

Financial Services

Introduction to Financial Services

1.0 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 Ref: 1122
From: Demet Gocer Date: 02/11/04

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

1.0 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.

1.2 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, baring in mind a number of other factors such as the persons 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 a complementary to the commercial sector-it fills in the gaps that banks, building societies, insurers etc doesn't fill

1.3 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 (Including water rates)	£350.00 a month
✓ 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.

1.4I 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.

2.0

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 can't 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.

2.1A 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 advice 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

2.3 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 Martin 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 Martins 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. Tescos 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. Tescos service will save him a tremendous amount of time. Martin 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 Tescos 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, martin 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.
- We're an award winning loan provider!

For a loan of **£15000**
repayable over **3** years,

APR 6.9 %

The total amount repayable is £19259

**Your monthly
repayments:**

£534.98

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

2.4 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 2 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 a 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.

Task3

3.0 The business organisation I have chosen to write about is Tesco, as well as it being a large organisation, it has many employees working for them, and therefore size is a very important aspect. As well as being a world-wide known supermarket Tesco also provides other services to its customers, which they also benefit from as a company, and use internally for the use of their own business. Tesco has many financial needs but these needs can be met internally, from the Tesco organisation. The Financial services providers include banks, finance companies, and insurance companies. Larger financial institutions such as Tesco offer a wide range of service, while other smaller organisations don't offer as much. Financial services depend on size of the business; smaller businesses are often dependent on outside providers, whereas larger organisations are more likely to have in-house departments. Sole traders which tend to be small, are limited in their choices of finance, for example long term sources may be mortgages and perhaps the introduction of some personal capital. Private and Public limited companies can usually obtain finance from many different sources, In addition due to their size and added security, they can often demand lower interest rates from lenders.

Tesco needs financial help in order to do many things such as, paying the employees wages, to buy certain assets to the company, such as vans, cars, etc.

Sources of Funds

Apart from the information above, we all know that all firms need money to get started, whether its to buy new assets for the company or to buy raw materials, once the major expenditures have been met, and also if the business is successful it will earn money from sales, but we also know that, business is a continuous activity, therefore as the long as the business runs, money will be needed for all sorts of expenses.

If Tesco want to expand the business, extra finance will be compulsory over and above that from sales. Expanding an organisation may mean:

- ✓ Larger premises
- ✓ More equipment
- ✓ Extra workers

Therefore this is the most appropriate time to seek for a financial service provider. The items of expenditure above fall into two areas:

- ✓ Revenue capital
- ✓ Capital Expenditure

Capital expenditure is the money spent on items which will be used over and over again, such as a new factory machine, or a company van.

Capital expenditure will be shown on the company's balance sheet, as all balance sheets include assets and purchases. However Revenue capital is a bit more different, revenue capital includes payments of goods or services which have either already been consumed or will be very soon. Wages/ raw materials and fuels are all examples. Revenue capital will be shown on a company's profit and loss account, because it represents the businesses expenses.

Internal sources of funds

✓ **Profit**

A businesses profit after tax is an inexpensive source of finance. A large proportion of finance is funded from profit.

✓ **Depreciation**

Depreciation is a financial provision for the replacement of worn out machinery and equipment. All businesses use depreciation as a source of funds.

✓ **Sale of assets**

Sometimes businesses may have to sell off assets to raise money for the organisation, this usually occurs when the company cannot find an alternative way to raise finance from other sources.

3.1 External long term sources of funds

External long term capital can be defined as a loan capital or it can be in form of a share capital.

✓ **Share capital**

For a public limited company like Tesco, share capital is likely to be the most important source of funds; the sale of shares can raise very large amounts of money.

✓ **Loan capital**

A loan capital is any source of finance/ money borrowed for a period of time.
Debentures-The holder of a debenture is a creditor of the company not the owner, the amount borrowed must be repaid before the expiry date

✓ **Bank overdraft**

This is most probably the most important fund for all organisations, overdrafts are flexible. The amount which the business goes overdrawn depends on its needs at that particular time.

✓ **Bank Loan**

A loan requires a rigid agreement between the borrower and the bank, the amount which was borrowed must be paid within the agreed time period in regular

instalments. The interest charges are slightly higher if you compare it with an overdraft.

There are a number of factors to think about when choosing between alternative sources of funds:

- ✓ Cost

Businesses prefer sources which are cheaper, both in terms of interest payments and administration costs.

- ✓ Use of funds

When a company undertakes heavy capital expenditure, it is usually funded by a long term source of finance.

- ✓ Status and size (which I talked about earlier)

Internally

Wages/ Salary

They cover the costs of the wages of the employees internally, which means the financial provider is Tesco. The organisation uses the profit made to cover this cost. Tesco has no problem about making profit as they already have regular customers and have most of the market share. In this case the financial need is the wages and salary and the provider is Tesco.

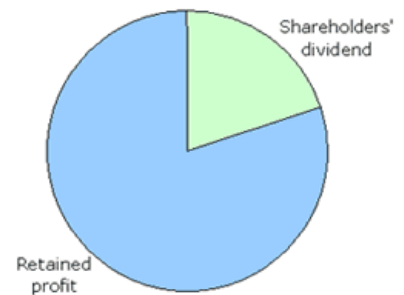
Assets

Another important financial service need for Tesco is the assets used within the company. Tesco has many assets including vans, cars. As they now have an online shopping service, they use the vans for the deliveries. They provide these services internally, which means they are the ones that are purchasing the product, Having said this if Tesco wants to hire/purchase a new van for example, they will need to go to another financial provider as they do not sell vehicles, and in order to do this they will have to use the company's money to pay for the products that have bought, but if by any chance Tescos do not manage to make the payments on time, their assets can be taken off them.

Retained Profit

The retained profit is a very important source of internal finance for the Tesco's business organization. This is often a very difficult idea to understand but, in reality, it is very simple. When a business makes a profit and it does not spend it, it keeps it - and accountants call profits that are kept and not spent retained profits. The retained profit is then available to use within the business to help with buying new machinery, vehicles, computers and so on or developing the business in any other way. Retained profits are also kept if the owners think that they may have difficulties in the future so they save them for a rainy day.

Tesco usually uses the retained profits in order to improve their services provided to their customers, recruiting more candidates in order to satisfy customers needs and provide the best possible service. They also use the retained profit in order to buy or repair vans and other assets they have.



Tescos need finance in order to continue the business, be successful and keep up the good work. If any of their assets aren't working effectively, they can choose to sell them.

They should also start thinking about how they could use their profits in an effective way, to make more money; they can invest on something, buy and sell shares in the stock exchange.

Stock exchange is an organized marketplace for securities featured by the centralization of supply and demand for the transaction of orders by member brokers for institutional and individual investors.

If they are selling 10 million shares, they can sell another 5 million to make more money.

Retirement/Life insurance

Another financial need is a pension, and the financial service provider is also Tesco. Once the staff at Tesco gets to the average age of 60-65(differs depending on males/females) they retire.

Women retire at the age of 60, and the average age for men is at 65.

Tesco want to offer the best possible pension scheme to their employees. Tesco knows that the older you get the more difficult it is to find life insurance. Your health can affect how much you pay, or whether you can get cove at all. That's why Tescos over 60's life insurance scheme has been designed especially for anyone over 60, it is also a very straight forward policy, that is because you do not have to answer any medical questions, which means that you will get accepted whatever health you are in.

Tesco aim to provide great value, premiums start from just £7.00 per month, and when you die, the policy pays out a guaranteed cash lump sum- just what you need to give your family or to pay for the funeral costs.

Reasons to choose Tescos Life insurance:

- ✓ You are guaranteed to be accepted
- ✓ Your premiums will never rise
- ✓ No medical questions
- ✓ It is a simple policy for anyones aged 60-80
- ✓ Cover starts from as little as £7.00 a month
- ✓ A cash sum will be paid when you pass away

The full cash sum paid out Is guaranteed if there is a claim after the first year. But if you have had your policy for less than a year then they return you premiums. The grid below shows the different levels of cover for 65 year olds dependent on sex and premium paid.

Payments per month

	£7	£12	£15	£20	£25
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Age 65

Amount received

Female	£1,070	£2,140	£2,782	£3,851	£4,921
Male	£901	£1,801	£2,341	£3,241	£4,141

The cash sum is fixed; therefore inflation will reduce what you can buy in the future with the amounts shown. The term you pay into the policy is based on your age; the maximum payment term is 20 years. Dependent on how long the policy runs for.

Comparing Tesco with Cornhill

Amounts of cover for £12.00 a month

Tesco	£1,801
Cornhill	£1,387

✓ £414 more cover with Tesco

£1,801 - £1,387 = £414

The example above shows that you get more cover with Tesco, which a lot of people will prefer.

3.3 Advantages of Internal Sources of Finance

It is advantageous that Tesco's uses mostly internal sources of finance, as this does not need any interest payments because they are using their own money. There are no other costs involved for example like administration costs that would have to be paid when using external sources of finance.

The fact that the size of the Tesco's business organisation is large the business will have to pay high prices for the insurance of their employees and the products and machinery in the store

Externally

As Tesco wants to build new buildings, they need large sums of money, and as they cannot provide this service internally, they need to seek for an external financial provider. The product that the organization will need is a loan, a loan is usually provided by a bank, therefore the financial service provider is a bank, I do not know which bank Tesco gets their loans from at the moment but I can give them advice on which bank charges the lowest interest rates.

High St Banks	APR	Monthly Cost	Savings
Alliance Leicester	5.9% APR Typical	£144.24	-
Halifax	6.5%	£147.81	£214.20
RBS	6.8%	£147.00	£165.60
Barclays	9.9%	£157.93	£821.40
HSBC	11.9%	£164.19	£1,197.00

By looking at this table, I would say Tesco should borrow a loan from Alliance Leicester, as they only charge an APR of only 5.9%. Tesco will benefit from this as they will save more money, and Alliance Leicester gives them special methods of payment, as little as £144.24 a month. If Tesco does get to a stage where they are having financial difficulties, most of the other organizations will be willing to provide them with loans as they are such a big organization, banks will know they will get their money back. The reason why Tesco needs external financial providers is because they cannot afford the money themselves. They want to borrow a loan from a bank for the new buildings. If they open another branch, it means double the amount of profit, double the amount of market share. Tesco can benefit from borrowing a loan at a lower price than usual as it is a big organization as there a special rates for business and different methods of payment.

As Tesco are planning to borrow 30,000, and they want to pay back within 36 months (3 years) they need to pay as little as 144.24 every month:

$$144.24 \times 36 = \text{£}5,192.64$$

Amount needed to be paid every month * 36 months =

3.4 Risks

The best place to start is to define risk. There's no such thing as absolute risk, only relative risk. In other words, an investment can only be ranked as more risky, less risky or about the same risk as a competing investment. Putting £100,000 into a start-up business is certainly more risky than parking it in the money market or buying some shares in a bond mutual fund, but the expected return on these alternatives will in most cases be much lower than the upside of the new firm.

Tesco's risks are that:

- The company may be unable to maintain interest payments at the promised rate.
- The company may fail and only a portion of the capital may be returned.
- They may need to access their funds before the maturity date of the bond, and the company is not bound to return your funds before that date. They may find that bond values on the secondary market are significantly lower than the initial purchase price.

On the subject of risk, it is worthwhile to remember the basic rule of investing: the higher the promised return, generally the higher the risk

Insurance companies

Tesco is a very big organization, but even though it is relatively large, it cannot insure its own company. There are many insurance companies around, but I will advise them to use the one that charges them the lowest interest rate. I have carried out some research and according to my findings Lloyds TSB Insurance Services Limited, offer insurances at a very low price. They offer insurance over the phone and the internet, by post or in any branch of Lloyds TSB.

As they are such a big company, they have an accountant, to calculate their income and expenditure, also to see how the business is doing, but they can also get an organization from outside the company to check their calculations are correct, and get a professional to audit their accounts

According to my research :

ARGENT ACCOUNTANTS & BUSINESS ADVISORS

CHAPEL MARKET LONDON N1

This organization deals with these enquiries, and don't charge much. This is an external need.

There are several liabilities:

Product Liability

When a person is injured as the result of a defective product, they may have a product liability claim against such people and corporations as the manufacturer of the product and any or all wholesalers and retailers of the product as it moved from the manufacturer to the end user. This chain of responsibility can be very complex, and in such cases it is vitally important to identify all potential defendants as early as possible. Also, if a particular product has resulted in product liability cases in the past, thorough research can result in a great deal of information to speed new cases to successful conclusion.

Employers liability

The liability of an employer to pay damages to employees for personal injuries sustained in the course of employment. In general, an accident arising out of the course of employment will be deemed, in the absence of evidence to the contrary, to have arisen out of that employment.

Tesco's provides the following services for its business:

- Loans
- Credit cards
- Mortgages
- Travel money
- Savings products

They also provide the following insurance services internally:

- Car insurance
- Home insurance
- Life insurance
- Pet insurance
- Travel insurance
- Breakdown service
-

One other financial service that needs to be covered externally is the insurance of their employees, because as we are all aware accidents are likely to happen anywhere. In case anything happens within the store, Tesco is responsible for it, therefore when they are recruiting the employees they make an insurance policy for the health and safety of the employees. Tescos cover these costs internally, but get the products/services externally from elsewhere.

As Tesco is a big organization, other financial providers are likely to charge them a lot of money for the financial services they provide them. The most likely external financial services can use are:

Banks:

I reckon Tesco, should keep some money aside, for a rainy day, because they don't know what they will have to face the day after today. In order to put them in a safe position, they will most probably need to open a separate business account, to save money in, they will also be earning money this way because the bank they are working with will give interest on the money they keep with them, and this is another way Tesco will be making money.

I would advice them to put their savings with Barclays as they give the highest interest rates.

Interest Rates for savings for Barclays

Balance	Gross AER %
£100,000 and above	4.44
£50,000 to £99,999	3.61
£25,000 to £49,999	3.51
£5,000 to £24,999	3.25
Under £5,000	3.04

According to this table, any organization that saves their money with Barclays, increase their money all the time. I came to this conclusion by looking at the returns of different banks. Even if you have below £5,000, with Barclays the AER is 3.04, this number is still higher than the other banks. I would recommend Tesco to open their savings account with Barclays.

Return

The general rule is: the greater the potential return, the greater the risk. It's really up to you.

Task 4

Advances in technology/IcT

4.0 Technology affects us in many ways, everything changes as day goes by day, it can also affect the level of customer service provided to all three financial service providers. It is no secret that advances in technology can greatly impact the value of workers' skills. Older workers often find the updating of complex technology uneconomic, while younger workers acquire and readily employ skills tailored to the newest technology. When current innovations in technology suggest even greater advances in the future, the young anticipate the has-been effect, with fewer choosing to enter the industry.

Below are the first banks that introduced online banking, an It project, and the banks that have started using the computerized accounting systems.

1962 Westminster Bank is the first UK bank to introduce machine-readable information on cheques to allow automatic sorting.
1963 Coutts & Co becomes the first British bank to have all its branches using a fully computerised accounting system.
1973 The Royal Bank is the first Scottish bank to have all branches on-line linked to a central account-processing computer.
1997 The Royal Bank is the first British bank to offer a fully-fledged internet banking service.
2002 The Royal Bank successfully completes the largest IT integration project undertaken in banking world-wide.

Communication and technology is playing a vital part in the financial services industry. It affects the way individuals and businesses dealing with financial service providers, examples of these are:

Benefits of new technology

Increased productivity

More can be produced with less and as a result, businesses gain higher profits. In addition, fewer of the environments resource may be used up.

Reducing waste

Introducing new technology often results in time being saved and fewer materials being used. For example, technology has created printing machines which waste less paper when printing books or magazines.

Improving the working environment

Statistics on accidents at work show that the working environment is safer as result of new technology.

Improvements in communication

This is done through e-mails, answer phones, and fax machines

4.1 ATM machines:

It is a matter of choice for each bank. Some banks can charge you for using the machines, but the bank must inform you of the terms and conditions of your account, and all charges. Very often banks do this in the small print brochure they send out with your statements each month. ATMs can operate 24 hours a day. The owner of the ATM incurs a substantial cost for buying the machine, renting space to put it, keeping it working mechanically, and hiring people to stuff it with money. If you are not that bank's customer and they can charge you for using it to access the money you keep at your bank. Similarly your bank can also charge you for using someone else's ATM machine.

Advantages of ATM:

- ✓ You can access your account very quickly
- ✓ 24 hour access to your account

4.2 Telephone Banking

You can get in touch with banks, from any touch-tone phone; you'll be able to carry out transactions quickly and efficiently, anytime of night or day. There'll be no need to queue and you won't be restricted to banking hours, leaving you free to get on with the more important things in life.

Advantages of telephone banking

- Check the balance of your accounts
- Review withdrawals and deposits
- Transfer funds between your accounts
- Order statements
- Pay selected bills
- Order cheque books

4.3 Internet

Having access to your banks website, is a privilege, you can do many things that you do at your local branch online, such as checking your balance, sending yourself a statement for the previous months. Another method that is common is using the e-mailing system, if you know anyone at the bank, for example: If your running a business and you need to take out a loan, you can e-mail your bank, it is a very quick and easy way of getting through to them.

Any other information you need about the accounts and etc, you can look them up on the website for example:

If you're looking forward to opening a new a savings account you can easily log onto the website, it will give you all the interest rates etc.

- Email.
Email is now an essential communication tools in business. It is also excellent for keeping in touch with family and friends. The advantages to email is that it is free (no charge per use) when compared to telephone, fax and postal services.
- Information.
There is a huge amount of information available on the internet for just about every subject known to man, ranging from government law and services, trade fairs and conferences, market information, new ideas and technical support.
- Services.
Many services are now provided on the internet such as online banking, job seeking and applications, and hotel reservations. Often these services are not available off-line or cost more.
- Buy or sell products.
The internet is a very effective way to buy and sell products all over the world.
- Communities.
Communities of all types have sprung up on the internet. Its a great way to meet up with people of similar interest and discuss common issues.

Disadvantages

- Hard to tell if people are lying because you can't see their face
- And you can be overloaded with information.
- Also if you do make any payments online, you need to be aware that someone can get access to your details it is not very safe

4.4 Computers

Nowadays there isn't a single person that doesn't use computers; it is very useful, and part of everyday life. There are many programs that you can use to store important information, such as Microsoft Excel where you can do your calculations, and keep

your layout structured in Microsoft Word. Banks also use the computers as it is a good way of keeping all sorts of information, and you can access it.

Advantages

Over the past few years, computers become a vastly popular household item. The luxury of emailing messages as opposed to charging up the phone bill is more appealing. Checking news, weather, and sports via the Internet is a convenience that many are taking advantage of. Children's lives are already getting influenced by technology – and this is just the beginning. Computers and Internet are here to stay and software titles targeting young children continue to increase.. Today, We find computers in use everywhere, whether we go to reserve a train ticket or to a Bank. This is because it is faster and helps us complete our work without mistakes/errors. So Parents too have realized the need to help their have children develop strong computer skills. Children are learning to read and write with computer games instead of homemade flash cards.

Disadvantages

- Discouraging people with less technology advantages.
- Internet availability.
- Connection tariffs.
- Speed of technologies advance outsmart the users' possibilities.
- Technical disabilities need more acquired knowledge.
- Centres on one specialisation at a time.
- Learning a lot in a particular study field is not necessarily useful.
- Non-availability of on-line reference material.
- Many institutions does not recognise a specific qualification.
- English knowledge must be satisfactory.
- Overestimation of time available.
- learners experience frustration going through all their mail messages.

4.5Loyalty Cards

Tesco for example has its own bank, produce their own loyalty cards, collects and gathers information on your shopping habits, how much you spend etc.

Loyalty cards offer discounts for predetermined items. The items are promoted throughout the store, and a discount is given at the point of sale to customers who present their loyalty card to the cashier. These programs are similar to traditional coupons, but they require less effort for both retailers and customers, help track consumer buying patterns, and provide instant gratification to the consumer. Another type of loyalty program is Points Based. This program type accumulates points based on the pound value of the customer's historical purchases. After a certain number of

points are reached, consumers can choose to redeem points for a reward. The reward is determined by the retailer. Examples include free beverage, 5% off next purchase, etc. The consumer may also choose to continue adding points to earn eligibility for a bigger reward. When a reward is redeemed, the customer's point balance is deducted accordingly. The customer's point balance is printed on the customer receipt after each transaction for the customer's reference. Usually, the available rewards are communicated to the customer through traditional methods such as membership newsletters

Describe how the financial service providers chosen in the report are regulated under current legislation's.

5.0 It is very important to control and regulate the financial services industry; this is achieved through the legislations and the Financial Services Authority for example.

There are many legislations in order to protect, consumer rights, customers are protected just in case things go wrong for example; the service provider goes bankrupt and loses its money and its customer's money. There are many legislations that protect consumer rights such as:

- ✓ Consumer protection Act
- ✓ Banking Act
- ✓ Competition Act
- ✓ Health and Safety Act

My customers have taken financial advice, from their financial advisers, before they attempt to meet any of their financial needs from any financial service provider, this prevents them from making wrong decisions, and they benefit from this by avoiding making mistakes in the decision making process and therefore they are saving money. The financial advisers are providing them with the best possible advice in order to keep their money to themselves. If the customers want to take out a loan for example, the financial advisers tell them which banks charge the lowest interest rate, or if they want to open a savings account they can give advice on which banks give them more return on the money they keep with that bank.

Usually when loans are given to customers, the rules and regulations are stated in small fonts, which the customers don't really notice, therefore may miss out on some important information that they need. This legislation therefore protects the consumer rights, by making sure they are aware of all the rules and legislations. For example: if they said they were going to charge 4.5% interest on loans, and on the contract they change that to 6%, the customers aren't aware of this, and they will be signing it before they read it, this is where the legislation gets into the situation and makes sure the customers rights are protected, because no banks would want to be prosecuted for doing this, as it will give them a bad image/reputation.

5.1 The Financial Service Authority

The FSA is not a government department, it is in fact a limited company, but does have statutory powers, given to it under the Banking Act 1987. The FSA board makes its policy decisions.

The scope of the FSA is demonstrated by the fact that it regulates around 9,500 organizations (largely investment firms but also includes 800 insurance companies and over 600 banks) about 180,00 individuals. It has over 2,200 staff and an annual budget approaching £200 million.

The importance of having adequate safeguards for financial services customers is highlighted by the FSA's own statistics: over 80% of UK households have a bank or building society account, 70% make investments in pensions or life assurance, and over a quarter of all adults own shares directly or through unit trusts.

FSA's objectives are maintaining confidence in the UK financial system (including financial markets, exchanges and regulated activities). The aim is to ensure that markets are fair, efficient and transparent, and that individuals and companies have confidence in financial intermediaries, in the money supply, they also promote public understanding of the financial system, such as including public awareness of the benefits and risks of different forms of financial transactions.

5.2 The Financial Services Act 1986

The Financial Services Act 1986 defined the types of investment it covered, and set down regulations about the way in which investment businesses must be conducted. Its main objectives was to protect private investors from any people in the business of selling or advising on financial services who do not have the necessary skills or defraud the investor for financial gain.

The financial act covers the activities of many individuals and organizations who:

- ✓ Provide financial products e.g. life insurance companies
- ✓ Sell financial products e.g. financial advisers
- ✓ Deal in investments e.g. stockbrokers
- ✓ Give advice on financial products
- ✓ Manage investment funds

The main investment products regulated under the terms of the financial Services Act are listed below:

- ✓ Life insurance policies with an investment element: including whole of life assurance, endowment assurance
- ✓ Pensions: including personal pensions, stakeholder pensions and other pension schemes
- ✓ Company shares and loan stocks
- ✓ Futures options, rights issues, and other interest in shares

- ✓ Personal equity plans

Financial services improve their performances of their services by using IT. Financial service providers achieve their goals within their business more efficiently and faster by the use IT. Information technology has a positive effect on the level of customer service provided by the financial services, because financial service providers can easily provide the customers with what they require. The financial service providers always make their customers aware that there are rules and regulation to the loans they are borrowing because they would not want to be breaching the law and would not want to break the law.

5.3 Building societies act

The building societies act in 1987 gave more power to building societies, enabling them to diversify into new areas of business, and also to compete with the retail banks. They continued to be organizations owned by investors and borrowing members, although rights and powers of investments were greater than the borrowers.

The powers were those that enable a society to carry out its business, and also include:

- ✓ To raise funds by shares and deposits
- ✓ To make loans secured on residential land
- ✓ To hold land and premises for the purpose of conducting a business

In the new improved act a building society is now able, not just to pursue any activity permitted by the terms of its own, but also still have its principal purposes the lending of funds on residential property and the accepting of investments from individual members.

Apart from the legislations I've already explained, the financial services customers are safeguarded by aspects of a range of other laws and regulations.

- ✓ Consumer credit act
- ✓ Data protection act
- ✓ Supply of goods and services act
- ✓ Consumer protection act
- ✓ Advertising standards authority

5.4 Consumer Credit act

The purpose of this act is to regulate, supervise and control certain types of lending to individuals, and to provide borrowers with protection from unscrupulous lenders. The provisions of this act are regulated by the Office fair trading. There are many types of lenders in the market, varying between multinational banks to individual money lenders. This act includes a number of safeguards under which potential borrowers must be aware of the nature and conditions of a loan, and of their rights and of their obligations. The act also affects bank lending activities, including loans and revolving credit such as credit cards, however not all loans are covered by this act. Loans below £25,000 are not regulated

5.5 Data protection act

This act provides protection for individuals in relation to information about them stored by electronic or mechanical device. All businesses that hold computer based information about individuals are required to register with the Data Protection Registry. The act outlines that:

- ✓ The information should be used in a lawful manner
- ✓ It must not be used for any other purpose other than that for which it is kept
- ✓ It must not be held for longer than is necessary to complete the purpose
- ✓ It must not be held for longer than necessary to complete the purpose for which it was originally obtained
- ✓ It must not be disclosed to anyone not connected with its purpose.

Individuals are given rights related to computer-held information about themselves:

- ✓ Individuals must be given access to data about themselves on request even though it is permissible to make a charge to cover the costs of supplying the information
- ✓ Data must not be accessible by an unauthorized persons
- ✓ Data must be kept accurate and up to date
- ✓ If incorrect data must be corrected

5.6 Advertising Standards Authority

This act was set up in 1962 and is an independent self regulatory body which the British Codes of Advertising and Sales Promotion.

It covers all non-broadcast advertisements which appear in:

- ✓ The national and regional press
- ✓ Posters, and transport sites
- ✓ Direct mails, leaflets or catalogues
- ✓ Cinema commercials, videos
- ✓ Pack promotions, competitions and prize draws

The advertising Standards Authority can take actions against individuals and organizations who's advertising contravenes the code. The first step is usually to discuss the offending advertisement with the advertiser, and if an acceptable explanation isn't given the advertisement needs to be changed or withdrawn.

Supply of goods and services act

This act involves the supply of services, including those for the supply of financial services. The following are included in the contract:

- ✓ The services will be performed with reasonable care
- ✓ The work will be done within a reasonable time
- ✓ A reasonable charge will be made

Reasons for legislations: In general terms legislation in this area is intended to:

- ✓ Protect those with weaker bargaining power, e.g. employees in a large firm or small firms negotiating with a large powerful trade union
- ✓ Ensure that all UK firms meet the needs of customers in a cost effective way which will lead to international competitiveness

There are plenty of regulations and laws that aim to protect the public when they are buying or using financial products or services, they are mostly formulated by particular industry bodies, an industry body is not a government regulator, but a group which represents similar kinds of business (e.g banks, or mortgage lenders) Therefore customers know that if they deal with a business that is a member of that body, they will be treated in a particular way.