**Unit 3:** Personal and Business Finance

Revision Booklet 2 **ANSWERS**

**Learning Aim B:** Explore the personal finance sector.

Features of Financial Institutions (B1)

Communicating with customers (B2)

Consumer Protection in relation to personal finance (B3)

Information guidance and advice (B4)

**Revision Task One:** Match the following financial institutions with their corresponding definition.

**Payday Loans Insurance Companies Bank of England** **Credit Unions Pawnbrokers Banks**

**National Savings and Investments Pension Companies Building Societies**

|  |  |
| --- | --- |
| **Financial Institution** | **Definition** |
| Bank of England | UK’s Central bank. Responsible for setting interest rates and controlling the national debt as well as issuing legal tender. |
| Banks | An organisation that handles financial transactions and stores money on behalf of its customers. |
| Building Societies | An organisation that handles financial transactions and stores money on behalf of its members. |
| Credit Unions | Not for profit organisations that handles financial transactions and stores money on behalf of its members. |
| National Savings and Investments | Government backed organisation that handles financial transactions and stores money on behalf of its members. |
| Insurance Companies | Profit making businesses that protect against the risk of loss. Will charge premiums for the service.  |
| Pension Companies | Businesses which sell policies to individuals to help them save to fund their future retirement. |
| Pawnbrokers | Individuals or businesses that loan money against an item of value e.g. jewellery. If the loan is not repaid within a specific period of time the item can be sold. |
| Payday Loans | Organisation that offer short term loans at very high rates of interest. May be suitable in an emergency to solve short term cash shortage. |

**Revision Task Two:** Write one advantage and one disadvantage for each type of financial institution.

|  |  |  |
| --- | --- | --- |
| **Financial Institution** | **Advantage** | **Disadvantage** |
| Bank of England | Lends to banks (1)Sets interest rates (1)Responsible for maintaining the financial stability of the economy. (1) | Raising interest rates makes borrowing expensive and can slow economic growth. (1)Not available to general public. (1) |
| Banks | Store money securely (1)Offers different accounts and services to general public (1)Interest is paid on credit balances (1) | Savings only protected up to £75,000 (1)Owned by shareholders and therefore may be conflict of interest between profits and customers (1)  |
| Building Societies | Owned by members not shareholders therefore costs can be kept low allowing for greater interest payments to its members (1)Store money securely (1)Offers different accounts and services to general public (1)Interest is paid on credit balances (1) | Savings only protected up to £75,000 (1)May not be as commercially driven as banks due to absence of shareholders. (1) |
| Credit Unions | Owned by members not shareholders therefore costs can be kept low allowing for greater interest payments to its members (1)Store money securely (1) | Savings only protected up to £75,000 (1)May not be as commercially driven as banks due to absence of shareholders. (1) |
| National Savings and Investments | Government backed and therefore 100% of savings are secure. | Not available from the high streetRates are variableNeed to provide notice period of withdrawal. |
| Insurance Companies | Provide protection against unexpected financial losses (1)Different levels of protection are provided (1) | Owned by shareholders so premiums will be higher to generate profit. (1)Premiums may penalise some groups of society if they are viewed to have higher risk (1) |
| Pension Companies | Provide solutions for planning for a financially secure retirement (1)Sometimes employers also contribute alongside employees into pension schemes (1) | Poor investment decisions can cause lower returns than planned (1)Money invested in pensions cannot be readily accessed before agreed end date of investment (1) |
| Pawnbrokers | Provide cash quickly (1)The asset used to obtain finance can be bought back within a set period of time (1) | Amount offered for the asset is lower than its market value (1)The asset will be sold if not bought back within agreed time period (1) |
| Payday Loans | Provides cash quickly (1) | Interest charges are very high (1)The amount paid back if often higher than the amount borrowed (1) |

**Exam Style Question**

|  |  |  |
| --- | --- | --- |
| **Question Number** | **Answer** | **Mark** |
| **1** | Not for profit organisations that handles financial transactions and stores money on behalf of its members.  | **2** |

|  |  |  |
| --- | --- | --- |
| **Question Number** | **Answer** | **Mark** |
| **2** | Interest charges are very high (1)The amount paid back if often higher than the amount borrowed (1) | **2** |

**Revision Task Three**: Complete the table below describing the methods banks use to interact with customers, along with their associated advantages and disadvantages.

|  |  |  |
| --- | --- | --- |
| Method and Definition | Advantage of Method | Disadvantage of method |
| Branch is a physical building where customers can complete transactions face to face or using automatic teller machines (ATM). | Relationships of trust and loyalty can be built between customer and bank workers. (1)The bank can offer / recommend additional services to the customer (1)Customer trusts the bank and lower chance of fraud occurring using this method(1) | Customer has to travel to bank (1)Bank will have set opening times (1)Time consuming especially with long queues during busy times (1) |
| Online Banking is when bank customers use the internet to complete their banking transactions. | Available 24/7 (1)Convenient (1) | Cannot make cash withdrawals (1)Risk of fraud from cyber crime (1)May not be suitable for everyone – older customers may lack confidence to use technology (1)Takes time to set up (1) |
| Telephone Banking is when bank customers use the telephone to complete their banking transactions. | Convenient (1) | Risk of fraud – identity theft (1)Automated call centres can be long and frustrating (1)Service may be limited to set opening times (1) |
| Mobile Banking is when bank customers use their mobile phone to complete their banking transactions. | Available 24/7 (1)Convenient (1) | Risk of fraud from hacking or phone theft (1)Takes time to set up – download apps (1)May not be suitable for everyone – older customers may lack confidence to use technology (1) |
| Postal Banking is when bank customers use the postal service to complete their banking transactions. | This method has been around for years and therefore is trusted by older customers (1) | Slow process as have to wait for post to be sent and received (1)Post can be lost or stolen (1) |

|  |  |  |
| --- | --- | --- |
| **Question Number** | **Indicative Content** | **Mark** |
| **3** | * **Customers age 65+ may be nervous about using new technology such as mobile phone apps.**
* **Customers aged 65+ may have mobility issues making it difficult to get to high street locations.**
* **Customers may be worried about fraud**
* **Customers aged 65+ may not be overly concerned about speed of transactions and 24/7 availability**
* **Customers aged 65+ may not be concerned about slowness of postal accounts.**
* **Telephone banking and Mobile banking may be inappropriate due to new technology.**
* **Customers may prefer bank branches but some may have difficulty getting their if they have mobility issues**
* **Postal accounts may be suitable**
 | **(10)** |
| **Level** | **Mark** |  |
|  | **0** | No rewardable material |
| **1** | **1-3** | * Demonstrates isolated knowledge and understanding of relevant information; there may be major gaps or omissions.
* Provides little evidence of weight up of competing arguments / pros and cons in context; discussion likely to consist of basic description of information.
* Meaning may be conveyed but in a non-specialist way; response lacks clarity and fails to provide an adequate answer to the question.
 |
| **2** | **4-6** | * Demonstrates accurate knowledge and understanding of relevant information with a few gaps or omissions.
* Discussion is partially developed, but will be imbalanced. Evidences the weighing up of competing arguments / pros and cons in context.
* Demonstrates the use of logical reasoning, clarity, and appropriate specialist technical language.
 |
| **3** | **7-10** | * Demonstrates accurate and thorough knowledge and understanding of relevant information; any gaps or omissions are minor.
* Displays a well-developed and balanced discussion, demonstrating a thorough grasp of competing arguments/pros and cons in context.
* Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently.
 |

**Revision Task Four:** Complete the table belowdescribing theFunction, role and responsibilities of the FCA, FOS, FSCS, OFT and Legislation.

|  |  |  |
| --- | --- | --- |
| Organisation / Law | Function / Role | Responsibility |
| Financial Conduct Authority(FCA) | An independent organisation which regulates the actions of providers of financial services.  | Focuses on three areas1. Authorisation – permitting financial service organisations to trade
2. Supervision – ensuring procedures and practices are in the interest of consumers
3. Enforcement – use powers to ensure standards are kept.
 |
| Financial Ombudsmen Service(FOS) | A government appointed organisation which represents the interests of consumers when they are in dispute with financial service providers.  | The FOS resolve disputes between consumers and financial service providers when they have failed to reach a settlement / agreement. |
| Financial Services Compensation Scheme(FSCS) | A UK organisation which will pay compensation to consumers of financial services when the original service provider is unable to. | The FSCS protects all savers in banks and building societies up to £5,000 if their original provider goes bankrupt. |
| Office of Fair Trading(OFT) | A government organisation which regulates all markets including finance. | Since 2014 the responsibility for financial institutions has been passed to the FCA. |
| Legislation – Consumer Credit | Laws passed by the UK government to enforce regulation of any company offering consumers credit. | All companies offering credit must be registered with the FCA. |

**Revision Task Five:** Match the organisations which provide guidance and advice to individuals on personal finance with their definition.

 **Debt Counsellors Money Advice Service**

**Citizens Advice Independent Financial Advisor (IFA) Price Comparison Websites**

**Individual Voluntary Arrangements (IVA) bankruptcy**

|  |  |
| --- | --- |
| **Organisation** | **Definition – Role and Responsibility** |
| Citizens Advice | An organisation run by charities which offers advice on both financial and non financial issues.Advice can be provided at physical location, via websites, email or telephones.Financial Advice provided includes banking, insurance, pensions and debt management. |
| Independent Financial Advisor (IFA) | Professionals providing independent advice on savings, investments, mortgages and pensions. |
| Price Comparison Websites  | Websites containing prices for similar goods or services within in different markets to help consumers locate the best deals. |
| Money Advice Service | A government organisation created to offer free and impartial financial advice. |
| Debt Counsellors | A professional offering independent advice on managing debt. |
| Individual Voluntary Arrangements (IVAs) bankruptcy. | A government organisation which allows an individual to declare themselves bankrupt.  |

**Revision Task Six:** Provide one advantage and disadvantage for each provider of financial advice.

|  |  |  |
| --- | --- | --- |
| Provider | Advantage | Disadvantage |
| Citizens Advice | The service is free (1)Wide range of topics where advice is provided (1)Offers face to face and telephone meetings (1) | Advice provided by volunteers not financial professionals and therefore advice may be limited. (1) |
| Independent Financial Advisor (IFA) | Advice provided by professional (1) | Charges apply for services received (1) |
| Price Comparison Websites | The service is usually free (1)Available 24 / 7 (1) | May not be 100% up to date (1)May be influenced by advertising (1)May not include all companies or products (1) |
| Money Advice Service | Service is Free (1)Government funded and therefore free from bias (1)Will cover a wide range of topics (1) | Only available online or via telephone (1)Advice can be generic rather than personal (1) |
| Debt Counsellors | Professional offering advice (1)Regulated by FCA and FOS (1) | Charge applies for the service (1)Advice will be limited to debt management (1) |
| Individual Voluntary Arrangements (IVAs) bankruptcy | Independent advice is provided free from bias (1)Helps individual manage debt repayments (1) | Fees are charged (1)Will affect individuals future credit rating (1) |

**Exam Style Question**

|  |  |  |
| --- | --- | --- |
| **Question Number** | **Answer** | **Mark** |
| **4** | A government organisation which regulates all markets including finance. (1)Since 2014 the responsibility for financial institutions has been passed to the FCA. (1) | **2** |

|  |  |  |
| --- | --- | --- |
| **Question Number** | **Answer** | **Mark** |
| **5** | An independent organisation which regulates the actions of providers of financial services. (1)Focuses on three areas, authorisation, supervision and enforcement (1)Or 1 mark for a detailed explanation of one area of responsibility Authorisation – permitting financial service organisations to trade (1)Supervision – ensuring procedures and practices are in the interest of consumers (1)Enforcement – use powers to ensure standards are kept (1)Max marks for question 2 | **2** |

|  |  |  |
| --- | --- | --- |
| **Question Number** | **Indicative Content** | **Mark** |
| **6** | * **James has potential debt problems – if he fails to pay his rent then this could lead to debt collection action from land lord –**
* **failure to pay credit card bill will lead to debt increasing as interest is charged normally at a higher rate than bank loans**
* **There are advantages to using Citizens advice The** **service is free, there are a Wide range of topics where advice is provided including budgeting, debt management, the service also offers face to face and telephone meetings which will make it easier for James to explain his current situation.**
* **There are however disadvantages to using Citizens advice – the main one being that the advice is provided by volunteers not financial professionals and therefore advice may be limited.**
* **James may want to consider alternative organisations such as Debt Counsellors**
* **Debt Counsellors are Professionals and therefore can offer detailed advice – they can also be trusted as they are Regulated by FCA and FOS**
* **However there are also drawbacks to using Debt Counsellors - Charge applies for the service - Advice will be limited to debt management**
 | **(6)** |
| **Level** | **Mark** |  |
|  | **0** | No rewardable material |
| **1** | **1-2** | * Demonstrates isolated knowledge and understanding of relevant information; there may be major gaps or omissions.
* Provides little evidence of weighing up of competing

arguments/pros and cons in context; discussion likely to consist of basic description of information.* Meaning may be conveyed but in a non-specialist way; response lacks clarity and fails to provide an adequate answer to the question.
 |
| **2** | **3-4** | * Demonstrates accurate knowledge and understanding of relevant information with a few gaps or omissions.
* Discussion is partially developed, but will be imbalanced. Evidences the weighing up of competing arguments/pros and cons in context.
* Demonstrates the use of logical reasoning, clarity, and

appropriate specialist technical language. |
| **3** | **5-6** | * Demonstrates accurate and thorough knowledge and

understanding of relevant information; any gaps or omissions are minor.* Displays a well-developed and balanced discussion,

demonstrating a thorough grasp of competing arguments/pros and cons in context.* Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently.
 |