives in rented accommodation in Chelsea.<br>Wants to retire in 3 or 4 years time and live in Spain.<br>Extremely busy individual and although he works in finance claims he does not have time to arrange own affairs.<br>Does not own a property. | Earns a basic of £120,000 per annum and a discretionary bonus.<br>Recent divorce was hugely expensive; he gave his house and half his savings to his wife.<br>His savings now amount to £750,000; half is invested in shares, which are showing a 10% paper loss the other half are in accounts which are not tax efficient nor offer a high interest account.<br>He lives a lavish life style and does not put any money aside each month. |

| Customer Name | Age | Personal Characteristics | Financial Characteristics |
|---|---|---|---|
| Mr and Mrs Ali | 58 & 54 | Mr Ali works as a Teacher in a local comprehensive school.<br>Mrs Ali works part time as a learning assistant in the same school.<br>Both are looking to retire at 62.<br>Has a property with small mortgage. | Mr Ali earns £35,000 per annum. Mrs Ali earns £6,000 per annum. Mr Ali has a final salary pension scheme through his work. Mrs Ali does not have a pension plan and will rely on the state pension.<br>They have combined savings of £20,000.<br>Has a repayment mortgage of £30,000 and a property value of £120,000. |
| Chris Outen | 67 | Retired painter and decorator.<br>Is partially sighted.<br>Lives in council accommodation. | Has savings of £30,000.<br>Wants to leave the majority of this to his three grand children. |