Topic 1: Employability: applying for a job

This topic helps you to:

- describe what each step in the recruitment process involves
- list ways of researching potential job opportunities
- explain what selected job competencies mean
- describe how to construct a CV and what information to include
- list advice for preparing for an online assessment or an interview.

Careers

Part of this unit looks at starting and developing a career. It covers:

- how to research and prepare for potential career opportunities
- different routes into financial services and
- key elements of being employable.

It also shows you how the financial capability skills you have developed can be applied to the workplace.

Much of the careers discussions applies to jobs in all fields, such as researching job roles and companies, writing a CV and preparing for job interviews.

But we will focus on financial services for our examples of job roles and career paths.

Recruitment

Job seekers match job descriptions to their skills at the start of the **recruitment** process.

When a job is available, a company's **recruiter**:

- writes the job advert
- manages the selection process and
- makes the final job offer.

There are many factors that people consider when choosing a career.

What are values?

Values are our general feelings or beliefs about how things ought to be.

They involve our thoughts on what is 'good' and 'bad'.

Recruiters also look at all of these factors when matching an applicant to a job vacancy.

They look for someone who can do the job and who will enjoy it, so that they will stay in the role for some time.

What is the typical recruitment process?

Research
Identifying role, skills, qualifications and personal characteristics.

Opportunities

Job adverts, agencies, social media, local contacts.

Application
Online application form and CV.

Selection

Online assessment, telephone interview, face-to-face interview, pre-employment checks.

Offer

Job offer, applicant accepts.

Let's look at each stage in detail.

Research

The first step for a job seeker is to consider various factors to decide what type of job they want, and how they want to get into that job.

Angie's research

Let's look at how Angie went from being a school leaver to working as a trainee cashier in a building society.

I wanted to stay in the area where I grew up, to be close to family and friends. So I looked at job websites and local papers to research local industries. I also did a week's work experience in a solicitor's office and got a good report, praising my attention to detail and willingness to take responsibility for tasks. I enjoyed that work but wanted a job with more customer contact, because I like meeting new people. So I decided that retail branch banking would suit me better. I also wanted to start a job after taking my A-levels, rather than go to college or university. So I looked for school leaver jobs, and that's how I found the school leaver programme as a trainee cashier.

Angie did what all job seekers must do: she looked at her circumstances, experience, skills and interests to decide her preferred career path.

When starting out, you may not know which area you'd like to work in. That's where research comes in. Start by making a spider diagram of your top skills – it might be subjects you enjoyed at school, or skills you developed across many subjects or outside school.

If you have work experience, you may have some idea of what you did well and in what areas you are less comfortable.

Angie is not comfortable with:

- lack of customer contact
- working far from home
- jobs involving sales.

Next, think about how you could use your skills in the workplace:

- What are you good at that you also find interesting?
- Which careers stand out to you?

There are many resources to get you started. Speak to a careers adviser or visit a dedicated careers website, such as **www.prospects.ac.uk opens in new window.**

The Prospects site offers a career planner that uses a quiz to match your skills and motivations to a suitable career. You can also browse job profiles for dozens of jobs to get an idea of:

- what a job involves, ie daily tasks
- the skills, training and qualifications a job requires
- how much a job pays.

By learning about the specifics of different jobs, you can distinguish between those that do and do not appeal to you.

Finding out the **entry requirements** – skills, training, qualifications – allows you to put a plan together:

- Which of the skills do you have already?
- Which of the skills can you develop and how?

- How will you gain the required training or qualifications?

Again, careers websites offer useful starting points for your research, directing you to training sources or other places with more information on a specific job.

If a type of career has its own **professional body** or **association**, that will provide another good source of information.

You also need to consider what level of job you will apply for.

- If you lack experience in a sector, you might start by applying for **assistant** or **team member** roles. These are entry-level jobs from which you can later progress to roles with greater responsibilities.
- If you have more experience and/or relevant training, you may want to pursue higher-paid **senior, supervisory** or **managerial** roles.

Research the typical job levels, and their requirements, in the areas that interest you.

Opportunities: where to look

When you have decided on the industry you wish to work in and the entry route that suits you best, you need to search for suitable job adverts.

You might . . .

Look on financial websites and social media.

Search job adverts on job websites.

Create job alerts on websites so they email you with suitable job adverts.

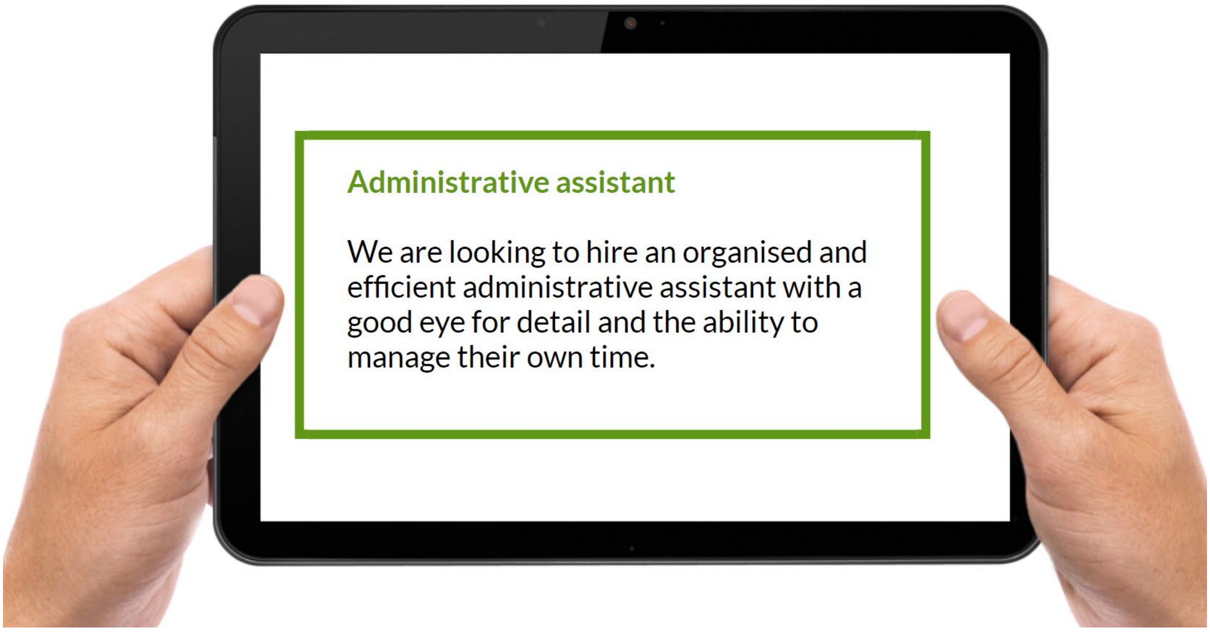
Contact recruitment agencies.

Look at local and national newspapers.

Ask in local financial services offices or branches.

Application: responding to job adverts

Job adverts tell you about the role and the skills the employer wants the successful applicant to have.



Most trainee jobs in financial services require a grade 4 or above for GCSE English and Maths (or the old grade C). Depending on the role, employers may require other skills or qualifications.

Requirements You must have: • GCSE grade 9 to 4 in English and Maths • experience using Microsoft Office • organisational skills with the ability to multi-task.

Job adverts tell you where the job is based, whether it is full-time or part-time and sometimes the salary.

Hours per week: 37.5 (full-time) **Salary:** Dependent on experience

What type of work you prefer will depend on your situation.

- **Full-time** work guarantees a high number of hours per week and may mean working five or more days.
- **Part-time** work allows you to fit in your job around other personal commitments.
- You might apply for **temporary** work if you need a job for, say, six months.
- A **zero-hours contract** offers flexibility to you and the employer because no work is guaranteed, but this makes your earnings very unpredictable.

When searching for a job, you can narrow the location to your preferred place to work, such as within 30 miles of your home. Or you can search countrywide (or farther) if you are looking to relocate.

You might also limit the search based on the wage or salary offered. Lots of jobs may not reveal the salary until after you have applied, but it is still useful to narrow your search to your target amount.

Job adverts may also tell you about the employer.

About the employer

We are a small, family-owned accountancy firm with over 40 years' experience in the industry.

Jobs advertised by recruitment agencies sometimes don't tell you the name of the employer.

In this case the employer wants you to contact the agency, not the employer itself.

Jobs that match your skills and interests

Job seekers need to choose a job that matches their strengths.

For instance, a job that includes selling on the telephone would not suit very shy job seekers.

Employers don't expect new recruits to know how to do all the tasks that they list for a job.

They are looking for key **competencies** – ie behaviours or skills – that mean people are likely to be able to do these tasks after training.

For example, when Angie applied to be a trainee cashier, the job advert listed competencies including the following:

1. Carrying out transactions for customers with efficiency, accuracy and professionalism.
2. Taking action to resolve problems such as customers completing forms incorrectly.
3. Engaging with customers to offer a friendly, respectful and welcoming service.

Let's look more closely at the first competency on the job advert.

The recruiter isn't looking for someone who already knows how to use the company's system for carrying out transactions.

Instead, they want evidence that applicants can be efficient, accurate and professional.

At her interview, Angie talked about her work experience at the solicitor's office and the praise she received for her attention to detail.

'Carrying out transactions for customers with **efficiency**, **accuracy** and **professionalism**.'

The recruiter will judge an applicant's professionalism by their behaviour during the application process.

Applicant 1

Interviewer: 'You're fifteen minutes late for the interview. Did you bring a copy of your CV?'

Applicant: 'No, my printer doesn't work.'

Applicant 2

Interviewer: 'Thank you for arriving early to the interview! Did you bring a copy of your CV?'

Applicant: 'Yes, I printed off a copy at the local library.'

What competencies do employers look for?

Job adverts include technical competencies needed for the role, such as using Word, PowerPoint, Outlook and Excel on the computer.

They also include personal competencies that will be assessed during the selection process.

For example:

Team player
Someone who works well with others and helps the team to achieve their goal

Builds relationships
Someone who is friendly and interested in meeting the needs of customers and colleagues

Problem-solving skills
Someone who can identify a problem and how to resolve it

Communication skills
Someone who:

- is clear when giving messages verbally and in writing
- is a good listener
- uses suitable body language

Job applicants will be asked to demonstrate how they have shown these competencies in the past.

You can use examples from work, and from leisure or educational activities.

Examples of how to demonstrate competencies

Working on a team project.
Raising money for charity.
Helping younger students.
Playing in a sports team.
Being part of a club.
Writing a newsletter or blog.
Having special responsibilities at school or college.
Winning awards or prizes.

Some competencies are behavioural or emotional. For instance, a good communicator is able to maintain eye contact, get their message across clearly, and listen accurately to what other people say.

You can develop these skills with practice. For example, if you grew up not knowing the value of listening to others, it will take a conscious effort to recognise it as a weakness and to take steps to improve in that area.

This is why assessing your own competencies involves honest self-reflection.

What do you do well?

How have you shown this in life, school or work?

What could you do better?

How can you make this happen?

There may be barriers to improving such competencies.

- A person who is scared of public speaking may need to work on their confidence.
- Someone who is distracted easily may need to improve their concentration.

With competencies that relate to emotions, it may mean overcoming emotional responses built up since childhood.

- A person who reacts angrily to criticism needs to learn to react professionally and not to take things personally.
- Someone with a pessimistic outlook needs to learn to act positively to get on well with colleagues.

Here are examples of behavioural competencies that are crucial but unlikely to appear in job adverts.

Empathy: understanding why somebody might feel or behave the way they do, eg because of stress, pressure or problems at home.

Diplomacy: sometimes you need to be tactful in a work environment to get the best out of colleagues.

Apologising: admitting to mistakes shows that you take responsibility for your actions and are willing to learn from them.

Stress management: responding well under pressure and avoiding the temptation to panic is key in many job roles.

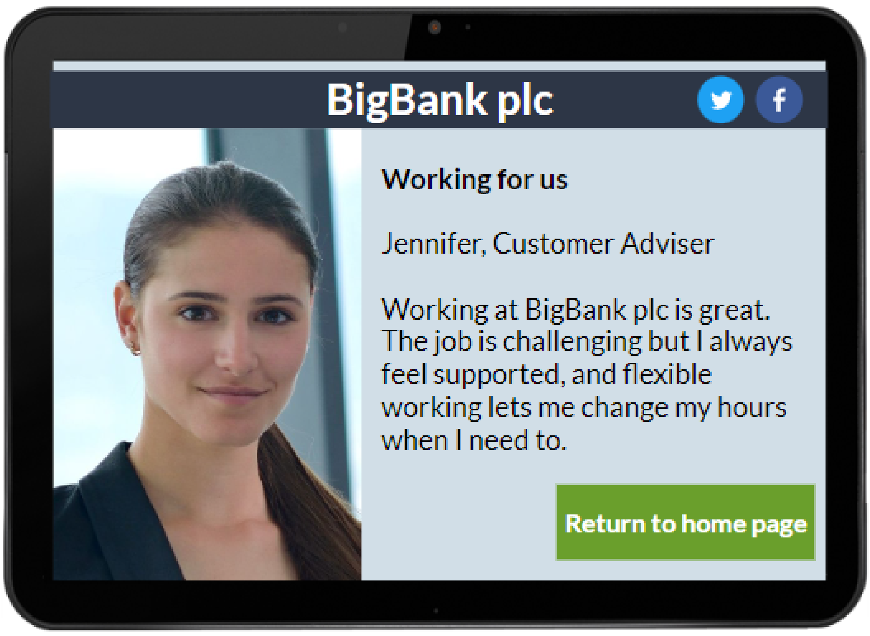
Trustworthiness: knowing when to keep information to yourself and ensuring you are not seen as gossipy.

Go to the course site to complete the activity: Matching competencies to experience.

Finding out more about employers

When considering whether to apply for a job, you need to find out what you can about the employer's values and what it is like to work there.

A company's website usually offers this information.



Some employers also have Facebook pages, Twitter accounts and employee case studies so you can find out more.

Why are shared values important?

Diane

I'm the recruitment team leader for a banking group. We look to hire people who share the company's values.

Every time a staff member has contact with a customer, they should demonstrate our values.

The values are **honesty, reliability**, **excellent customer service** and **respect**.

Every employee must consider these values important in order to deliver them daily.

Employees with different values, such as wanting to go home on time rather than completing a task for a customer, won't be able to do their jobs well.

Developing a CV

When you have decided that you want a job, you apply for it.

Most employers use online applications. You complete an application form and attach your **curriculum vitae (CV)**.

Your CV is a document showing the story of your work life so far.

It also includes activities from your private life that are relevant to the job's competencies.

The CV aims to tell the recruiter why you are a good match for their job vacancy, and to get you to the next stage in the selection process.

What do you include on a CV?

To show you what to include on a CV, we will use the example of Mike, an eco business manager at a bank.

This means he helps businesses to be environmentally friendly.

Mike's CV looks like this.

Mike Smith
8 Ragwell Avenue, Calton Vale, New Town, NT1 2NN Telephone number: 01234 567890
Mobile number: 09876 543210
Email address: mikesmith@businessproducts.uk LinkedIn: link

Profile
Mike is a business manager with more than 15 years' experience of product innovation, sales success and team management. He specialises in loans for organisations wishing to reduce their environmental impact and to create sustainable products.

Employment history
Eco Business Manager, *Amber International, date to present*
Set up the new department, developed new products and achieved loan sales of £20 million in the first year.

Eco Products Manager, *Peridot Plc, date to date*
Led the team to record sales and customer retention. Awarded the Green Prize for product innovation.

Eco Products Loans Office, *Peridot Plc, date to date*
Designed a new range of business loans for sustainable business. Handled six major client accounts.

Small business adviser, *Garnet Business Bank, date to date*
Introduced £1.2 million of new business.

Graduate trainee, *Garnet Business Bank, date to date*
Successfully completed assignments in business products, marketing, customer services and operations.

Education
Business Products Graduate Training Scheme
Degree in Banking from ABC University

Professional memberships
Associate of The London Institute of Banking & Finance (ALIBF)

Other activities
Volunteer treasurer for a local charity that organises farm-based working holidays for young adults.

References
Available on request.

Next →

On a CV you should include your:

Name and contact details.

Profile statement summarising your experience and competencies.

You must tailor the profile statement to the job you are applying for.

Employment experience, starting with the most recent job and working backwards.

Key achievements in each role.

This gives the recruiter a better idea of your competencies and what you can offer.

Education and training.

Relevant interests.

You should include a statement stating 'references are available on request'.

Referees are people who can confirm that you have the skills you say you do.

As part of your preparations, it is important to identify suitable referees who would be willing to provide a reference if required.

If you have work experience, your referees are likely to be former employers, such as your **manager**.

Your manager is often best placed to talk about how you demonstrated skills and work ethic in your day-to-day job.

A former **colleague** also makes a good referee. Someone you worked with closely can discuss qualities such as teamwork and supportiveness.

If you don't have much work experience, you might put a favourite **teacher** as a referee. They can provide a strong reference if they taught you in a subject relevant to your chosen career.

If you have done **voluntary work**, you might use your manager or a colleague there. Although such work is unpaid, it requires the same variety of skills as in many jobs.

People *not* to use as referees are friends and family members. Although these people know you well, they are not likely to be impartial and may not know how you behave in a work environment.

Application form or cover letter

When you send your CV, you will also send the employer:

- an online **application form**
- a short **personal statement**

or

- a **cover letter** (which might be an email).

An application form, personal statement or cover letter is your chance to highlight key skills and experiences from your CV, and to explain why you are the right person for the job.

It is crucial to tailor what you write to the *specific job*.

If you send out the same cover letter to 100 employers, they will notice that you have not matched your skills to the job advert.

With an **application form**, the employer sets the structure of the form to find out the information they need to know.

- There are likely to be boxes in which you write or type your answers.
- There may be an implied or actual word limit, which can guide how much detail you should include.
    - For example, if there is a 50-word limit to the 'educational background' box, you want to start with your most recent qualifications or training and leave out anything less relevant.

It can be tempting to fill in an application form as soon as you get it, but it is better to prepare by:

- Gathering all the information you need, such as the dates of your previous employment and the contact details of your referees
- Researching the employer to find out their aims and values, such as by looking on their website and social media channels.

If the application form is online, type your longer answers in a separate document and then copy and paste them into the application form. This means you don't risk losing your answers if the webpage times out or crashes.

Using word-processing software also helps with checking your spelling and grammar to give the best first impression.

An application form may also include **competency-based questions** that examine your skills.

The recruiter wants to see *specific* examples of when you demonstrated the skills the role requires.

For instance, for a question about teamwork it is not sufficient to write: 'I have worked successfully in lots of teams'. Instead, pick a specific occasion that *shows* how you work successfully in a team. A vague answer will put the employer off.

Link your answers back to the competencies mentioned in the job advert, and don't include irrelevant skills.

Your answers don't have to be about work. If you are struggling to think of an example from your work experience, use a relevant example from education or life.

We look at the STAR approach to answering competency-based questions in the **interviews** section.

A **personal statement** allows you to 'sell' your most relevant skills, experience and goals in a brief paragraph.

If there is not a given word limit, you should stick to 150 words or less with 2 or 3 impactful sentences.

Your aim is to convince the recruiter you are fit for the role, and to set yourself apart from other candidates.

The personal statement is a *summary* – it is not intended to include as much as your CV, or to expand on areas as in a cover letter. To focus your statement, try to answer the question 'Why are you the best person for this job?'

How can you meet the employer's needs and criteria?
What skills or expertise can you offer?
What relevant experience do you bring?
What relevant qualifications or interests do you have?

Here is how Angie started her personal statement when applying for the trainee cashier programme.

"A detail-oriented, responsible school leaver with eight GCSEs and experience working with numbers in a solicitor's office."

Here is how someone with many years as a team leader started their personal statement to apply for a higher managerial role.

"An efficient retail specialist with over seven years' experience leading and motivating a team to hit targets and meet challenging deadlines."

You should end your personal statement with a summary of your **career goal** if you are at an early stage of your career, or a more **specific goal** relating to the potential employer if you have more experience. This gives the recruiter a sense of your aims and how you might fit in to the company.

Here is how Angie ended her personal statement.

"My career goal is to develop my people and numeracy skills in customer- facing roles to contribute to the building society's financial success."

Here is how the team leader ended their personal statement.

"Hoping to take on greater responsibility in a dynamic company that enables me to make a measurable difference to staff performance."

Dos and don'ts

Do	Don't
Include evidence of how your skills and experience match the job requirements ('At my previous company I delivered double my sales target')	Use generic statements ('possess good communication skills') *or* clichés ('think outside the box')
Use active verbs (eg organised, solved, analysed, created, adapted, enhanced, planned, identified) *and* similar language to the job advert and the employer's website	Use complicated wording ('my instigation of motivation in coequals is putatively evident') *or* jargon ('at EOP I took it offline and cascaded an ETA')
Include relevant passions ('my proven commitment to sustaining the environment' when applying for a green organisation)	Exaggerate ('I have done more for the environment than most scientists') *or* be negative ('The company looks OK and I guess I'd do my best')

Cover letters

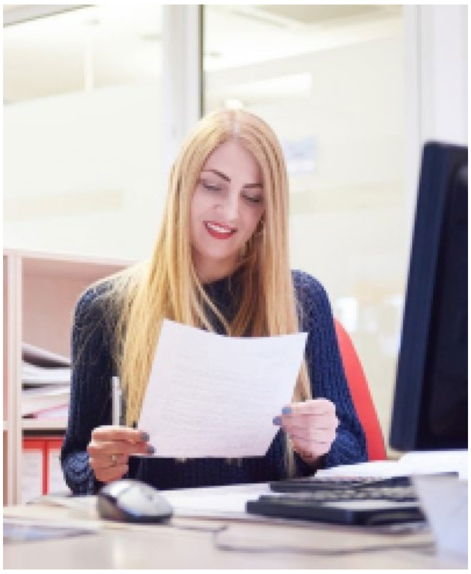
A **cover letter** is longer than a personal statement (up to one A4 page) and involves expanding on your relevant skills and experience, but you must still grab the reader's attention and avoid writing too much.

Do not simply repeat the information from your CV, as the recruiter will look at the CV with the cover letter. Rather, you need to emphasise why you are the candidate they are looking for.

Before writing your cover letter, study the job description and circle key words and phrases, such as tasks and skills.

Carrying out transactions for customers with efficiency accuracy and professionalism.

Keep these in mind as you write, and use specific examples to show how you meet the criteria. Remember, if you lack work experience you can take relevant examples from life or education.



Structure your cover letter clearly and use paragraph breaks. Recruiters are unlikely to read a huge block of text.

- In the first paragraph, explain briefly why you are applying.
- In the next paragraph or two, outline how your skills, training and experience make you ideal for the job.
- Be specific and enthusiastic, and include details that prove you have read the job description and understand what the company does.
- In the last paragraph, state that your CV is enclosed with further details, and thank the recruiter for their consideration. Ending with a positive statement can make a good impression, such as 'I look forward to hearing from you'.

It may take practice to develop a job-application style that gets employers' attention.

Be confident and convincing about your capabilities.

Make your sentences positive, specific and to the point.

Use impactful verbs such as transformed, delivered, achieved and inspired.

Use impressive adjectives such as effective, consistent, determined and adaptable.

Before sending off an application form, personal statement or cover letter, read it through word by word to check your spelling and grammar.

If feasible, print it out and check it on paper, because we often miss errors on screen that are easier to spot on paper.

Go to the course site to complete the activity: Writing CVs and cover letters.

Go to the course site to complete the activity: Pick the best cover letter.

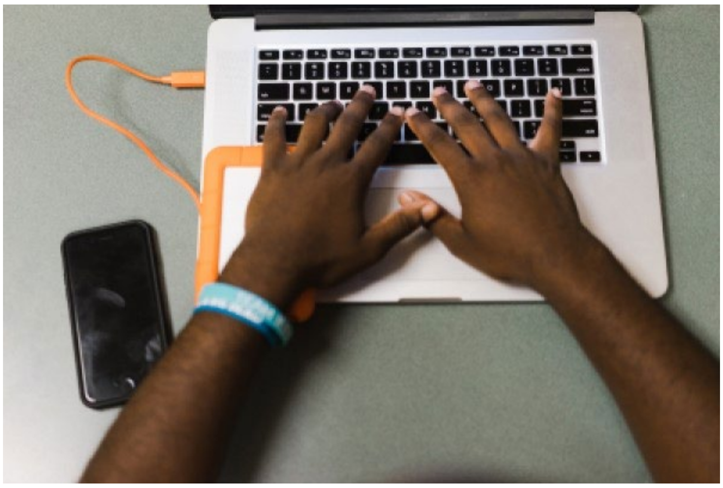
Online assessment

Some employers will ask you to complete an **online assessment** when you apply.

The assessment might include numerical and verbal reasoning tests, and work scenario questions.

For example:

Would you help a colleague even if it meant you had to work harder?				
1	2	3	4	5
Not likely	Somewhat likely	Not sure	Likely	Very likely



You will be told in advance what the assessment will involve, and there may be an example test to help you practise.

Selection: interviews

The recruiter will look at your CV and online assessment answers.

If they think you may match the job requirements, you will be invited to an **interview**.

There might be a telephone interview followed by a face-to-face interview.

Or there may only be a face-to-face interview.

The job interview aims to find out whether the applicant and the employer are a good match.

- The employer learns what the applicant can do for the company.
- The applicant judges whether they will fit in well at the company.

It is your opportunity to impress the potential employer by highlighting relevant skills, work and life experience and giving them a taste of your personality.

It is also your chance to get a glimpse of the workplace and ask questions about the role.

Is there anything on the job description that needs clarifying?

Are there aspects of the role that you'd like to know more about?

Do you have practical questions about procedures, the induction process or career progression?

Being punctual is vital – arriving on time to the interview demonstrates good time management and shows you are serious about the role.

If you are late, you will make a bad first impression and you may lose your interview slot.

- Double-check the time, date and location of the interview. If you are unsure of the details, ask the recruiter.
- Plan your travel, such as your route by car or public transport.
- Leave in good time before the interview and aim to arrive a few minutes early.

The first impression you make also depends on your personal appearance.

- Dress smartly, even if you know the employer has a relaxed dress code. Wearing a suit shows you have made the effort to impress the interviewer.
- Avoid clothes in overly bright colours.
- Keep jewellery to a minimum and your hairstyle conservative.

This will prove you can use good judgement in a work environment. It might not seem like a major concern to wear jeans, for example, but if every other candidate wears a suit then you may appear uninterested in professional standards.

Body language

Body language is important throughout the interview. Be natural but formal.

- Smile and show enthusiasm.
- Sit up straight and avoid folding your arms.
- Listen to what the interviewer says and nod where appropriate.
- Make a sufficient amount of eye contact without staring.

You need to prepare well for an interview. Find out as much as you can about the employer and the job.

Look at the competencies required, list questions you may be asked and think about how you can show that you have the skills.

Competency-based questions often start with phrases such as:

"Give me an example of…"

You can use the **STAR** approach to answer these questions. Explain the:

Situation

Task involved

Action you took

Result

Concentrate on what *you* did and use statements that start with 'I'.

Don't be afraid to leave a pause before you start replying – you need time to think about your answer.

Interviewer: 'Give me an example of how you worked as part of a team to achieve a goal.'

Candidate:

Situation
'When I was an administrative intern at XYZ Bank, I would carry out a variety of tasks to help the team meet their goals.'

Task involved
'One day an administrator in the team was ill. She had been due to prepare for an important meeting that the bank manager was holding that day.'

Action I took
'I volunteered to take over, and found out from the bank manager what he required. I asked colleagues to help me meet and greet the visitors, and I set up the room in advance of the meeting.'

Result
'Working as part of an effective team, I successfully prepared for the meeting. XYZ Bank gained new clients as a result of the meeting.'

When preparing for interview questions, circle the key competencies mentioned in the job advert and job description. This gives you a list of areas that are likely to come up.

For each competency, prepare a specific example using the STAR approach. Make bullet points that you can study a few times before the interview to keep the examples fresh in your memory.

It is not possible to predict what an interviewer will ask, but good preparation boosts your confidence and gives you the best chance of having relevant information in mind at the interview.

Aim not to repeat the same information when answering two different questions. Giving a wide variety of answers is more memorable and shows that you have experience in life, work and education.

If a question arises where you are tempted to repeat yourself, politely ask to think for a moment and try to come up with a different example.

In addition to competency-based questions, you may be asked:

- what you know about the job/company
- why you applied for the job.

Use what you know about the employer and link it to your skills and career goals.

Some employers also ask unexpected questions to see how you cope with them. For example:

What three items would you take to a desert island?

If you were an animal, what kind of animal would you be? Which famous person would you love to have dinner with?

Don’t take such questions too seriously, but do consider whether they link to the competencies of the role in any way. If not, they are testing your quick thinking and personality.

At the end of the interview, you will be asked . . .

"Do you have any questions for us?"

Prepare questions that show you are interested in the job.

"What sort of training would I get?"

"What projects would I be working on in my first few weeks?"

This reinforces that you are serious about the job. It proves that you have considered the role seriously enough to think of practical questions.

Crucially, your questions will also help you to decide whether the job is right for you.

After the interview, relax and celebrate that you did it. If you feel anxious about how you performed, write down your thoughts and then put them away for a day.

When you return to your notes, see how they compare with what you think now – are they accurate or were you harsh with yourself?

Consider again, in detail, how you think the interview went:

- How was your first impression?
- Were you confident and professional?
- Did you speak calmly and clearly?
- Did you emphasise your strengths and talk positively about your weaknesses?
- Did you answer all the questions effectively, or were there times when you struggled?

Reflecting on aspects of the interview helps you to evaluate your performance and consider what you might do better next time.

As well as self-evaluating, it is useful to ask the interviewer for feedback after you learn the outcome of the interview.

Employers are used to giving feedback and, if you do not get the job, they may pinpoint areas for improvement.

Go to the course site to complete the activity: STAR approach to interviews.

Assessment centres

Some employers use assessment centres that may involve group work.

A few applicants will be asked to work together to complete an activity. This tests their teamwork and influencing skills.

There may also be a presentation that tests your communication skills.

The employer will tell you in advance what is involved in its assessment centre, so you have time to prepare.

Pre-employment checks

If the recruiter wants to hire you, they will carry out checks to make sure you:

- are allowed to work in the country
- have no criminal convictions
- have the qualifications that you claim to have and
- have demonstrated the skills needed, as confirmed by your references.

Offer

If you are successful at all stages of the recruitment process, you will be offered the job.

Congratulations

You have completed Topic 1!

Complete the end-of-topic quiz and activity to expand your learning for this topic.

Topic 2a: The financial services industry

This topic helps you to:

- explain the importance of the financial services industry
- identify key factors in choosing a career that suits you
- explain the difference between sectors and job types in financial services.

Financial services

From the outside, the world of financial services can seem confusing. Sometimes even the language used can be difficult to understand. 'Financial services' means the range of products, services and facilities provided by the finance industry.

This covers a huge range of organisations with different purposes, some of which we will consider in this topic.

Some companies provide current accounts and savings accounts to individuals and families.

Others come up with complex financial models to help governments trade and raise finance.

Think of any person, company or industry in the world.

Every single one needs services to help them manage their money, to protect them from unforeseen events or to provide loans.

This is why financial services are so important.

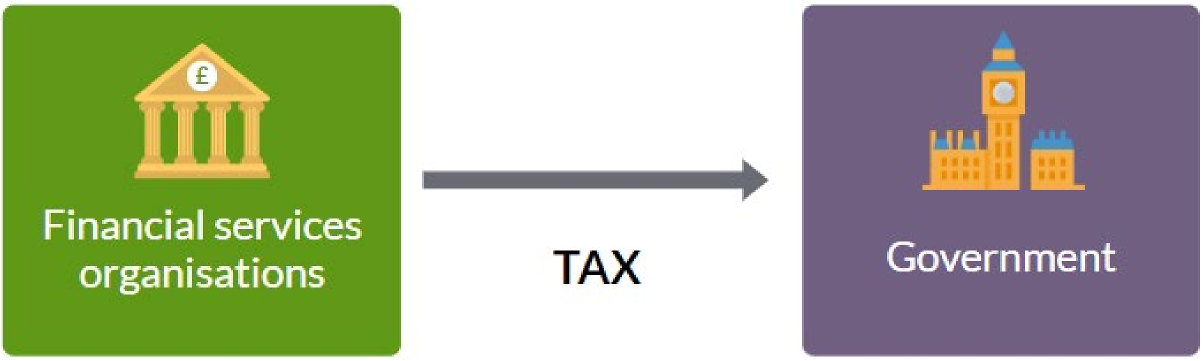
What is the scale of the industry?

Financial services make up one of the UK's largest industries, and London is the financial capital of the world.

More than one million people are employed in financial services in the UK.

About 20% are employed in London, and 80% are outside the City.

Financial services contribute around 5% of total UK tax receipts each year.



This money is vital for the economy.

- About **60 million** credit cards are in circulation in the UK, and almost **100 million** debit cards.
- **Two thirds** of people in the UK own a home thanks to the security of mortgages.

The huge scale of financial services is one of the reasons that international companies choose to do business in the UK.

Why work in financial services?

There are a great number of Financial services jobs across the world.

Employers are always looking for talented and motivated young people.

The jobs available are interesting and varied.

You can be sure you are playing a role in helping people, businesses or governments manage their money.

With the right motivation, training and skills, there is almost no limit to what you can achieve.

However, financial services jobs won't be for everybody, and competition can be high.

Factors to consider when choosing a career

It is important to consider carefully when choosing your career. Different jobs require specific knowledge, skills and personal qualities.

For example, working in a shop is different from working in an office.

In financial services the jobs with the most customer contact, like you get when working in a shop, are in **customer services**.

So customer service employees need to:

- know the company's products and services in order to answer customer questions
- be able to take payments and update customer records
- be friendly and outgoing so that customers enjoy speaking to them.

By contrast, people who work in a **finance department** need to enjoy being in an office environment with little customer contact.

They spend a lot of time using spreadsheets and other financial tools.

So finance employees must be good with figures and at paying attention to detail.

When looking for a career, the importance of each factor depends on what is most important *to you*.

What factors are important when choosing a career?

Go to the course site to complete the activity: Personal factors and jobs.

Researching different industries

When thinking about which career might suit you, it is worth researching different industries and the jobs they offer.

Industries differ in:

- the products and services they offer
- the customers they target
- some of the specialist skills their employees need.

Let's look at the sectors of the financial services industry in more detail.

Retail banking means providing products and services to personal customers (not businesses or other banks).

Customer 1: 'I'd like to open a current account, please.'

This can include banking facilities for small clubs and small charities.

Customer 2: 'I'd like to apply for a loan for the local football club that I run.'

As well as bank accounts and loans, retail banks can offer products such as:

- mortgages
- life assurance
- pensions.

Jake works in the call centre of a retail bank

Jake can answer questions about all of the products the bank sells.

Jake: 'Yes, the interest rate on that account is 1.15%.'

But some customers need detailed information on more complex products such as mortgages, insurance policies and investments.

Jake: 'Let me pass your call to a specialist adviser who can help with your enquiry.'

Business banking

Banks and building societies also provide products for organisations. This is called **business banking**.

Business banking customers include:

Schools and colleges

Large charities

Large enterprises

Other business banking customers include:

- **large businesses** such as factories and shops
- **small businesses** such as tradespeople and farmers.

Businesses need some specialist services that personal customers do not use.

For example, businesses that import or export goods need to accept or make payments in foreign currency.

This area of business banking is called **trade finance**.

Another area of business banking is raising money on the stock market by offering shares in companies.

This is called **investment banking**.

Businesses may also want to use finance to expand or improve. They do this by working with their bankers over many years.

This is called **relationship banking**, and each business customer is advised by a relationship manager.

Tom, relationship manager My job is to build long-term relationships with our agricultural customers. I visit farms so that I can get to know the businesses better. My customers get paid when they sell their livestock or crops, but this is only a few times a year. So they often need large business loans to fund spending at other times of the year. For large loans I speak to the bank's Loans Committee. I recommend how much we should lend, for how long and the interest rate.

Funds and investments, and other financial advice

Funds and investment services involve buying and selling stocks and shares, bonds, property, and foreign exchange to make money for customers.

In a bank, the department offering these services is called **asset management**.

Their customers are wealthy individuals, organisations, and specialist financial companies such as pension funds.

Jobs in asset management don't require specific qualifications but employers are likely to choose people with relevant skills, which may include looking for university graduates.

Tens of thousands of individuals and firms offer **financial advice**.

To do this, advisers need to hold specific qualifications.

Financial advisers work for a wide range of employers.

They tend to specialise in financial planning or more complex financial products.

Heather specialises in pension advice

I give pension advice to individuals and couples.

Planning your income in retirement can be complicated, with many things to consider.

There are different forms of pension, plus rules about when you can access the money.

Some customers also want a pension that lets them withdraw money before they reach age 55.

So I look at a combination of savings, investment and pension products to meet their exact needs.

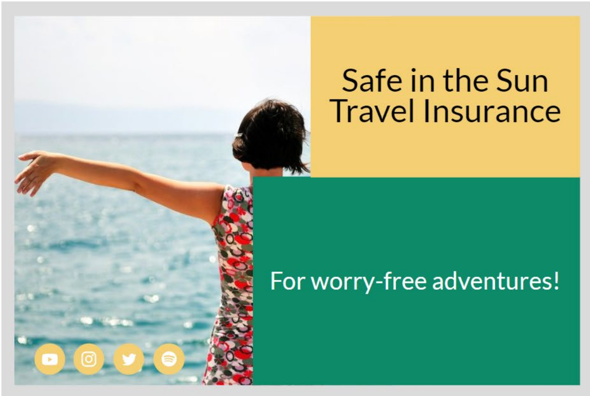
Go to the course site to complete the activity: Which type of banking do people need?

Insurance

Insurance companies agree to pay customers a specific sum of money or to replace goods if a risk event happens.

Large insurance companies offer most types of insurance to personal and business customers.

There are also many smaller firms specialising in certain types of cover or customer.



The insurance sector also has many career opportunities.

There are many types of job in insurance including claims handlers, actuaries, insurance brokers, loss adjusters and underwriters.

Venkat, claims handler

Venkat is a claims handler. Let's see how he got started on his career path.

I joined the insurance company after leaving school and started as an insurance technician.

To start with I only carried out administrative tasks in the claims department.

I had to work my way up to become a claims handler.

I process claims in a large insurance company.

After a customer makes a claim through customer services, the claim is passed to my department.

My first step is to check that the customer was covered for the incident that took place.

For example, if their cat knocked over their TV, the damage might not be covered.

But if their TV was damaged in a fire, it probably would be covered.

Once I'm sure the customer is covered, I arrange replacement goods.

- An **actuary** uses advanced maths to predict the likelihood of a risk happening.

For example, an actuary might predict how likely it is that a particular home will be flooded.

- An **insurance broker** acts as a go-between for:
    - people or companies wanting to insure a risk; and
    - the insurance companies.

They find the right insurance policy for customers and sell it to them.

- A **loss adjuster** investigates large claims such as fires and floods to check that the claim is valid.

This involves:

- checking that the loss or damage is covered by the policy
- working out the money that should be paid

    - advising on the repair and replacement of damaged items.

- An **underwriter** decides whether the insurance company should cover a risk and how much the premiums should be.

  They also decide whether special terms should be applied, such as the type of locks needed to secure a home.

There are also job opportunities at **Lloyd's of London**. This is a place where deals are made between:

- people who need risks covered; and
- people who are willing to insure risks.

Accounting

Accountancy skills are needed for a wide variety of jobs in different organisations.

This means there are many different careers and career paths available.

Jobs in accounting involve recording, checking and using numbers to make business decisions.

For example, people can:

- train to become an **accountant** after achieving two A-levels

  or

- start as an **accounting technician** and progress to an accountant role by taking further exams.

Accounting technicians prepare financial information that accountants and managers use to make decisions.

Chartered accountants manage financial systems and budgets for organisations and give financial advice about running the business.

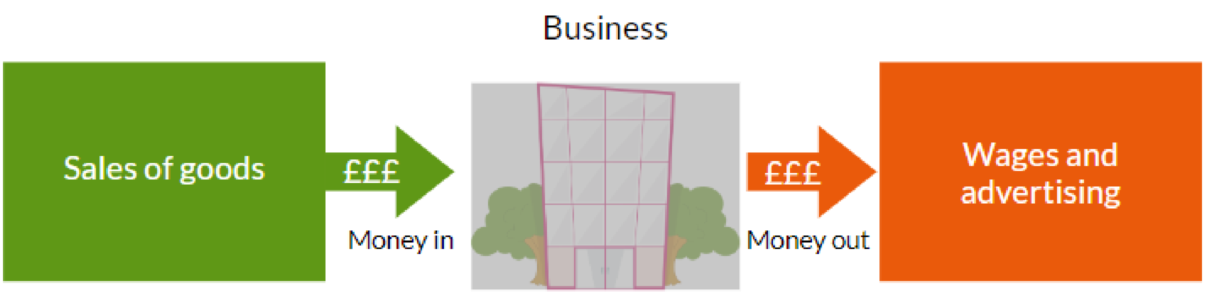
All organisations need staff to work on their accounts including businesses, charities and government offices.

Yasmin, accountant

Working in the finance office of a large retailer, I calculate the profit or loss that the company is making each month.

I also plan our finances for the next 12 months.

I have to track how much income the business gets from sales and how much it spends on costs.



Yasmin's career plans

Yasmin is an accountant at a retailer. Let's see how she got to that point.

When I started in the retailer's finance department I was an accounting technician.
Then I gained further qualifications and became a chartered accountant.

I like working at the retailer and want to become the finance manager some day.

Accountants can specialise in different roles:

- **Auditors** are independent of the business, and check and assess its financial status.
- **Forensic accountants** detect and prevent fraud.
- **Management accountants** prepare and analyse financial information to help manage organisations effectively.
- **Tax accountants** advise clients on tax planning.

Financial jobs in other industries

There are jobs in other industries that involve helping people to manage their money.

Journalist
Writes about current news events for newspapers (printed or online), magazines, radio or TV.

Blogger
Writes an online web log, known as a 'blog', as an informal way to talk about issues or as a kind of diary.

Consumer group worker
A consumer group works on behalf of customers to protect them, eg from unsafe products and misleading advertising.

Debt counsellor
Provides practical help and advice to people with debt problems.

Financial charity worker
Works for charitable or non-profit organisations, focusing on areas such as project management, business development, finance, marketing, public relations, fundraising or volunteer management.

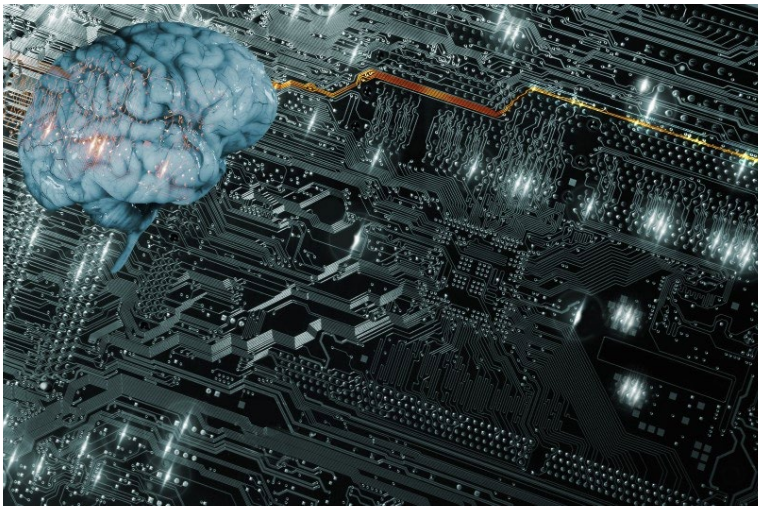
Fintech careers

The digital economy has enabled businesses to build innovative technologies to disrupt the traditional financial services sector – they aim to make a profit by doing things differently. Businesses do this by creating online marketplaces and mobile apps, and by using artificial intelligence and robotics.

With the rise of fintech comes the need for relevant employees.

Those looking to pursue careers with fintech companies need the necessary skills to perform confidently and accurately in a financial services environment. Science, technology, engineering and mathematics knowledge, plus coding experience, are all helpful.

Since fintech jobs typically require working with large teams to tight deadlines, skills like communication, problem-solving and teamwork will also make you stand out.



Congratulations

You have completed Topic 2a!

Topic 2b will cover:

- the variety of roles needed in organisations
- career guidance and progression
- suitable job roles.

Topic 2b: Roles and career paths

This topic helps you to:

- describe some financial job roles
- give examples of how different areas in financial services are inter-related
- identify different career paths that people can take
- explain the part played by professional qualifications for specific jobs.

Many roles needed

There are many different career paths that staff can take to develop skills and gain responsibility.

The path chosen will depend on their interests and their skills when they start.

In most careers people start in a junior role and move to more senior roles by gaining experience and training.

The different jobs on a **career ladder** may all be in:

- the same organisation or
- the same industry or
- different industries but have skills in common.

Or people may study for relevant qualifications, then start their career in a more senior role than people without these qualifications.

Sarah

I left school, I started working for a building society as a temporary employee in the mail room.

Then I was hired full-time as an admin assistant to track documents in the mortgages department.

The society paid for me to study for a professional qualification in mortgage advice.

When I passed, I was promoted to mortgage adviser.

After four years of advising customers on the best mortgage for their situation, I was promoted to manager of the department.

Now I supervise all the mortgage advisers and mortgage administrators in the building society.

Sarah's career ladder

Mike

After I got my degree in banking, I joined a business bank and spent three years on its graduate training scheme in business products.

Then I worked for the bank for two years as an adviser to small businesses.

During this time I became interested in how businesses can reduce their environmental impact.

So I moved to a different business bank that had set up a specialist 'eco products' team.

I helped to launch loans for making environmentally friendly business improvements, such as adding solar panels.

By the time I left the bank I was managing the team.

Now I work at a much larger business bank as Eco Business Manager.

Mike's career ladder

Small, medium and large organisations

From looking at our examples of Sarah and Mike, we can see that career paths can be very different.

While some people stay with one employer for a long time, others need to move organisations or industries to get the promotion and experience they want.

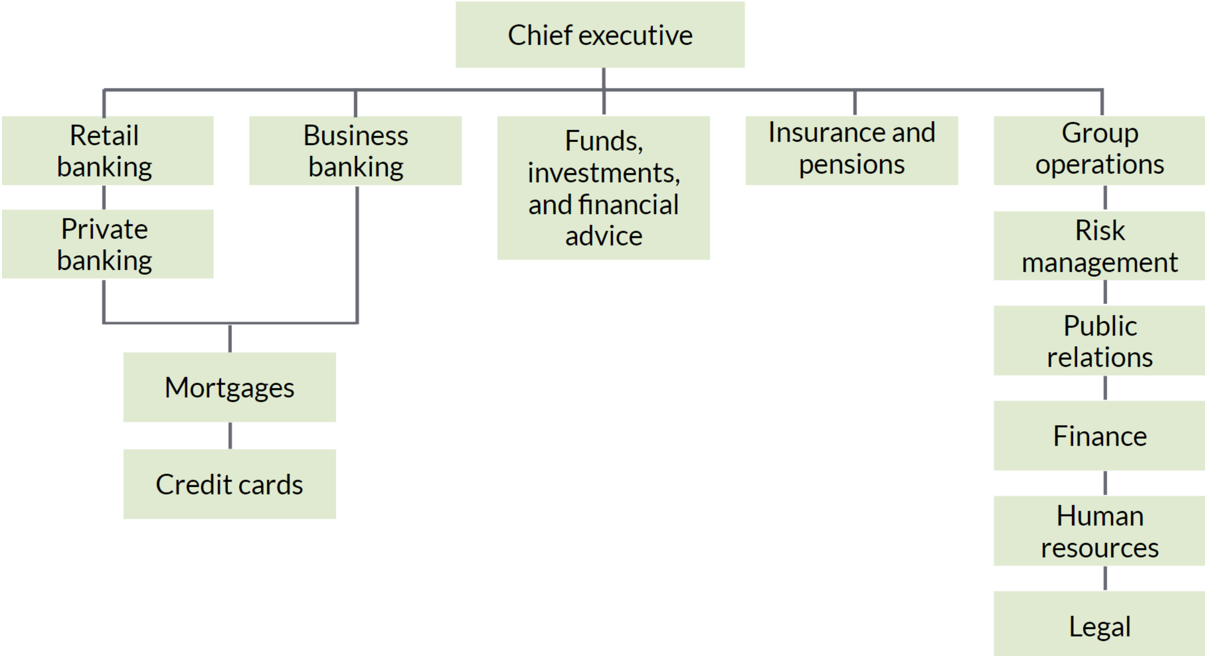
- For example, **building societies** may offer banking, loans and mortgages.
- **insurance companies** may offer general insurance and life assurance policies.

So if employees at these organisations want to gain wider experience or promotion, they may need to look for jobs at other companies.

However, large **financial services groups** offer a huge range of products and services.

This means they can offer staff a varied career with one employer.

Here is an example structure of a large banking group.



Inter-related products and services

Any customer of a financial organisation will need many financial products and services.

For example, people and businesses need banking services to:

- make transactions
- borrow money

- save money

  and

- insure themselves against risks.

So wherever you work in financial services, you will need to be aware of a wide range of products.

Smaller organisations usually sell the products they specialise in, and obtain other products from different providers.

For example, a **building society** offering mortgages might have an agreement with an **insurance company** to sell its buildings and contents insurance policies.

The **products are related** because people who buy homes need to protect them.

The **providers are related** because the building society and insurance company make arrangements to work together.

In a large banking group, one department of the organisation will sell products offered by another part of the organisation.

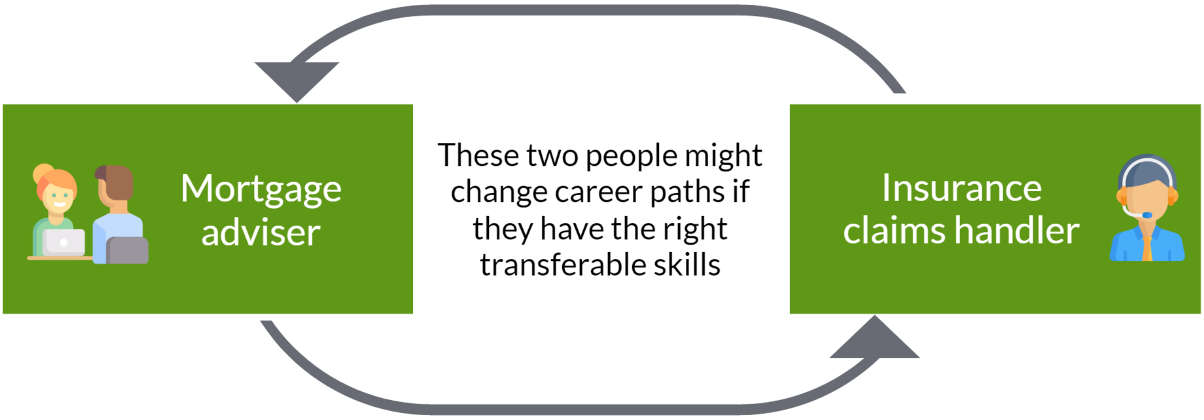
Mortgage salesperson:

"Would you also like to purchase our house insurance? Our insurance department is just over there."

Once people have worked in a sector of financial services and learned about a range of products, they have knowledge and skills that they can use in other financial sectors.

This is an example of **transferable skills** that can be used in other jobs.

This gives financial services staff flexibility in their career path, as they have the opportunity to move between sectors.



Jake's career plans

I work as a customer services representative in the retail department of a call centre.

My employer is large and offers many products and services.

I like customer service but want to move to the funds and investments department.

I have applied for a role in that department, and hope that my customer service skills and knowledge of the bank will help me get the job.

After I move departments, I want to work my way up to team leader and then into management.

Career guidance at work

We saw that Jake is planning his own career at the moment. Employers also get involved in planning the careers of their staff.

What might an organisation do?

Set **career paths** within departments, eg:

- Team member
- Team leader
- Supervisor of several teams
- Assistant department manager
- Department manager
- Director

- Encourage staff to develop their skills by going on **training courses** and taking on new tasks.
- The organisation may also sponsor staff to study for **qualifications**.
- Have formal **career development plans** for each employee.
    - These plans are usually made between employees and their managers once a year.
- Offer **leadership and management schemes** that give employees experience in a variety of departments so they understand the business well.
    - These schemes are sometimes called 'fast track' or 'accelerated' career paths, to help staff become effective as senior managers.
    - The short time spent in different departments gives staff experience that would take years to gain by working in a series of jobs.
- Organise **mentoring** schemes where a more experienced member of staff helps a more junior member of staff to develop their skills.
    - A mentor helps the staff member to handle work issues and to make sense of their experiences.

Professional associations and qualifications

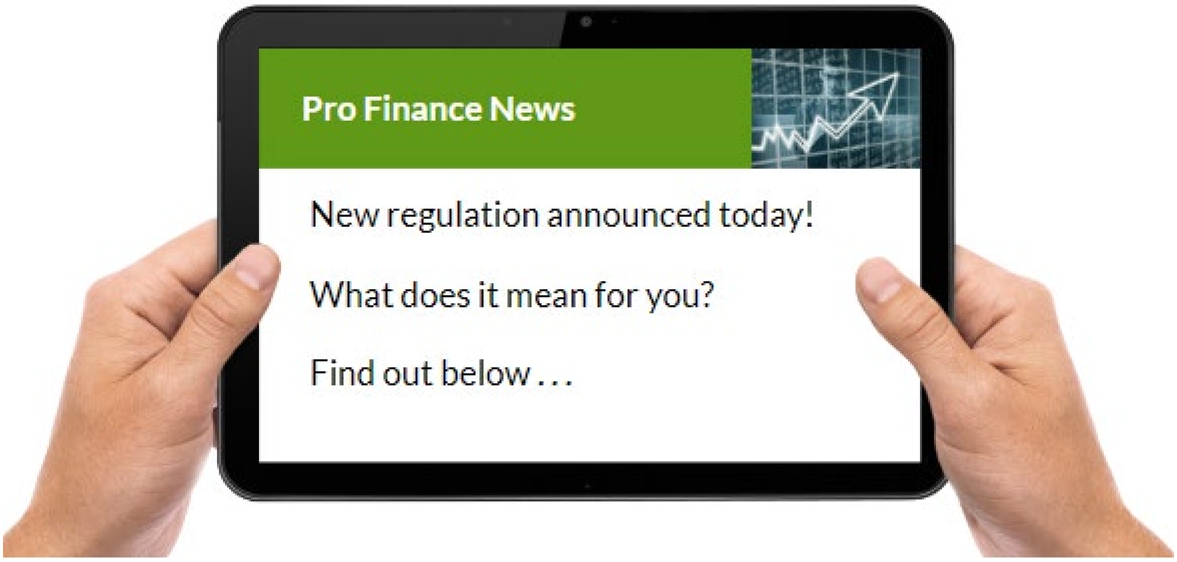
You will continue to learn throughout your career.

In addition to the skills needed for a new job, you might have to learn about the latest **products** and industry **regulations**.

For example, the strict rules around mortgage applications and how the loans work are contained in their own rulebook called Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).

Employers will offer you training courses and expect you to do **continuing professional development (CPD)** to keep up with changes in your field.

Professional associations help people keep up to date through news articles, online discussions, meetings and workshops, as well as through professional qualifications.



Professional qualifications give staff the knowledge and skills they need to perform their roles more effectively.

Some qualifications apply to a range of jobs, so they suit people who don't want to specialise or who prefer to pursue a career in management.

For example, management qualifications include the:

Chartered Management Institute's Certificate in Management and Leadership

Institute of Leadership and Management's Diploma in Management.

Other professional qualifications are needed before people can carry out specific roles, such as giving **mortgage advice** or **financial advice**.

There are professional qualifications at different levels to reflect the needs of people at different stages in their careers.

The higher the level, the more advanced the qualification is.

The levels refer to the **Regulated Qualifications Framework (RQF)**. For example, The London Institute of Banking & Finance offers:

- A Certificate in Mortgage Advice and Practice (CeMAP®) at Level 3
- A Diploma for Financial Advisers (DipFA®) at Level 4
- An Advanced Diploma in Financial Advice (Adv DipFA®) at Level 6.

Heather's professional qualifications

Heather is a financial adviser.

The Financial Conduct Authority (FCA) requires people to hold a recognised qualification at Level 4 before they can offer financial advice.

I hold the DipFA from The London Institute of Banking & Finance.

The DipFA is approved by the FCA, so it meets the requirement.

I studied for the DipFA in my own time. My employer gave me study leave to attend workshops and take the exams.

Now I am studying for the Level 6 advanced diploma (Adv DipFA) to improve my skills further.

Degree programmes are also available.

Courses & Qualifications

Full-time Degrees

Take your first step towards a rewarding career in banking or the wider financial services industry with our degrees

Retail and business banking

There are many different roles in retail and business banking. Career paths can also be varied.

Most employees start in **junior** or **trainee roles** and then progress. Some people specialise in:

- a particular function (such as marketing) or
- a particular product (such as mortgages).

Others prefer more generalist experience, moving between different departments in banks or between different sectors in the industry.

These people often focus on developing management skills.

There are similar career paths in business banking.

More senior jobs involve managing the accounts of businesses with larger volumes of sales, and managing more people.

Example career in business banking

- Small businesses typically have sales of less than £250,000 per year.
- Corporate customers typically have sales of more than £5 million per year.

Business banking also offers careers in specialist services such as trade finance.

Jeff, international trade finance manager

I did a BSc (Hons) degree in Finance and Accounting for Financial Services.

Then I joined a business bank’s graduate development scheme, working in various departments over two years.

This helped me to gain experience and training.

Then I was appointed assistant manager of the international trade section.

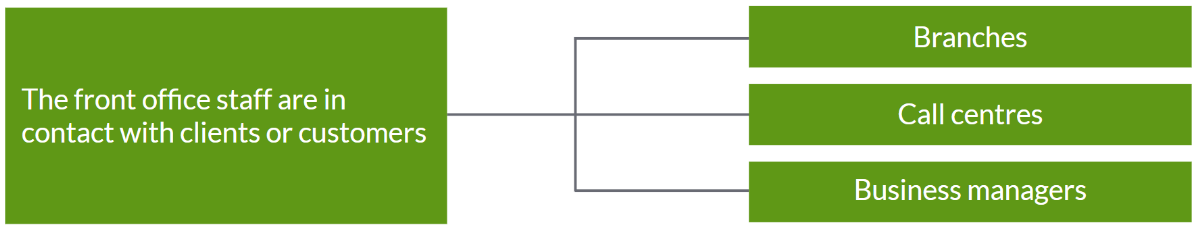
I worked for six months in the Singapore office and now I manage the international trade finance department.

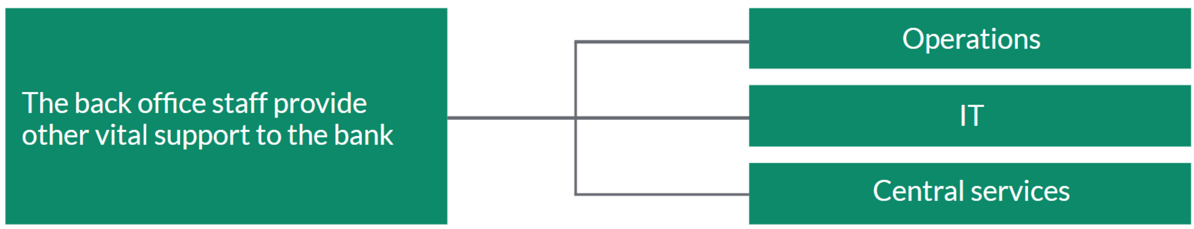
I have gained the Certificate in International Trade and Finance (CITF®) professional qualification to help me in my career.

Professional qualifications
Certificate in International Trade and Finance (CITF®)

CITF enables trade services specialists to demonstrate expertise in the key procedures, practices and legislation in international trade finance, and their readiness for career progression.

There are '**front office**' and '**back office**' functions of a bank.





Different departments offer careers for people with different skills and interests.

Go to the course site to complete the activity: Career progression.

Funds and investments

The funds and investments sector of financial services offers many different jobs and career paths.

Example career in funds and investments

Fund administrator: Processes transactions, answers client queries, does filing and helps to prepare reports.

Investment analyst: Provides stockbrokers with information on how shares and markets perform, to help them decide which shares to buy and sell.

Stockbroker: Buys and sells shares for clients with the goal of making them money.

Investment fund manager: Manages buying and selling decisions for a fund such as a pension fund, which holds all the money saved for a company's employees when they retire.

Rick, stockbroker

I did a degree in maths and then joined an investment bank as a graduate trainee.

My first job was as an investment analyst, researching stocks and shares for the stockbrokers.

I did so well that the bank sponsored me to study for an Investment Advice Diploma.

I was also promoted to junior stockbroker, so I bought and sold stocks and shares for clients and the bank.

I have since been promoted to stockbroker, and I want to become a fund manager in the future.

Go to the course site to complete the activity: Suitable job roles.

Congratulations

You have completed Topic 2b!

Topic 2c will cover:

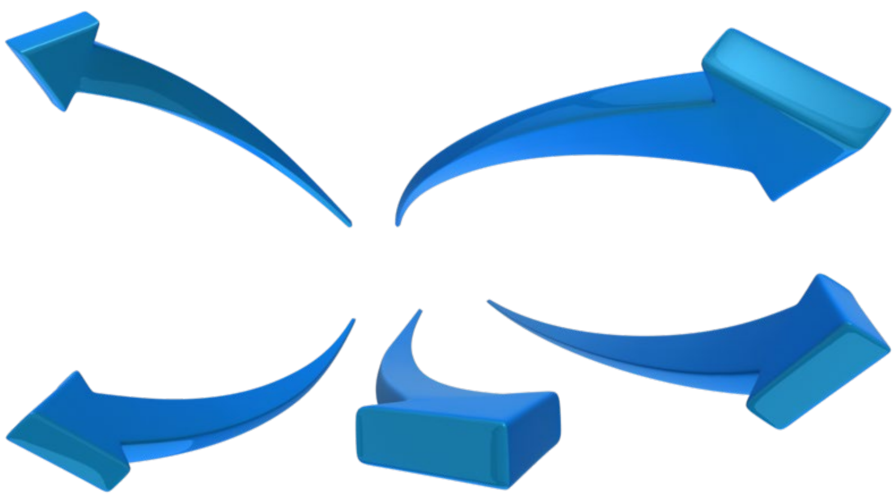
- different routes into careers, including apprenticeships, school leaver programmes and internships
- developing competencies to help you get a job and succeed at work
- making a career plan.

Topic 2c: Routes into financial careers and other industries

This topic helps you to:

- describe different schemes offered to employees who enter financial careers at different levels
- explain what it means to be sponsored to undertake further study
- identify the role of internships and work experience in helping people get into financial careers.

Many careers and career paths



Although this topic uses examples from financial services, you can apply the key points to careers in **any** field.

When getting started in your chosen career, you are likely to follow one of the **routes** we discuss in this topic.

Getting started in finance

As with many careers, there are a variety of ways to get started in the world of finance.

Most financial organisations recruit school leavers, graduates and people with experience in other industries.

They also have apprentice, intern and work experience programmes to help people get started.

Such programmes can help you to stand out from the crowd when you apply for a job.

First, let's look at some myths.

"You have to be very good at maths to work in finance"

You don't have to be a maths whiz to work in finance – in the UK you just have to pass GCSE Maths at grade 4.

If you are really good at maths, you might be interested in specialist roles such as actuary, analyst or accountant.

"You need to come from a certain background to work in financial services"

Financial services organisations recruit staff from all social, educational and experience backgrounds.

"You need to be based in London to work in financial services"

While London is a major financial centre and has lots of financial services jobs, most major UK cities also act as financial services centres.

There are also financial branches and offices all over the UK providing opportunities for jobs in the sector.

Some international organisations may offer employees the chance to work abroad as well as in the UK.

Apprenticeships

Apprenticeships combine:

- paid work
- industry training

  and
- further study that leads to a recognised qualification.

There are three types of apprenticeship:

Higher (Level 4)

Advanced (Level 3)

Intermediate (Level 2)

People can enter apprenticeship schemes at different levels depending on which qualifications they hold.

For example, someone with A-levels would look for a **Level 4** scheme.

Apprentices are recruited to do specific jobs at the organisation.

“I work in the call centre as an apprentice customer services representative.

I get on-the-job training to be able to do the job effectively, and to learn more about the industry.”

“I work for an insurance company as an apprentice administrator.

One day a week I get study leave, so that I can study for an apprenticeship qualification.”

Many finance apprenticeship schemes offer an entry-level **professional qualifications** as part of the apprenticeship.

- An **insurance company** may offer the Certificate in Insurance (Level 3) from the Chartered Insurance Institute.
- An **investment bank** may offer the Investment Operations Certificate (Level 3) from the Chartered Institute for Securities & Investment.

There are also qualifications that are not professional but are recognised in the industry.

Craig, forensic accountant

I started my career as an apprentice in my local council’s finance department.

Although I got three A-levels and could have gone to university, I wanted to start my career straight away.

The apprenticeship lasted three years and included studying for AAT accounting qualifications.

By studying one day a week, I was able to get two AAT qualifications.

I have worked for the council ever since, and later qualified as a chartered accountant.

Now I work in the council’s fraud investigation team.

To be eligible for an apprenticeship, you need to be aged 16 or over and no longer in full-time education.

Some financial apprenticeships require qualifications gained at school.

Others just require applicants to have the personal qualities that the employer wants.

Apprentices are paid at least the hourly national minimum wage that applies.

Apprenticeships must be at least 12 months long and some last up to five years.

Even if the apprenticeship scheme does not lead to a permanent job with that employer, it gives you relevant experience in the industry and a qualification that will help you get a job elsewhere.

FACTFIND

Find out how to apply for an apprenticeship at:
https://www.gov.uk/become-apprentice/apply-for-an-apprenticeship

School leaver programmes

Apprenticeships can suit school leavers.

But an alternative route into finance is to apply for a **school leaver programme** at a financial organisation.

Most financial organisations run these programmes as a way to introduce new staff to the industry and develop their skills.

They combine work experience and training, and can work in three different ways:

1. Structured training and work placements before starting your full-time job.
2. Being sponsored to do professional qualifications while also working full-time.
3. Being sponsored to do a degree *while also* working full-time.

Angie's school leaver programme

Angie just left school and has got a job at a building society as a trainee cashier.

Her school leaver programme lasts for six weeks.

Week 1

It starts with a five-day induction course that introduces her to the building society and its products and services.

Weeks 2 to 5

Over the next four weeks she spends five days working with and observing each of the following people in the branch:

- A cashier.
- A personal banker.
- A mortgage adviser.
- The assistant branch manager.

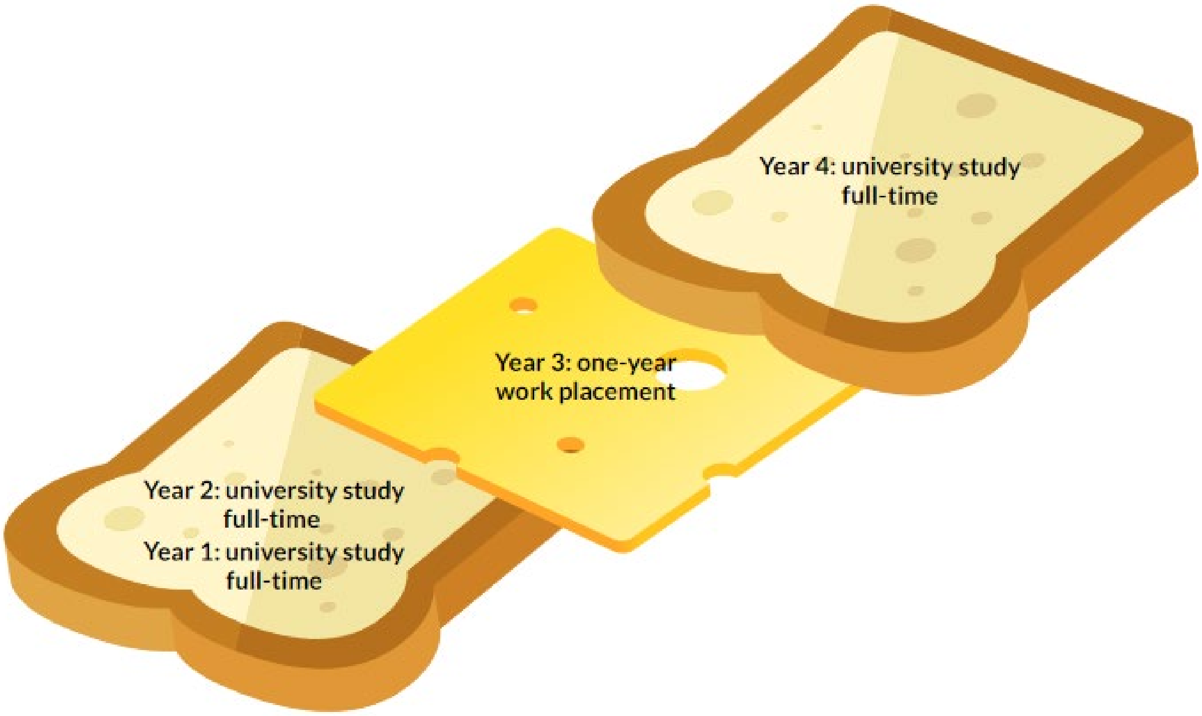
These experiences help her understand each role and how the branch works to meet customer needs.

Week 6

For the last week of her programme, Angie attends a cashier training course and practises tasks with an experienced cashier.

Some programmes sponsor the school leaver to do a sandwich course at university.

This means they go to university full-time but have a work placement year 'sandwiched' in the middle.



With this type of programme, the student gets a degree *and* paid practical work experience.

You can also combine a professional qualification and a degree.

If employees do not have the qualifications they need to start a degree course, a school leaver programme may sponsor them to do a **foundation degree** and then an **undergraduate degree**.

- A foundation degree is equal to two thirds of an undergraduate degree. It combines work and study and is focused on a specific industry.
- An undergraduate degree is a regular university degree taken by people who have, for example, finished their A-levels.

School leaver programmes can also include people to help you:

- A **buddy** is someone who has completed the programme recently.
- A **mentor** is a more senior person who is not your supervisor or manager.

University and graduate programmes

Graduate programmes are similar to school leaver programmes in that they provide structured training and experience for new starters.

These programmes typically last for one to three years.

They involve work placements in different parts of the business, as well as training.

Types of skill developed include:

Project manager Plans and oversees projects to ensure that deadlines are met.

Graduate trainees are also sponsored to get relevant professional qualifications in order to develop finance- specific skills, such as understanding the regulations.

Graduates are often recruited to become the managers and leaders of the future.

One day they will be making decisions that could affect the whole business.

Networking events during graduate programmes let the graduates meet and get to know each other.

This makes it easier for them to work together in future.

To join a financial organisation as a graduate, you need to get a good degree (a first, a 2:1 or sometimes a 2:2).

Oliver, programmer

I graduated from university with a 2:1 in computer science.

I was keen to work in financial services because of technological developments such as mobile banking.

A banking group offered me a place on its graduate programme.

I told the bank I wanted to specialise in IT, and the bank tailored the work to my interests.

Over the last three years I have worked on IT projects in the credit card department, in product development and in marketing.

I also attended an 'IT in finance' conference in the USA.

Now I really understand what my banking colleagues need from IT.

Internships

Internships offer work experience to university students during the holidays.

They are often paid, but not always.

Interns get to sample working for an employer in a particular role, to help decide if the employer and the job suits them.

The employer has a chance to assess the skills of the intern, to decide if they should be offered a place on the graduate programme.

So internships are a good way for students to gain work experience and demonstrate the skills they already have, such as:

- attention to detail

- communication skills
- team working.

Internships are available for students who are studying a variety of subjects.

The opportunities may vary depending on which year of your course you are in.

For example:

- A one-year internship between leaving school and going to university.
- A summer internship programme for eight or nine weeks before the last year of your course.

Lucy, international banker

Lucy

I speak both English and Mandarin, as my family are from mainland China.

At university I studied management and Chinese studies, but I wasn't sure what industry I wanted to work in.

So in my first year spring holiday I worked as an intern at an international bank, to get a feel for financial services.

Although it was only one week, the internship let me work in different departments and meet graduates who worked there full-time.

I enjoyed the experience and used my language skills talking to staff in the Beijing office.

Lucy's internship manager

Lucy impressed us during her spring internship, so we offered her a summer internship for the following year.

This time Lucy worked in wealth management, helping customers manage their accounts while living abroad.

She did so well that we offered her a place on our graduate trainee programme after she finished her university course.

Go to the course site to complete the activity: Match the career route to its features.

Work experience

Any work experience can improve the chances of getting a job.

It can be specific to the financial services industry or gained in other sectors.

For example, working in shops gives someone retail and customer service experience.

Voluntary work can show commitment, team work and organisation.

An effective way to **volunteer** is with a charity, whether fundraising for a good cause or working in a charity shop.

Financial organisations often offer work experience. Short-term experiences, where people learn from experienced employees, are sometimes known as job shadowing. For example:

- **Student holiday jobs** in the summer before the last year of school.
- **Insight days** introducing school students to the industry and organisation
- **Work placements** of up to one year for university students on sandwich courses.

Jacqueline, website designer

Jacqueline

At school I loved art and design, but I wasn't sure how I could use these skills at work.

Then I went on an insight day run by the local building society.

I toured the marketing department and realised I could use my design skills there.

Jacqueline's work placement manager

Jacqueline applied for a one-week work placement here, and I was her manager.

She enjoyed the tasks she did and impressed me with her skills and ideas.

We offered her a marketing apprenticeship when she left school and she has worked in the department ever since.

Tips for internships or work experience

Research the industry and the employer offering the work to make sure you choose the right placement for you.

Dress and behave as if you worked at the employer full-time. Before you start, ask about the employer's dress code.

This will show the employer how suitable you are for a permanent job.

Ask questions that show you want to know more about the skills needed to do the job well.

Remember the people that you meet and build positive relationships.

You may meet them again if you get further work.

Developing competencies

We looked at competencies in Topic 1. Internships and work experience offer an ideal opportunity to develop your competencies.

As a result, when you apply for full-time work, or for another career route such as a school leaver programme, you will have a good idea of your strengths.

This gives you the confidence to talk about which competencies you can bring to an employer.

Work experience lets you build strengths you already know you have, but it also puts you in unfamiliar situations.

- You may learn new skills.
- You will identify competencies you have not used in depth before.

Jacqueline, website designer During my marketing work placement, I started to learn how advertisers target specific customers. I realised that I already used many of these techniques in my designs, to make them eye-catching. I combined my existing skills with my new knowledge to develop competencies in marketing design.

While some competencies may be particular to a certain industry or job type, many are transferable.

For example, every employer values **teamwork**, **communication skills** and **taking pride in a job well done**.

Developing such competencies during work experience will help you to impress employers later.

Lucy, international banker

In my internship, I demonstrated my communication skills talking to staff in the Beijing office.

This gives me a real-life example to talk about in future job interviews.

Assessing competencies

When starting on a career path, and throughout your working life, it is important to identify your strengths and weaknesses. This tells you:

- what you are good at and so what you should highlight to employers
  and
- which areas for improvement you should focus on to help achieve your career goals.

What are some common strengths?

After you identify which strengths you possess, think hard about how you have shown them in the workplace. For instance:

Initiative
Have you come up with ideas to solve problems without being asked?

Adaptability

Did you react and perform well when asked to change your priorities?

Organisation and planning
Have you managed your time effectively to meet your deadlines?

When you are asked about your strengths in a job interview, one way to answer is to mention what your colleagues say about you:

"My teammates have told me that I always . . .

My manager appreciates the way that I . . ."

This shows that your strengths are valued by the people you work with.

Employers do not expect their employees to be perfect (because nobody is), but they want to see a commitment to **improvement**.

If you can honestly identify a weakness and then plan how to improve it, this is much more impressive than believing you have no weaknesses.

What are some common weaknesses?

After you identify your weaknesses, think about how they have arisen in the workplace, and the steps you are taking to improve. For instance:

Missing deadlines
Are you setting more reminders and planning your day to ensure you get things done on time?

Stubbornness
Will you attempt to understand your colleagues' points of view and take their ideas on board?

Easily distracted
Have you started to limit how long you spend chatting by the coffee machine?

When you are asked about your weaknesses in a job interview, you should be honest but positive. Don't say 'I have always been impatient and that's just the way I am'.

Instead, think of a situation when you acted impatiently, then explain how you are improving to become less impatient in future.

To help improve your weaknesses, set **SMART** goals.

Specific	Well-defined and clear. For example, not 'improve working relationships' but 'schedule meetings to discuss how to improve team communication'.
Measurable	You can see how far away the goal is, and will know when you have reached it.
Achievable	The target should challenge and motivate you, but not be so ambitious to cause you undue stress.
Realistic	You are not trying to change radically in a week, but to make step-by-step improvements that gradually make a big difference.
Timely	Give your goal a deadline, and set intermediate deadlines along the way to review your progress.

Career plan

Whatever sector you want to work in, making a career plan will focus you on the right track to achieving your goals.

Deciding the right career for you means focusing on personal factors we have discussed in this unit:

- your skills and qualifications, values and interests
  and
- preferred location, working pattern and commuting time.

You may also prefer a certain type of work culture, such as a small, relaxed company or a hectic, busy environment.

If you are at school or college, ask whether you have access to a career guidance resource such as Morrisby or Kudos.

These sites offer career suggestions based on a short questionnaire about your interests and strengths.

You then match career options to your profile and explore opportunities and career routes.

Prioritise your personal factors to help you decide on a suitable career plan.

What are your top five skills?
What is most important to you in a job?
What is a 'deal breaker', ie what factors mean you would not accept a certain job?

Use your prioritised list to research careers that appeal to you. Find out what these careers require in terms of skills, training and experience.

Speak to family and friends, and to a careers adviser if you have access to one.

When you have a career in mind, you can begin to set short-term, medium- term and long-term goals to help decide what actions to take.

- A **short-term goal** is something achievable within six months or a year. You might aim to enrol on a particular course, or to get an interview that leads to a job on your career ladder. As short-term goals are achieved, you can set new ones to develop your skills further and build towards medium-term and long-term goals.
- A **medium-term goal** might take two to five years to achieve. You may want to be promoted to a higher-paying role, or retrain to work in a different field.
- A **long-term goal** will take five or more years to reach. You might want to become a head of department at your workplace, or to complete high-level qualifications that allow you to take a step up.

You can work backwards from your long-term goal to determine medium-term and short-term goals to get there.

Then structure your career plan in a logical way to keep your thoughts in order.

Personal overview

Brief outline of your background and what you want to achieve, including your strengths and interests, and your current situation.

Education

Overview of your qualifications and any other training you have completed.

Employment history

Summary of your work experience so far.

SMART goals

Short term: one year or less.

Medium term: two to five years.

Long term: five years or more.

Current skills, knowledge and experience

Key competencies from work, life or education.

Training needs

Assess what development activity you need to complete in order to achieve your goals.

Action plan

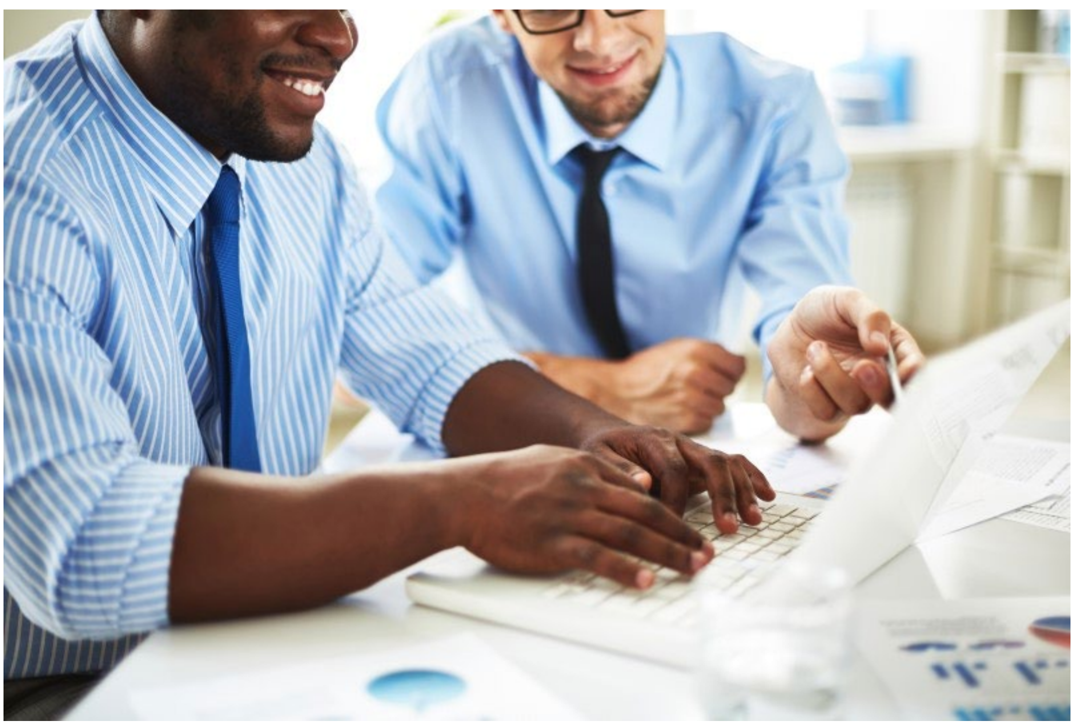
A step-by-step list of actions you will take to reach your goals, with a clear timescale for each action.

Make your actions SMART. Limit yourself to a handful of actions, then review your action plan every three months.

When you've drawn up your career plan, keep it somewhere handy – whether pinned to the wall or stored in an app.

Use the plan to guide your career decisions on a daily basis, and track your progress by updating the plan whenever necessary.

- Tick off goals as you achieve them.
- Reward yourself for achieving your goals.
- Add new competencies as you gain them.
- Update your training needs as new requirements arise.
- The plan is not set in stone: your goals may change.



Don’t be afraid to ask for support. If you are in [employment](), ask your manager for regular catch-ups to support you in reaching your goals. Managers are able to provide advice and to ensure your goals remain realistic.

If you have not started work, do you have a friend or family member who has achieved similar goals in the past? They might not be working in your desired career, but they will understand what it takes to accomplish a goal.

Go to the course site to complete the activity: Starting my career.

Congratulations

You have completed Topic 2!

Complete the end-of-topic quiz and activity to expand your learning for this topic.

Topic 3a: Financial wellbeing

This topic helps you to:

- explain the importance of financial wellbeing
- describe the requirements for opening a bank account and the steps involved
- explain what people do who don't have a bank account
- describe types of bank account to meet individual needs
- identify how to choose a financial services provider.

Financial wellbeing

Financial wellbeing is about having a good relationship with your money by feeling secure and in control of your finances, both now and in the future. It means knowing that you:

Can pay your bills today
Can deal with the unexpected
Are on track for a healthy financial future

People with good financial wellbeing can be less stressed about money. This, in turn, has positive effects on their overall mental and physical health, and on their relationships.

There are several important aspects to financial wellbeing, which we will consider throughout this overarching topic. These include:

- having a bank account to make and receive payments efficiently
- managing money by using modern tools such as mobile banking and budgeting apps
- planning to meet financial goals.

Opening a bank account

To open a bank account, you usually have to fill in an application form. Often, you can choose to do this either in a branch or online, and sometimes you can do it over the phone.

You will have to provide proof of your identity including your full name, date of birth and address.

Usually the bank requires two separate documents that prove who you are, for example your passport, and where you live, for instance a recent bill.

If you don't have any of the documents that the bank wants, the bank should accept a letter from a responsible person who knows you, such as a GP or teacher.

Banks or building societies can refuse to open an account for you. They don't have to give you a reason, and there is usually nothing you can do about it.

It tends to be certain groups of people who will experience difficulties.

Who might have trouble opening a bank account?

In most cases, a bank or building society is happy to open an account once an application form is completed and identification (ID) and verification documents have been provided. Opening an account is subject to terms and conditions.

When you open an account with a bank or building society and use its services, you are entering into a contract.

The terms of the contract will depend on the bank or building society and the type of account or other service you use.

What do terms and conditions include?

The terms and conditions include information such as:

- details of all charges
- how you will be given information about your account
- any spending limits on your account
- what to do if things go wrong.

The information should be given to you in a way that is easy for you to understand.

After you have opened an account, your bank or building society should tell you about any changes to terms and conditions at least two months before they are made.

Reasons for having, or not having, a bank account

Having a bank account is something that most people take for granted. In many ways it is a fundamental part of what makes our daily lives function.

Whether it is to receive a salary, benefits or pensions or to pay utility bills and go shopping, most people count on direct debits, debit cards and credit cards for everyday transactions.

Where cash was once the most common form of payment, card is now king.

The world is becoming more digital and we are moving ever closer to a cashless society.

Individuals enjoy the convenience of different payment systems, whether:

- payment facilities available through a bank account
- electronic payments
- payment cards; or
- mobile phones.

Receiving income and making payments is much harder for individuals who do not have a bank account.

Although the percentage of people who are unbanked – ie without a bank account – in the UK is relatively small, it still amounts to well over a million people who struggle daily because they are unbanked.

The main reasons for being unbanked are:

- age
- low income
- poor credit history.

Individuals in these three groups have to receive and pay all transactions in cash or rely on a relative's bank account to receive wages and benefits and make payments.

Age

Older people who grew up at a time when financial products such as credit and debit cards did not exist and are in the habit of using cash. Many without a bank account do not trust or understand banks or electronic payments.

Low income

Individuals with no family history of using bank services are more likely to have a low income or be unemployed. In many cases people cannot provide the required ID or proof of address documents to open an account.

However, many people in this group will now have to open bank accounts because it is government policy to pay benefits electronically.

Poor credit history

Individuals with a poor credit history who have been declined a bank account or had it withdrawn for this reason.

When Jim overslept

Let’s look at what happens to Jim when he doesn't have access to his bank accounts.

Jim works in an office.

Each day his colleague Hasim gives him a lift to work in his car.

After work, Hasim goes to the gym, so Jim catches the bus home.

One day, Jim overslept and had to rush to get ready in time for his lift to work. Because of this, Jim forgot to take his wallet, bank cards and mobile phone with him.

When he got to work, he discovered that he only had a small number of coins in his pockets.

Jim’s office has a staff canteen, but this only accepts card payments. So at break and lunch time, Jim had to ask one of his colleagues to buy him coffee and a sandwich by promising he would pay them back.

After work, Jim waited for the bus to go home. He usually paid his bus fare by mobile phone app. He counted the coins he had on him and realised he did not have enough for his bus fare.

Fortunately, Jim found a public payphone that would accept coins, so he called his father to come and pick him up and take him home.

Jim realised that access to his bank account through his bank cards and mobile phone app was essential. Without his cards and phone, he had to ask for loans from his friends, find a public telephone, make a small cash payment and inconvenience his father.

He never forgot his bank cards and mobile phone again!

Bank accounts to meet the needs of individuals

There are different types of bank account that you can use for different reasons.

Current accounts

You can use a current account to help you manage your money day to day. This includes:

Paying your bills
Receiving money, such as salary or benefits
Keeping track of where your money is going

Some current accounts can also earn you interest on the money you have in the account, although this is likely to be less than savings accounts.

With a current account, you will get a debit card that you can use in shops and online to pay for things, and with which you can withdraw your money from cash machines. You may also get a chequebook, an older form of paying that only some places now accept. The bank may let you have an overdraft and access to other kinds of borrowing. You will be allowed to set up direct debits and standing orders.

Basic bank accounts

If you have a poor credit rating or a low income, you may have problems opening a standard current account or savings account. However, someone in this situation may be able to open a basic bank account.

Banks and building societies must tell you whether it offers basic bank accounts. If it does, it must tell you the conditions you must meet to be able to open one.

You should still be able to get a basic account even if a credit check shows that you have previous bad debts or outstanding county court judgments.

If you have a basic bank account you usually:

- don't need to put money in the account to open it
- don't have to pay any fees
- can pay your wages, salary and benefits directly into the account
- can pay in cheques and cash
- can pay bills by direct debit
- can withdraw money from cash machines.

There are some disadvantages or limitations to having a basic bank account. These include that:

- you won’t be able to have a chequebook or go overdrawn
- if you have set up a direct debit and there is not enough money to pay it, you might be charged for this.

Although the lack of an overdraft is a limitation, it can help people with a basic bank account to achieve financial wellbeing. This is because they are safe in the knowledge that they can only spend what they have in the account – they can’t get into debt.

Go to the course site to complete the activity: Bank accounts.

Choosing a financial services provider

A wide range of bank account providers offer a large number of account choices. Making a choice can be daunting.

Many people opening their first bank account rely on their family.

Parents may have opened a savings account for their young child many years before that person needs to operate their own account. It is common for a current account later to be opened with the same bank when it is needed, but there is other help available.

Comparison websites can be a good starting point for anyone trying to find a current account tailored to their needs.

Many of these sites provide tools to compare bank account fees and charges, showing all the fees and charges that apply to bank accounts.

FACTFIND

Take a look at two websites that compare current accounts:

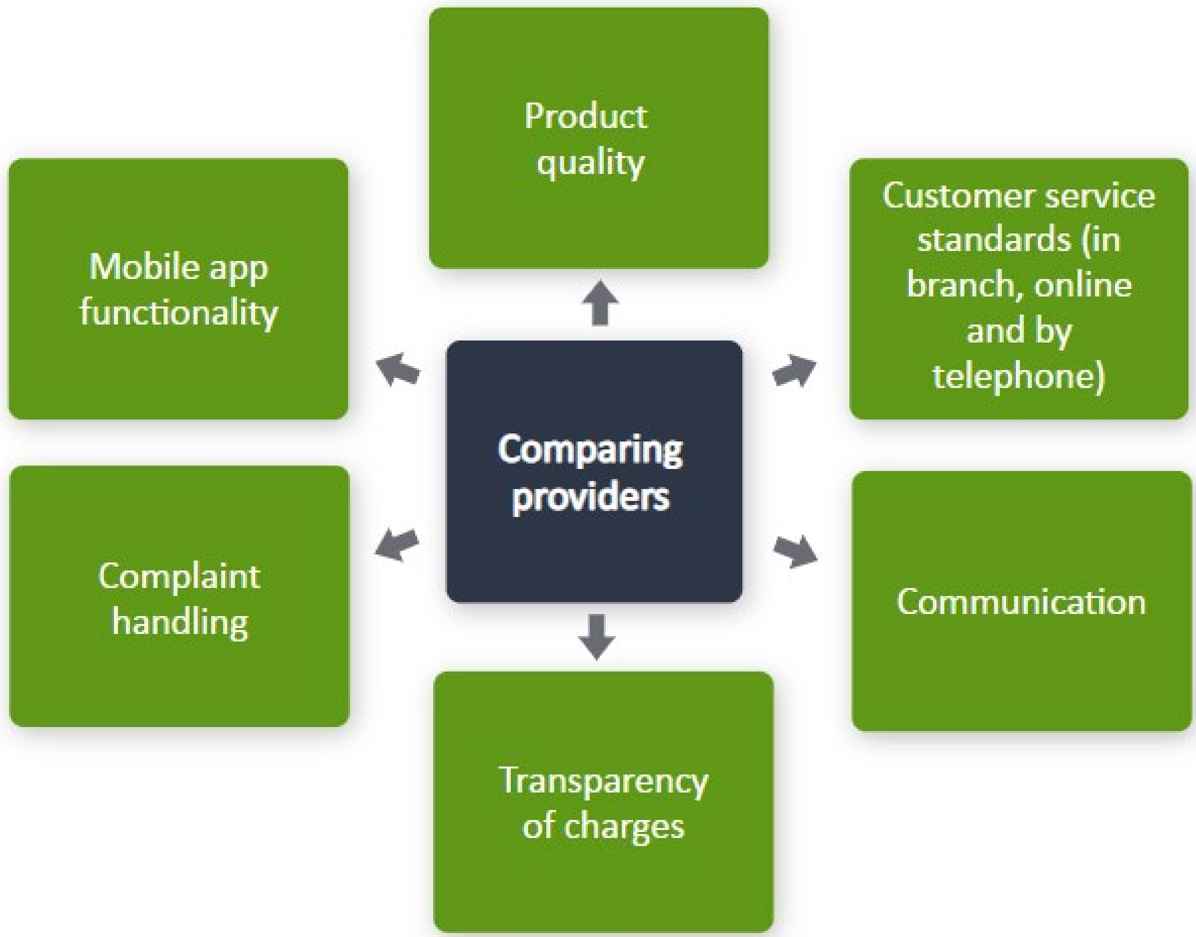
- MoneySavingExpert
- Which?

Comparison websites will not all give you the same results, so it is a good idea to use more than one before deciding. We will look at comparison websites in more detail later.

It is also important to do some research on the type of product and features you need before deciding.

Consumer organisations such as Which? also provide quality ratings to compare banks and other providers on a range of issues to determine those offering the best deal overall.

What typical issues that are assessed in comparing providers?



It is also now very easy to switch bank account providers by using the Current Account Switch Service.

The Current Account Switch Guarantee means your new bank will switch your payments and transfer your balance, and your old bank will take care of closing your old account. So you do not need to worry.

Watch
Find out how the Current Account Switch Guarantee works from Pay.uk on Vimeo.

If the provider that you initially choose does not meet your needs, you can switch to another provider offering a better service without hassle.

Congratulations

You have completed Topic 3a!

Topic 3b will cover:

- financial mobile apps and wallets, including saving and budgeting apps
- free money-related resources online
- price comparison sites.

Topic 3b: Modern money management

This topic helps you to:

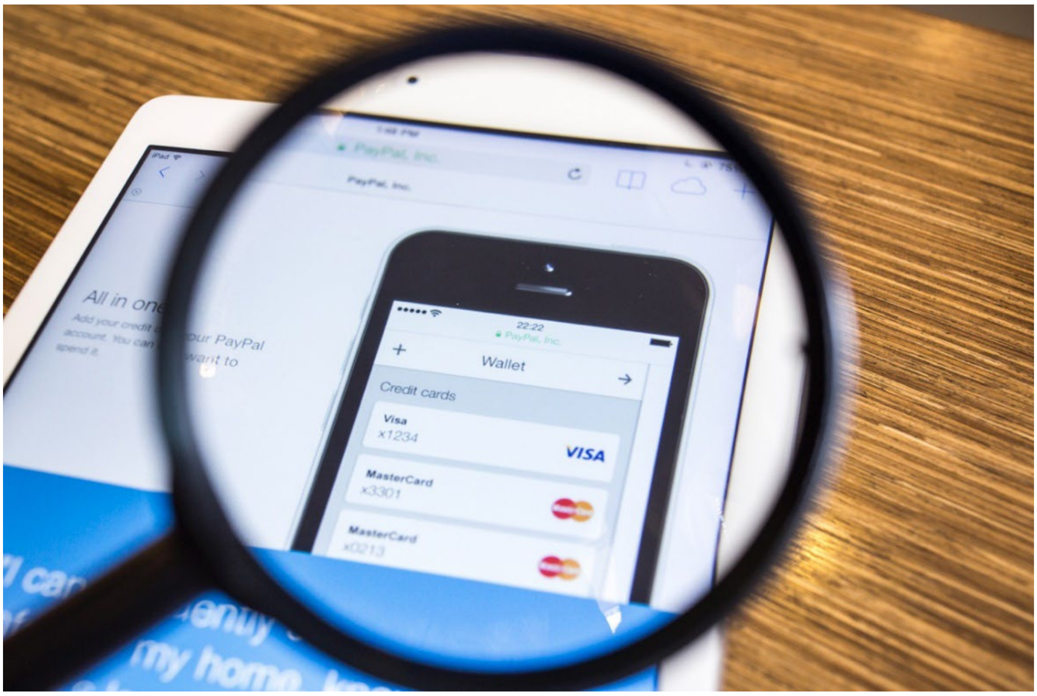
- describe the modern tools available to manage money
- understand some free online sources of money advice
- explain what comparison sites provide.

Mobile banking applications (apps)

Technological advancements have not only provided a range of ways in which you can perform banking transactions.

They have also supported the development of tools to help you manage money effectively.

Nowadays a mobile phone, among other uses, can be seen as a portable banking terminal.



Apps on smartphones give customers access to bank accounts on handheld devices.

Customers use a combination of user IDs, passcodes or fingerprints to make payments, check their transaction history and use other services ‘on the go’ via mobile apps.

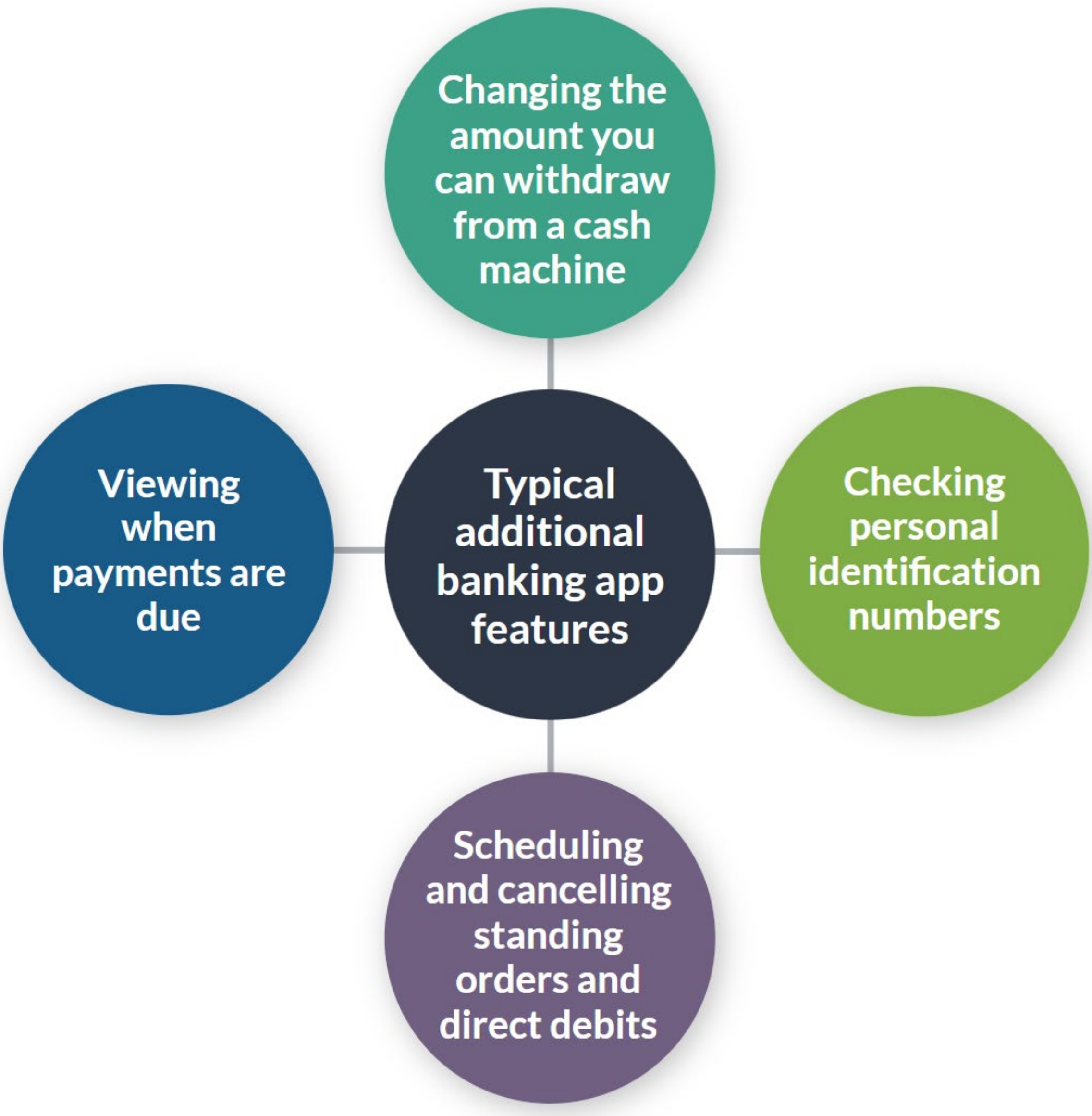
The main uses of mobile banking services include:

Checking account balances
Paying bills
Transferring funds

The full range of services available through an app will depend on the provider.

However, most providers are increasing their app functionality to meet customer expectations.

What additional services do apps typically offer?



Account holders may also be able to apply controls relating to online, app and phone payments, such as setting weekly or monthly limits on debit card spending.

Mobile wallets

Many financial services providers offer payment services through the use of a mobile wallet. This is a form of payment app that the user links to their bank account so they can quickly make payments on the move.

Customers can use their smartphones or wearable technology, such as a smartwatch, to access their bank account and make payments up to a specified daily limit using this technology.

Providers such as Paym offer the capability to make direct payments between individuals by linking mobile phone and bank account information. So, for example, friends can pay each other back for coffee or their share of a takeaway.

FACTFIND

You can find out more about Paym by visiting the Paym website.

Saving and budgeting apps

Savings

Autosaving apps use technology to work out what you can afford to save and then do it for you, automatically.

Some move money from your bank account to a virtual savings account. Others 'round up' your purchases to the nearest pound and save the change for you. In theory, these features should help you save without having to think about it, leading to higher savings building up.

The idea is that you start building up savings without noticing the money is going, because it is such small amounts. This can be useful if you find it difficult to put money aside or do not know how to start saving.

Budgeting and spending analysis

Budgeting and spending apps can help track your personal finances on the go to give you an overall picture of:

What you are earning
What you are spending
What financial habits you may need to change

They are typically designed for general personal budgeting, and each app offers features to help you build strong financial habits.

The main function of these apps is to help you create a workable budget that you can stick to, based on your typical income and spending. You can create different budget categories and assign money from your income to those categories. The apps can track your spending by linking to your bank and credit card accounts and automatically recording new purchases and other debit transactions for you.

Using a budgeting app can help you stick to your budget and spending plan. The challenge is knowing how to use the app to your advantage.

Advantages and disadvantages of budgeting and spending analysis apps

ADVANTAGES

Convenience

Compared to using a budgeting spreadsheet or writing down your budget on paper, an app that you can download to your phone or tablet is easier to manage.

Ease of use

Budgeting apps take the hassle out of making a budget and tracking expenses. You have to sync up your accounts to the app and tell the app about your income and expenses initially. But once you get your budget set up, the app can manage it for you.

Financial awareness

Having financial information on hand all the time can help you become more conscious of what you are spending.

Comprehensive view

As an app links to your bank and credit card accounts, it provides a complete snapshot of your finances at any given time. That is helpful if you are paying down debt or want to track your finances easily from month to month.

DISADVANTAGES

Commitment

You have to be prepared to follow through with the spending plan you set for yourself.

Attention

If you're not logging in to the app daily to check your balance, you risk going overdrawn from an automatic bill payment. This could result in overdraft fees or unpaid bills. Setting up low-balance notifications can help avoid that, but attention needs to be paid to these.

Accountability

Budgeting apps do not enforce any consequences if you do not use the tools they provide. It is up to you to analyse your spending and figure out where your money's going and what you might need to change to improve your finances.

Comprehensive view

If you are in the habit of overspending, using a budgeting app alone will not change that behaviour. An app can point out where the holes in your budget are but cannot help you pinpoint what's causing you to overspend. You must be willing to address any poor financial habits.

Text alerts

Text message alerts to mobile phones are offered by many banks.

Text alerts can advise customers...

of their account balance.

that they are approaching the limit of their overdraft facility.

that a payment is due.

about potential fraud on their account.

Customers can feel more comfortable receiving a text than a telephone call, as they do not feel 'put on the spot' in the same way. Texting is a convenient, confidential and straightforward way of receiving financial information to help customers manage their finances effectively.

Go to the course site to complete the activity: App solutions.

Free website resources

There are various sources of financial information and guidance available to support individuals with managing their money and financial affairs.

We will look at four well-known sources.

Money and Pensions Service (MaPS)

MaPS was launched in 2019 and brings together three respected financial guidance bodies:

- the Money Advice Service, which has become MoneyHelper
- the Pensions Advisory Service
- Pension Wise.

MaPS is an arm's-length body sponsored by the government. It engages with HM Treasury on policy matters relating to financial capability and debt advice. It has five core functions.

MaPS functions

MoneyHelper offers free money guidance on topics including:

- benefits
- everyday money

- family and care
- homes
- money troubles
- pensions and retirement
- savings
- work.

It includes in-depth guides to help people improve their finances, plus tools and calculators so people can plan ahead with confidence. People can also phone MoneyHelper or talk to them online about money issues.

FACTFIND

You can find out more about the work of MaPS by visiting the Money and Pensions Service website.

Money Advice Trust (MAT)

MAT is a national charity that helps people across the UK to tackle their debts and manage their money with confidence.

An aim of MAT is to help people with debt problems to get consistent, quality advice. It achieves this by providing free, independent debt advice through its telephone and online advice services, the National Debtline and Business Debtline.

FACTFIND

You can find out more about the work of MAT by visiting the Money Advice Trust website.

Citizens Advice

Citizens Advice is a large network of independent charity that offers free confidential advice online, over the phone and in person.

Advice is available across a wide range of areas, including help with debt and money issues.

Citizens Advice can assist people who are struggling with debt with problems of different degrees of severity, from basic problems right through to debt management, individual voluntary arrangements and bankruptcy.

Citizens Advice has numerous guides and tools available to help people better manage their money and find financial solutions to their debt problems.

FACTFIND

Find out more about some of Citizens Advice's services:

- Making a plan to pay your debts
- Debt and money

What is Citizens Advice?

Watch this short video that outlines what Citizens Advice does and how the service works, from the perspective of one of its independent charities.

https://www.youtube.com/watch?v=TNo26iPlvMk

StepChange Debt Charity

StepChange is a charity that helps people living in the UK with debt problems. StepChange provides a free national telephone service and a free online debt assessment tool.

StepChange's core objectives are to:

- provide and create greater awareness of free debt advice and solutions
- champion the cause of people who are in, or at risk of, problem debt by influencing policymakers campaigning for change
- enhance people's financial understanding and capability so that they can better manage their money and debts and recover from problem debt.

The advisory service provides free advice on dealing with debt. Debt experts follow a three-step process:

1) Working out a budget, income and debts
2) Using the information gathered to find a solution to debt that suits the person's situation
3) Setting up the most appropriate debt solution, and continuing to offer support for however long it is needed

FACTFIND

You can find out more about the work of StepChange at:

- Debt management solutions
- Our free debt service

Price comparison sites

Price comparison sites do exactly what their name implies: compare the price of goods and services from a range of providers.

These sites exist for many consumer items, but the most well-known specialise in financial products such as insurance, credit cards and personal loans.

Comparison websites let you get quotes from a variety of firms in one go. This means you can make quick enquiries about what is on offer across the market without having to fill in multiple sets of forms with different companies.

Some sites provide simple 'best buy' tables. Personal loans and credit cards, for example, can be quickly compared on screen.

Other sites ask you questions about your preferences and personal details, and then provide you with personalised results. For example, to get car, home and travel insurance rates, you will need to reveal more information about yourself, as these are priced based on your circumstances.

Example: information needed for quotes

When you are browsing for car insurance quotes on a comparison site, you will be asked for your age, address, occupation and driving history. All of these factors can affect the cost of cover. You will also have to supply information about your car and who is driving it.

Details about your home and personal belongings will be needed when searching for home insurance quotes.

You will need details of your journey and medical history when shopping for travel insurance.

It might take 10–15 minutes to supply a price comparison website with the information necessary to give you dozens of quotations for these financial products.

Congratulations

You have completed Topic 3b!

Topic 3c will cover:

- financial planning to meet needs, wants and aspirations
- cost considerations when buying or saving
- attitudes to financial risk.

Topic 3c: Financial planning

This topic helps you to:

- explain the differences between needs, wants and aspirations
- identify how to plan for a financial goal
- understand how to finance goals through saving or borrowing.

Needs, wants and aspirations

One of the main reasons why it is important to manage money effectively is to enable you to plan ahead to meet financial goals in the future.

Every individual is different and will make different lifestyle choices about how they spend their money. These choices are limited by income and financial circumstances, as no one has an unlimited supply of money.

To make choices, individuals must make decisions about the needs, wants and aspirations they are going to satisfy.

No two individuals will make the same choices, but their needs, wants and aspirations all need to be paid for.

Needs

These are things without which we would not survive. For example, everyone needs food, drink and protection in the form of clothes and shelter. These basic needs have to be paid for before we can consider satisfying wants and aspirations.

Wants

These are not essential items but those that satisfy our desires in some way, such as a top-of-the-range car when only a basic model is actually needed to get to work every day.

People buy products to satisfy both needs and wants. People may buy things they want but do not really need.

Sammy chooses to eat a basic diet and go without entertainment so she can put most of her resources into purchasing a big, comfortable house.

Jo chooses to rent a small flat and spend all her money on travelling around the world.

Aspirations

Aspirations are what people hope to achieve in the future, such as taking a round-the-world trip or saving for a comfortable retirement.

Disposable and discretionary income

Individuals use their income to finance all their needs, wants and aspirations. They may borrow to pay for some of these, but income is needed to make the loan repayments if they do. We consider financing options later in this topic.

Disposable income

Disposable income is the amount of net income an individual has available to them to spend, save or invest after income taxes.

Employees normally receive net pay, as their employers must deduct all taxes due from gross pay.

Discretionary income

Discretionary income is calculated by taking your monthly income after taxes (disposable income) and then subtracting all your essential bills from it.

The amount that is left is your discretionary income, as it can be spent on whatever you like.

So:

Individuals meet their needs from their **disposable** income.

Wants and aspirations are funded from **discretionary** income.

Planning

Making decisions about needs, wants and aspirations helps people to identify their **financial goals**.

Financial goals are the personal, big-picture objectives you set for how you will save and spend money. They can be things you hope to achieve in the short term or further into the future. Either way, it's often easier to reach your goals if you identify them in advance. Financial goals are more likely to be met if they are important to you.

Examples of financial goals

The next step is deciding how to meet these financial goals by influencing the actions you take today. For example, say your goal is to go on holiday with friends in nine months' time.

You might:

Spend less: Cut back on takeaway dinners and going to the cinema.

Save more: Use the money you save to pay for your holiday instead.

Without establishing a financial goal that is important to you, you are more likely to continue spending as usual and not be able to afford the holiday.

Like all expenses, financial goals should be included in your budget. That way, you can take steps towards reaching them while leaving room for other costs. Plan out how much time it will take to reach each goal and how much money you will need to contribute within the required time period.

Identifying goals and creating a realistic plan for them allows you to track progress and motivates you to keep going.

Example: planning for a holiday

Take a look at how Julie plans to pay for her holiday.

Julie is looking forward to going on holiday with her friends in nine months' time. The holiday is going to cost her £900.

To pay for her holiday, Julie has included a monthly expense of £100 in her budget. She intends to transfer this money to a separate savings account each month.

As her money is limited, she knows that to afford £100 per month she will have to reduce the number of takeaway dinners she currently eats. She will cook more regularly for herself.

To save more money, she has also decided to go out two times a week rather than three to socialise with her friends.

Financing goals through saving or borrowing

Financial goals have to be paid for. This usually involves choosing suitable financial products.

Individuals have two basic choices:

- **buy now and pay later**: this can be achieved by borrowing and then repaying the borrowed money over time, such as through the financial products of personal loans or credit cards
- **save now and buy later**: typical financial products are savings account.

Example: saving and borrowing for a holiday

Take a look at how Julie's friends take different approaches to paying for their holiday.

Let's consider Julie again, who is going on holiday with her friends.

Julie has decided to budget for the £900 cost of her holiday in nine months' time by saving £100 per month for nine months. She is saving now to buy her holiday later.

Julie's friend Amy is also planning to go on the holiday. However, Amy has decided to borrow £900 to pay for her holiday. Amy intends to repay her personal loan by 12 monthly instalments. She is buying her holiday now and paying later.

Julie's other friend Debbie will also be going on the holiday with Julie and Amy. Debbie has decided to meet her £900 holiday cost by saving some money over the next nine months and borrowing the rest through a personal loan. Debbie is using a combination of both financing options.

Cost considerations: buy now

If you choose to buy now and pay later, you will need to borrow.
A borrower pays interest on the amount borrowed, so this is the cost involved in borrowing in addition to repaying the amount borrowed.

Borrowers may also have to pay application and arrangement fees, which add to the cost of borrowing and need to be considered before deciding whether to go ahead with a new loan.

Borrowers also need to consider opportunity cost when committing to a loan. An opportunity cost is a potential benefit a person misses out on when choosing one action over another. When borrowing, the borrower must make repayments from income (usually monthly), which limits their ability to pay for other wants.

Example: Ajay's opportunity cost

Take a look at how opportunity cost affects Ajay's decision making.

Ajay rents a very small flat. He has disposable income of £2,000 per month.

His discretionary income is £500 a month.

Ajay decides to take out a loan to buy a new motorbike. The monthly loan repayments are £350 per month for the next three years.

His discretionary income reduces to £150 per month because of the loan repayments.

His friend Steve then offers Ajay the chance to rent a much larger flat with him in an area where Ajay has always wanted to live.

Steve advises Ajay that his share of the rent would be £225 more than Ajay is currently paying.

Ajay has insufficient disposable income to afford this, so he has to decline Steve's offer.

The opportunity cost of Ajay's motorbike is that he can't afford to move to a better flat.

Key terms

Discretionary income

Monthly income after taxes (disposable income) less all essential bills. The amount that can be spent on whatever you like or that can be saved.

Disposable income
The amount of net income an individual has available to them to spend, save or invest after income taxes.

Cost considerations: save now

If you choose to save now and buy later, you will avoid borrowing costs. A savings account might also pay you interest.

But savers also need to consider opportunity costs. By choosing to delay an important purchase, a person will miss out on other opportunities.

Example: Jill's opportunity cost

Take a look at how opportunity cost affects Jill's travel options.

Jill decides to save up to buy her first car after she passes her driving test. She has estimated that this will take two years.

The opportunity costs to Jill are that for the next two years she will have to continue to pay for public transport to get to work and meet her friends. This is both costly and inconvenient.

Go to the course site to complete the activity: Attitude to risk.

Congratulations

You have completed Topic 3!

Complete the end-of-topic quiz and activity to expand your learning for this topic.

Topic 4a: Sustainability and the life cycle

This topic helps you to:

- define personal financial sustainability
- identify the stages of a personal life cycle
- describe the changing wants, needs and aspirations of individuals at different stages of their life cycle.

Financial sustainability

Personal financial sustainability is where a person maintains a balance between their personal income and expenditure to meet needs, wants and aspirations within a budget.

We considered personal income, needs, wants and aspirations in Topic 3 and will review these later in this topic in the context of the personal life cycle.

Achieving personal financial sustainability is not a one-off exercise at a single point in time. It is a continuous process throughout a person's life cycle.

Personal life cycle

People's financial requirements change over the course of their lifetime. Here we will consider the average life cycle and the sorts of experience that are common to people's lives.

Not everyone will experience such life events in the same order or within the same time frame. Differences can arise due to circumstances such as:

- the cultures and customs of different groups of people
- people's wealth, health and family situations
- unexpected events.

Some aspects of the cycle, such as growing up and getting old, are more fixed than others, such as getting married or changing career.

Some people may face more changes in their life than others.

Typical stages of the personal life cycle

Life stage: Birth and infanthood

Typical age range: 0–2 years old

Typical events:

Birth

Learns to walk

Learns to talk

Life stage: Childhood – preschool

Typical age range: 2–5 years old

Typical events:

Nursery and preschool

Makes friends

Learns through play

Develops communication skills

Life stage: Childhood – school

Typical age range: 5–12 years old

Typical events:

Starts school

Makes longer-term friends

Learns skills such as reading and writing

Life stage: Teenager

Typical age range: 13–19 years old

Typical events:

Puberty and adolescence

School tests and examinations

Starts a part-time job

Goes to college or sixth form

Learns to drive

May leave home

Life stage: Young adult

Typical age range: 18–25 years old

Typical events:

Goes to university

Moves away from home

Qualifies

Starts a full-time job

Life stage: Mature adult

Typical age range: 26–40 years old

Typical events:

Career promotions

Career changes

Marriage

Children

Buys property/takes on a mortgage

Divorce

Redundancy

Starts a business

Middle age: 41–54 years old

Late middle age: 55–65 years old

Typical events:

Career promotions

Career changes

Children leave home

Divorce

Pays off mortgage

Redundancy

Illness

Early retirement or retirement

Life stage: Old age

Typical age range: Over 65 years old

Typical events:

Retirement

Becomes a grandparent

Loss of physical fitness

Poor health

Bereavement

Go to the course site to complete the activity: Matching personal life cycle.

Needs, wants and aspirations in the life cycle

An individual's needs, wants and aspirations will vary according to their life stage.

People who work in marketing (ie advertising) are aware of this and know that at each life stage different products and services can be offered. This applies as much to financial services products and services as it does to other goods and services.

Here are some examples of how groups at different life cycle stages can be marketed to. In each case, we review whether the focus of marketing is on needs, wants or both. We also consider typical financial products and services that are appropriate to meet these wants and needs.

Different needs, wants and financial products during the life cycle

Marketing group	**Typical characteristics**	**Needs or wants**	**Typical financial products and services**
Young children (0–5 years)	Parents of this category are targeted to do 'what is best' for the baby or toddler	Basic needs, but higher-quality products are aimed at the 'wants' of the parents	Savings accounts are offered to let parents start saving for their child and to deposit gifts of cash from friends and family
Children and young teenagers (6–14 years)	Children may receive pocket money but have no income of their own They can ask their parents/guardians to buy products marketed to them Typical products are toys and games, most heavily targeted at birthdays, Christmas and other holiday periods	Wants	Savings accounts As children become older, the ownership of the accounts might change from the parent to the child
Older teenagers (15–19 years)	May have income from part-time work to add to continued financial support from home Typical products are linked to a more active social life	Wants. Needs typically continue to be met by parents	Current accounts to make payments and withdraw cash from ATMs No borrowing allowed until age 18 Access to online and mobile banking
College and university students	Students are more independent, but generally have a low income	Needs and wants Needs include food and	Current accounts with access to borrowing; many providers offer overdrafts with no or low interest rates up to a certain level

	Typical products include takeaway and fast food, music and travel deals	essential travel	Credit cards Access to online and mobile banking
Young singles and couples	Individuals often have good incomes, no dependants and few outgoings They may buy fashion goods, expensive food, cars, travel and entertainment	Wants	Current accounts, personal loans, credit cards Access to online and mobile banking
Families	The income of families is affected by higher outgoings, including childcare and transport Typical products include big 'family' cars	Wants and needs	Additional products include mortgages to buy a family home, life assurance to protect dependants, and pensions
Empty nesters (whose children have left home) and retired people with lots of spare money	The dependants of this group have left home They may decide to sell up and downsize their property Utility bills and travel costs fall and discretionary income rises They may take more holidays Typical products are leisure or comfort related	Wants	Additional products include investments and making a will
Retired without much spare money	This group has only a basic retirement income and is focused on meeting daily living expenses and age-related care costs	Needs	Current and savings accounts

Aspirations: examples

We know that aspirations are what people hope to achieve in the future. Within the personal life cycle, aspirations can be considered to be what an individual wants to achieve in the next stage of their cycle. Aspirations will change over time.

Josh

We can see that Josh is an older teenager, but his aspirations relate to those of college and university student, because that is his next expected life event.

Josh is 18 and is taking his A-Levels. He aspires to pass his exams and go to university to study biology. He hopes the university experience will make him more independent and he is looking forward to managing his own money by using a credit card sensibly and using mobile banking.

Matthew and Gemma

We can see that Matthew and Gemma are a young couple, but their aspirations relate to what families want to achieve, because this is the next big life event they're planning for.

Matthew and Gemma are a couple. They are both employed with good salaries in the healthcare industry. They enjoy a comfortable lifestyle. They each own a car and they have had two foreign holidays already this year.

They are both in their mid-20s and have decided that in the next two years they would like to buy a house and start a family. They know that this will make a big difference to their discretionary income and lifestyle, but they are committed to making this change.

As a start, they have both decided to review their life assurance cover and pension contributions.

Aziz and Samia

We can see that Samia and Aziz are a family, but their aspirations relate to what they aspire to do when they become empty nesters.

Aziz and Samia have a busy family life in a large city, as they have three teenage sons. Money is limited due to their high outgoings but they have always managed to enjoy life by focusing on good family meals, following their sons' sporting interests and taking one short holiday each year.

They have promised themselves an exotic foreign holiday and a move to a smaller house in the country when the boys all leave home, which could happen within the next seven years.

Congratulations

You have completed Topic 4a!

Topic 4b will cover:

- the importance of saving into a pension
- different type of pension scheme
- needs and wants in retirement.

Topic 4b: Pension planning

This topic helps you to:

- identify the importance of pension planning
- describe needs and wants in retirement
- understand different types of pension scheme.

Planning for retirement

As individuals progress through their life cycles, a typical and important aspiration for most is planning for a time when they will be able to retire.

For some, the state pension is enough to provide a basic level of income, but most people will want to supplement this with a pension scheme if they can.

Most employers are required to provide occupational (workplace) pension schemes to their employees while they are working to build up pension entitlements for when they retire.

Why pensions are important

At some point you will reach an age where you either will not want to work, or you can't work anymore. At that point you will need to rely on other means of income.

You:

- will no longer be working
- will have much more free time
- may see some decline in your health at some stage.

Having a pension in place can help you not just survive but enjoy the later period of your life. With average life expectancy continuing to rise, more of us will be spending more time in retirement than ever before.

Although this gives us more time to spend doing the things we have always wanted to do, it means you will need to ensure you have the income to support you for longer. Aspirations such as travelling, starting a new hobby or spending more time with grandchildren usually cost money.

Making pension arrangements has a number of advantages:

Income

When people retire, their income will reduce. A pension makes up for some of this loss of income.

Protection

Pension schemes can provide protection in the form of lump sums and pensions to dependants in the event of an individual's death.

Tax relief

To encourage pension schemes, the government provides tax relief on contributions made to pension schemes and on any investment growth (so you won't pay tax on such amounts).

Different types of pension scheme

There are three main types of pension scheme:

State pension
Occupational (workplace) pension
Private pension

You can still get a state pension if you have an occupational or private pension as well.

State pension

The state pension is a regular payment from the government that most people can claim when they reach state pension age. State pension age is gradually increasing and depends on when you were born.

State pensions are funded by the government by collecting National Insurance contributions from taxpayers. The amount of state pension that someone is entitled to depends on how many years they have paid sufficient National Insurance contributions.

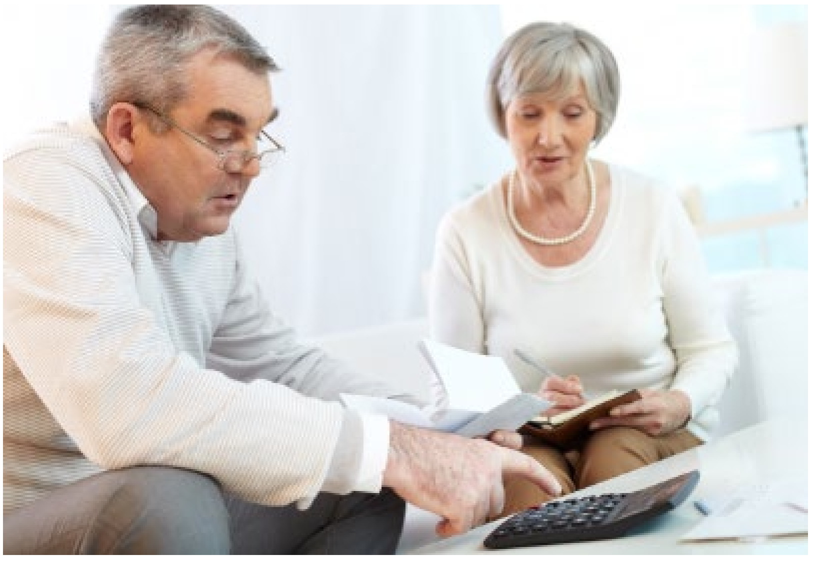
FACTFIND

Check your state pension age at: https://www.gov.uk/state-pension-age
Check the current amount of the state pension at: https://www.gov.uk/new-state-pension/what-youll-get

The state pension amount and state pension age are under constant review and may change in the future. Pension amounts rise in line with inflation and the pension age has also risen to reflect the fact that average life expectancy is increasing.

The state pension provided by the government gives only a basic income in retirement. Those who can afford to pay into their own scheme should consider doing so as early as possible in their working life.

Occupational (workplace) pension



An occupational pension is a pension scheme provided by your employer.

- It is paid in addition to your state pension.
- The contributions you pay to an occupational pension scheme are separate from and on top of the National Insurance contributions you pay for the state pension.

Employers now have to set up and contribute to a pension scheme for their employees. Employees may opt out if they wish.

Employers must contribute at least 3% of their employees' basic pay into an appropriate pension scheme. Employees must pay 5%, making a total pension contribution of 8%.

It is likely that these minimum contribution rates will rise in the future as part of government policy to encourage pension savings.

Example: workplace pension contributions

Giselle has been automatically enrolled into her employer's workplace pension scheme. Her gross salary is £2,000 per month.

Each payday:

- Giselle contributes £80 to her pension
- Giselle receives an additional £20 in tax relief (taking the contribution up to £100, ie 5%)
- Giselle's employer contributes £60.

So each payday, a total of **£160** goes into Giselle's pension.

Individuals can usually choose to take an occupational pension from age 55 onwards, but the earlier it is taken the less it will be. This is because it is likely to be paid for longer and the total value of contributions made will be lower.

There are two types of occupational pension scheme.

Defined contribution

With a defined-contribution scheme, which is most common, the size of your pension will depend on:

- the amount of money put into the scheme
- how well the funds have been invested, such as into shares, so that they grow (ie capital growth)
- the level of management charges applied to your pension fund (ie running costs)
- how much pension your money will buy when you need to retire. This is based on the annuity rate at the time you retire.

These pensions offer no guarantee of the level of pension to be paid on retirement.

Defined benefit

With a defined-benefit pension, you will get a pension based on a percentage of your earnings.

Broadly speaking, the greater your salary and length of service in your job, the bigger your pension should be.

These pensions offer a more predictable pension. Some public service schemes, including the Local Government Pension Scheme and the NHS Pension Scheme, are defined-benefit schemes.

Private pension

Private pensions are defined-contribution pensions that you arrange yourself.

The money you pay into a personal pension is put into investments (such as shares or property) by your chosen pension provider.

As with occupational defined-contribution schemes, the money you will get from a private pension usually depends on:

How much has been paid in
How the fund's investments have performed – they can go up or down
How and when you decide to take your money; private pensions can also be taken from age 55

You can make either regular or individual lump sum payments to a pension provider. The provider will send you annual statements, telling you how much your fund is worth.

You usually get tax relief on money you pay into a private pension.

Go to the course site to complete the activity: Pension types.

Needs and wants in retirement

We have explored previously how needs and wants change throughout an individual's life cycle.

Planning for retirement, by contributing to pension funds, is typically a feature of the 'mature adult' and 'middle age' life stages.

At the 'old age' life stage, this earlier planning should come to fruition by meeting the wants and needs of retirement.

Needs

A usual feature of getting older is poorer health and loss of physical fitness. These factors could create needs for healthcare, either in the form of:

- specialist equipment, such as wheelchairs or house alterations; or
- paying for the necessary support, such as care home fees.

Wants

Those who retire early or are fortunate to enjoy good health long into their retirement can focus more on enjoying life.

Many (but certainly not all) pensioners end up with high disposable income. This is because of good pension planning earlier in their lives and a rise in their discretionary income because their outgoings are lower, particularly if they own their own home and have repaid their mortgage. Others choose to sell their houses and downsize to get extra money.

Typical wants are leisure and comfort related, such as:

- taking more holidays
- starting new hobbies or spending more time on current hobbies
- making their homes more comfortable.

Aspirations

Just because individuals have reached the later stages of the personal life cycle doesn't mean that they have no aspirations.

Many retirees aspire to pass on some of their wealth to their families after they die, so they start estate planning to make this happen. Most banks can help with this by offering wealth management and will-writing services.

Building a pot of money

There are two key factors involved in planning successfully to build a substantial pension fund. These are saving regularly and time.

Being disciplined enough to make regular contributions is a great way to steadily build up your pension fund. It is far easier to save £50 a month for a year than to save £600 in one go.

Making a pension contribution every time you get paid is a savings habit that pays off. Occupational pension schemes can help, as pension contributions come straight out of your pay, so you are less likely to notice it making a dent in your disposable income and you can't spend it before you can save it.

The way regularly invested money builds up over time can be very satisfying. Over a long period, invested money can grow strongly in value.

Investment returns compound over time. Compounding means earning additional returns on the investment returns you have already been paid. It allows your pension pot to grow like a snowball rolling down a hill, picking up extra little bits along the way.

Examples: pension compounding

Please note that you do not need to understand the maths behind the calculations in these examples.

Julia has £10,000 to invest.

If she holds this as cash, she will never see her £10,000 increase.

However, if she invests the £10,000 in a pension fund, which is predicted to provide a 5% return every year then after:

- 10 years she should have £16,500
- 20 years she should have £27,100
- 30 years she should have £44,700
- 40 years she should have £73,500.

Carlos makes monthly contributions to his pension fund.

If he invests £100 a month in a pension fund, which is predicted to provide a 5% return every year:

- after 20 years he would have put in £24,000 but should have a pot worth £41,100
- saving £100 a month into that account for 30 years should more than double the pot to £83,200.

Congratulations

You have completed Topic 4b!

Topic 4c will cover:

- what credit scores are
- factors that improve or worsen credit scores
- advantages of having a good credit score.

Topic 4c: Credit scores and credit history

This topic helps you to:

- identify what credit scores are and why they are important
- understand factors that increase or worsen credit scores
- explain the advantages of a good credit score.

Credit scores

An important aspect of financial sustainability is access to affordable credit.

A person can influence their access to affordable credit by maintaining an acceptable credit score and developing a good credit history.

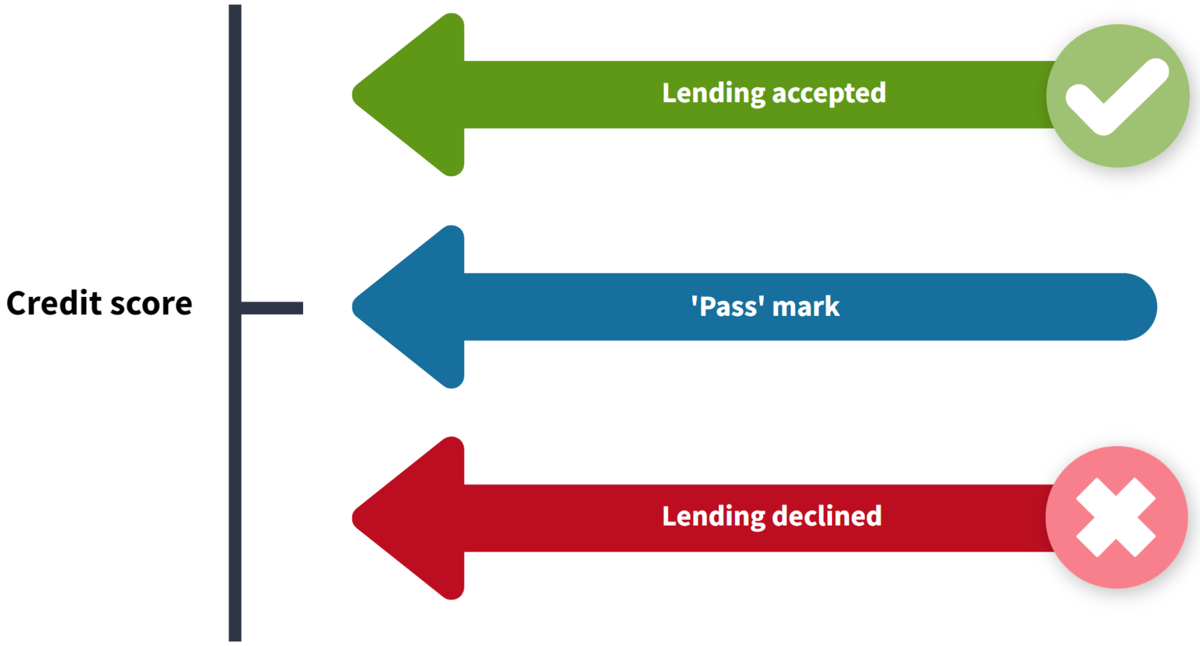
A credit score is a tool used by lenders to help decide whether you qualify for a particular credit card, loan, mortgage or service, and so whether to accept your borrowing application.

They do this by using a mathematical model to calculate a numerical score that represents your credit history. This helps to indicate what kind of borrower you are, and how likely it is that you will manage your repayments.

If applying for a credit card, it helps the provider to decide on the credit limit to offer.

The credit score measures the risk the provider will take if it lends to you.

Each lender has a credit score 'pass' mark.



Banks use the services of credit reference agencies to gather information.

A credit reference agency collects information about individuals from various sources and supplies it to users of its services.

The most commonly used credit reference agencies in the UK are Equifax, Experian and TransUnion.

Factors that improve credit scores

Credit scoring looks at factors such as:

- whether you have been in your job for a few years
- whether you have lived in the same house for a while and are an owner rather than a renter
- whether you are registered to vote by appearing on the electoral roll
- your age: middle-aged people are seen as less risky than the old or the young

- your credit history: a record of your previous borrowing and repayments – if you have borrowed in the past and you made regular repayments, this will score you more points.

Factors that worsen credit scores

Credit scoring also looks at factors such as:

Missed repayments

If a lender had to take action against you in the past, or if you missed even one repayment, this can lower your credit score.

Amounts owed

A lender will look at the overall percentage of your available credit limits that you are using. The greater percentage you are using, the lower your score will be.

Credit history length

Lenders consider how long you have held credit accounts. Generally, the shorter your credit history, the lower your credit score.

Credit mix

Individuals with high credit scores often have a diverse portfolio of credit accounts, which might include a car loan, credit card, student loan, mortgage or other credit products. Lenders like to see evidence of how well an individual manages a wide range of credit products. Having no borrowing can count against you, as you cannot prove the ability to manage credit.

New credit

The number of credit accounts you have recently opened, and the number of enquiries lenders make when you apply for credit. Too many accounts or enquiries can indicate increased risk, and so can hurt your credit score.

When shopping around, you should ask the lender to make a 'quotation search' rather than a 'credit application search'. A **quotation search** is not an actual application, so it should not harm your credit score. When shopping around online, lenders' websites usually indicate whether you are making a quotation search.

Go to the course site to complete the activity: Credit scores.

Importance of credit scores

Credit scores are an important part of your financial wellbeing. and financial sustainability. You want a good credit score because it can unlock many cost savings and benefits

Individuals often rely on credit to finance major purchases, such as buying a car or home, and to make life easier with conveniences like credit cards to manage daily spending.

To determine whether you qualify for such loans, lenders may look at a number of factors, including your income and employment history. But they also almost always rely on an automated evaluation process that considers your credit score and credit history to determine how likely you are to pay back your debts on time.

Typically, the higher your credit score, the more likely you are to qualify for loans with the most favourable terms, including:

Lower interest rates
Higher borrowing limits
Lower fees

What is a good credit score?

A credit score is usually presented as a three-digit number calculated by a lender.

While there are many credit scoring models, one of the most commonly used is the FICO® Score model, which places scores in a range between 300 and 850. FICO® breaks up these scores into the following credit scoring bands:

- **exceptional:** 800 and above
- **very good:** 740 to 799
- **good:** 670 to 739
- **poor:** 579 and below.

Generally, a score of 700 or above in the FICO® model is considered a good credit score in most lenders' eyes.

Advantages of a good credit score in people's lives

Advantage	Reasons
Big savings on interest rates for large loans	When you take a large loan to finance a big purchase like a home or car, even a small difference in the interest rate can mean paying thousands of pounds less over the lifetime of a loan. Borrowers with the highest credit scores can generally get the lowest interest rates available. For example, a 30-year fixed mortgage of £250,000 at 5.5% will cost a borrower a total of £503,472 over the lifetime of the loan. If that same borrower can get a 4.5% interest rate, they will pay £451,205 over the life of the loan, a difference of £52,267.

Better terms and availability on loan products	Borrowers with strong credit scores will have access to the most loan and credit card products, as lenders will want to lend to them. They will be able to shop around and compare rates more effectively. They will also find the best terms, including higher borrowing limits, which can make it easier to finance big purchases.
Access to the best credit cards	High credit scores will let you access the most rewarding credit cards on the market, including those that offer the lowest interest rates and the best rewards, such as cashback offers and other incentives. You are also more likely to qualify for introductory 0% APR purchase and balance transfer offers, which can mean significant savings over time.
Insurance discounts	You can't be turned down for insurance if you have a low credit score, but having a high score can help you get lower insurance premiums on car insurance.
Better housing options	Some landlords consider a potential tenant's credit score to decide whether they are financially trustworthy. The higher your credit score, the more likely you are to be approved for renting a home.
Lower utility bills	Utility companies may consider your credit reports and scores to determine how likely you are to pay your bills on time. Providers of gas, electricity, broadband and mobile phones all consider that your utility usage is a form of borrowing, so will check to see if you have a good credit score. If you don't have a strong credit history, you may have to pay in advance for some utilities. Payment tariffs are also likely to be higher.

Congratulations

You have completed Topic 4c!

Topic 4d will cover:

- financial risks and rewards
- types of insurance cover
- how poor investment choices create risks.

Topic 4d: Financial risk and reward

This topic helps you to:

- define the relationship between risk and reward
- understand types of insurance
- describe different types of financial risk.

Risk and reward

Investment risk and reward are closely linked. You can't have one without the other.

Low risk: Typically, the **lower** the risk, the **lower** the potential returns.

High risk: The **higher** the risk, the **higher** the potential returns – but what you can expect and what you actually get may be different.

Investors need to balance being careful enough to protect the value of their money and looking for high returns.

Relationship between risk and reward

This relationship between risk and reward is at the heart of investing. Investors who are willing to hold risky investments and potentially lose more money should be rewarded better for taking that risk.

However, higher-risk investments won't automatically produce higher returns. The risk–return relationship means that higher-risk investments have the **possibility** of higher returns, but there are no guarantees.

For some, investing is all about saving for the long term, slowly and deliberately. For others, short-term gains are most important. It comes down to personal priorities and objectives.

Insurance

The relationship between risk and reward also applies to other financial risks and the decisions you make about them.

Insurance companies agree to pay customers a specific sum of money or to replace goods if a risk event – something unexpected covered by the insurance – happens. To get this protection, you have to decide which risks you want to cover and pay the insurance company a sum of money, known as a premium, whether the risk event happens or not.

So, you have to decide whether to:

- pay premiums to insure against a chosen risk; or
- not use insurance and take the risk yourself.

Life assurance

Janice and Tristan bought their house two years ago with a £200,000 mortgage. At the same time, they took out joint life assurance for the same amount.

This means that if Tristan died, for example, the insurance company would pay Janice £200,000 to repay the mortgage.

The insurance cover would give Janice the peace of mind that the mortgage would be repaid, as her salary alone would not be enough to cover the monthly mortgage repayments and other household bills.

Without this insurance, Janice would have to consider selling her home at the same time as coping with Tristan's death.

Critical illness insurance

Critical illness insurance works in a similar way to life assurance, but the amount insured is paid out if the insured person is diagnosed with one of a range of illnesses specified in the insurance policy, such as a stroke or cancer.

Bilal bought his house seven years ago with a £250,000 mortgage. At the same time, his mortgage adviser suggested critical illness insurance but Bilal decided not to take out a policy. He was very healthy and didn't want to pay insurance premiums for something he didn't think he would need.

However, if Bilal was later diagnosed with a progressive illness that left his health and mobility declining, he might soon need to make modifications to his home to keep living there while using a wheelchair. Without insurance, Bilal would be worried about paying for these and about meeting his mortgage payments when his condition means he is no longer able to work.

Bilal would then regret his decision not to pay for critical illness insurance. This would pay him a lump sum on diagnosis sufficient to pay off his mortgage.

Motor insurance

Jace recently passed his driving test and bought his first car. He was very proud of it.

Jace knew that motor insurance to cover third-party risks was a legal requirement, so used a comparison website to find out prices.

He decided to get a comprehensive insurance policy, to cover all risks relating to his vehicle, rather than just to insure the damage he might cause to other vehicles and drivers. This was more expensive than a third-party policy.

Unfortunately, Jace's car was stolen two months after he bought it. Jace was relieved that his motor insurance covered his loss and provided him with the money to buy a replacement vehicle.

Jace was relieved that his motor insurance covered his loss and provided him with the money to buy a replacement vehicle.

If he had bought a third-party policy, he would have suffered the loss himself and would not have had enough money to replace his car.

Pet insurance

Sally recently bought a new puppy, Bella. She considered taking out a pet insurance policy but decided that the premiums were too expensive. She considered that a young dog would remain healthy for a long period of time.

However, Bella swallowed a large stick while out on a walk. Bella had to have surgery at the veterinary hospital to save her life.

Sally is relieved that Bella survived the operation and is now happy and healthy again. She regrets her decision not to get pet insurance, as the vet's bill was nearly £3,000.

Sally paid this by using most of her savings. As a result, she will not be able to go on holiday this year.

Travel insurance

Rocco and Peter are on holiday in Ibiza.

Rocco took the advice of his parents to get a travel insurance policy. This provided him with insurance against medical expenses while abroad, as well as compensation if he lost his luggage or his flight was delayed.

He was grateful for this insurance when his luggage went missing! His insurance company agreed a sum with him so he could buy replacement items while abroad, without having to fund this expense himself.

Peter decided that he'd save the cost of travel insurance and did not buy a policy. He felt that losing his luggage, suffering flight delays or needing medical attention over the course of a two-week holiday was unlikely.

However, Peter fell off a moped that he hired. He was taken to hospital and needed stitches. As he didn't have medical insurance, he needs to pay a large bill for his treatment.

He regrets his decision not to take insurance and has decided that he will always arrange insurance for his holidays in future.

Failing to budget

Budgeting involves estimating income and expenses over a specified future period of time.

- Effective budgeting enables you to identify whether your income is exceeding your expenditure: a **surplus budget**.
- However, budgeting may reveal that your expenditure is exceeding your income: a **deficit budget**.
- If you spend as much as your income, this is a **balanced budget**.

Failing to budget can lead to financial risks.

- If a budget is in surplus, you will have additional funds each pay day that are not needed to meet your essential bills.
- Without a budget, the surplus amount will not be defined, meaning you can less effectively make good financial decisions about how to use this surplus.

Example: surplus money without a budget

Imran needs to make some budgeting decisions if he wants to go on holiday with friends.

Imran earns a good salary, but he never seems to have any spare money. He pays all his bills and then spends whatever he has left on clothes and entertainment.

His friends are going on holiday and have asked Imran to come, but he cannot afford to unless he takes out a loan, which he does not want to do.

He now realises that if he had budgeted effectively and saved some of his surplus money each month, he would be able to join his friends on holiday.

- If a budget is in deficit, there are potentially serious consequences, as you cannot spend more than your income forever.
- At some stage, you must take action to reduce non-essential expenditure to bring the budget back into balance.

Unwise investment choices

Each type of investment carries financial risk, as the value of investments can go down as well as up.

An 'unwise' investment choice is one that exposes an investor to more risk than their circumstances or attitude to risk suggests they should take.

Example: unwise investment

Patsy has inherited some money. Take a look at how she approaches investment risk.

Patsy was left £20,000 in her grandmother's will. She decided to invest this money and approached a financial adviser to help her make investment choices.

The financial adviser's assessment of Patsy's risk appetite was 'moderate' – she was prepared to endure some limited short-term losses in exchange for better long-term growth opportunities.

The financial adviser suggested investments in government bonds and a pooled investment to spread her risks.

Patsy asked her adviser whether investing all her money in a single hi-tech start-up company or cryptocurrency would be appropriate investment choices for her.

The adviser stressed that these would be unwise investment choices because the risks involved would exceed her risk appetite. In both cases, the value of the investments Patsy mentioned could fall significantly and quickly. The total of Patsy's investment would also be at risk of total loss.

Making these investments would be unwise because of the risks.

Congratulations

You have completed Topic 4!

Complete the end-of-topic quiz and activity to expand your learning for this topic.

Topic 5a: Interest and inflation

This topic helps you to:

- define inflation
- understand how inflation is calculated
- understand how inflation affects a person's budget
- identify how inflation is controlled
- understand how interest rate changes affect individuals and financial services providers.

Inflation

Inflation is a sustained rise in the general level of prices of goods and services over a period. When the general price level rises, each unit of money buys fewer goods and services; consequently, inflation is a decline in the real value of money – a loss of purchasing power.

Inflation, in the UK, is calculated through measuring changes in the cost of living. The official method is the Consumer Prices Index (CPI). CPI measures the annual percentage change in price level.

Example: price increase due to inflation

An annual inflation rate of 2% means that a product that was priced at £1 last year will now be priced at £1.02.

Steps for calculating inflation

The government does a Family Expenditure Survey (FES) of about 6,000 people. This finds out what percentage of income is spent on different goods and services.

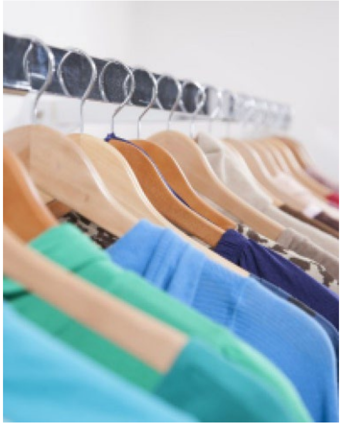
The results of the FES enable the government to create a 'typical' basket of goods and services. From this a weighting is given to each. For example, transport costs may account for 13% of spending, food and drink for 8% of spending, etc. The weighting reflects the relative importance of each item to people's spending.

Then the government does a price survey. This means checking the prices of the 1,000 most common goods in the UK, every month. The percentage changes in the prices of individual goods and services are noted.

The price increases are then multiplied by the weighting of the goods.

This means that the CPI can be calculated and be used to measure overall percentage changes.

Impact of inflation on personal budgets



Inflation reduces the purchasing power of money – what money can actually buy – because more money is now needed than was needed to buy the same items in the past.

For example, an item of clothing might have cost £50 a year ago but now costs £55.

High rates of inflation mean that unless income increases at the same rate, people are worse off. This leads to lower levels of spending and a fall in sales for businesses.

Inflation is a particular problem for groups of people whose incomes rise more slowly than the rate at which prices are rising, such as those on low pay or fixed income. These people's standard of living will fall.

Example: earnings v living costs

Average earnings across the UK in 2021 were £31,285.

Since 2010, this had gone up more than £5,000 from £25,882, an increase of nearly 21%.

However, in the same period the average cost of some items increased more rapidly:

- the cost of a punnet of strawberries rose by 85%
- the price of gas rose by 75%
- the price of a 2-year-old second-hand car increased by 58%
- the price of a child's bicycle rose by 49%.

When prices rise at a faster rate than earnings, individuals will have less purchasing power even though their wages are rising.

FACTFIND

Find out the current average earnings across the UK.

How inflation is controlled

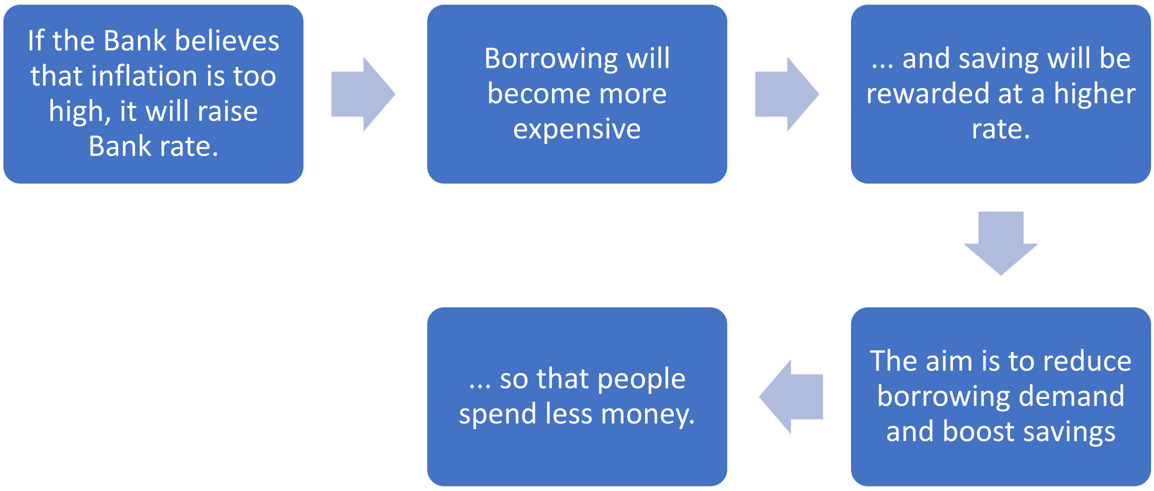
Inflation is generally controlled by the Bank of England (the UK's central bank) and the government. The main policies used are monetary policy and fiscal policy.

Monetary policy

Monetary policy is the main policy used. The government, through the Bank of England, can change the general level of interest rates in the economy.

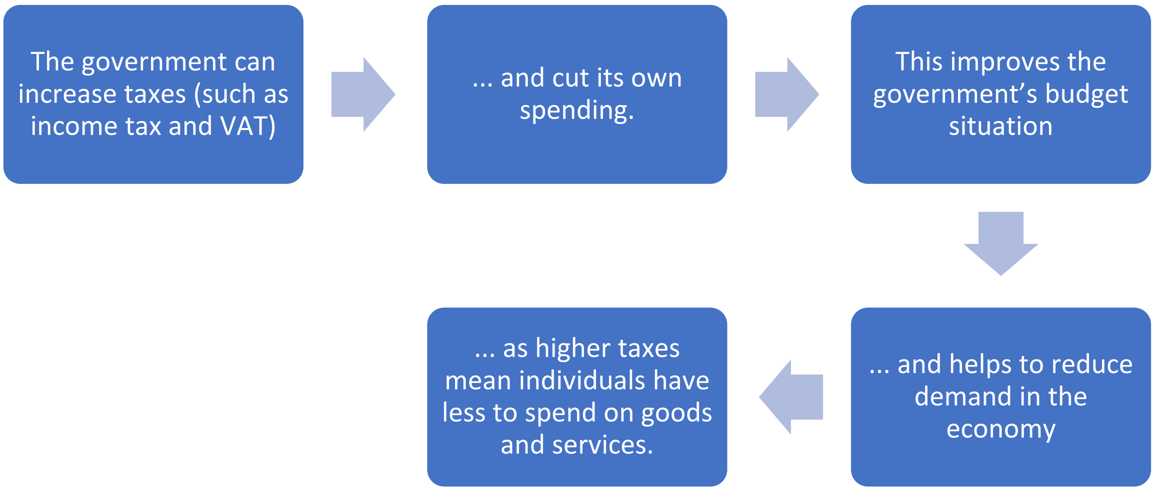
The Bank of England has a 2% inflation target. Its Monetary Policy Committee (MPC) meets eight times a year to decide whether to increase or decrease Bank rate or to leave it unchanged.

If the Bank believes that inflation is too high, it will raise Bank rate.



Fiscal policy

Fiscal policy is the government's taxation and public spending policy. The government spends money raised from taxes on public services, such as health.



Governments normally prefer to use monetary policy rather than fiscal policy to control inflation, as higher taxes tend to be unpopular with voters. Both tools are important, and the aim of any government is to strike an acceptable balance between the two.

Impact of interest rate changes

Interest rate changes can have an impact on both the budgets of individuals and on financial services providers.

Individual budgets

Interest rates affect the decisions you make with money and in particular your discretionary income (discussed in Topic 3c).

- Interest rates affect the cost of borrowing money over time, so **lower interest rates** make borrowing cheaper. This helps people to spend and save more freely.
- **Increasing interest rates**, on the other hand, make borrowing more costly and can reduce demand for borrowing.

The effect of interest rate changes also depends on people's attitudes: whether they feel better off spending or saving based on any change.

Example: interest's effect on budgets

Thomas has saved £2,000 in a deposit account as an emergency fund. The bank pays Thomas 0.5% interest a year. So, in one year he earns £10 on his savings **(£2,000 x 0.005)**.

Thomas's dad advises him that when he was the same age as Thomas, the bank was paying 7% interest instead of 0.5%.

That means that the same deposit made at that time would have earned £140 interest in one year **(£2,000 x 0.07)**!

Thomas knows he must continue to budget for an emergency fund but feels that the return he can achieve on his savings is very poor. He is therefore more inclined to spend more of his discretionary income rather than save it.

Thomas also has a mortgage of £150,000 to help him purchase his flat. He is repaying this over 25 years and his interest rate is 3%. His current mortgage repayment is £708 per month.

Thomas's dad advised him that when he was the same age as Thomas, he had a mortgage of £100,000 over a 25-year period, but his interest rate was 10%. At that time, his mortgage repayments were £879 per month.

Thomas worked out that he was borrowing 50% more than his dad but paying £171 (20%) less in repayments each month, simply because of interest rates. This means that his discretionary income is much higher now than it would have been if mortgage rates were still 10%.

Thomas has been advised by his mortgage provider that his mortgage interest rate is going to rise in two months' time from 3% to 4.25%.

As a result, Thomas's monthly mortgage repayments will rise from £708 to £826, an increase of £118 per month.

Thomas knows that this will have a significant impact on his discretionary income. He has calculated in his current budget that his discretionary income is £218 per month, so this will reduce to £100 once his essential mortgage repayments increase.

He has therefore decided to reduce his current discretionary spending by:

saving £50 less per month

spending £30 less per month on clothes

spending £38 per month less on going out with his friends.

Financial services providers

Even a small increase in the Bank of England's Bank rate can lead to large increases in bank revenue.

This is because banks can charge more on their loans by passing on the Bank rate increase to borrowers, but they may not decide to increase the rate they pay to their depositors by the same amount.

This is particularly true when banks have very large cash deposits that exceed the amount they require to lend out.

Example: interest's effects on a bank

Big Bank plc makes net interest income as follows:

Balance volumes held	Average interest rates	Annual income and expenses
Variable-rate loans of £100 million	6%	£6 million
Variable-rate deposits of £200 million	0.4%	£0.8 million
	Net interest income	£5.2 million

The Bank of England decides to raise its Bank rate by 1%. As a result, Big Bank plc decides to increase its lending rate by the full 1% but only increase its deposit rate by 0.1%.

Its net interest income could change as follows:

Balance volumes held	Average interest rates	Annual income and expenses
Variable-rate loans of £100 million	7%	£7 million
Variable-rate deposits of £200 million	0.5%	£1 million
	Net interest income	£6 million

Congratulations

You have completed Topic 5a!

Topic 5b will cover:

- basic savings interest calculations
- how to calculate the real rate of return
- how inflation can lead to losing money on savings.

Topic 5b: Savings interest and real return

This topic helps you to:

- undertake basic calculations of savings interest
- calculate the real rate of return
- explain how inflation can lead to losing money on savings.

Savings and interest

Interest payments are the reward you get from a financial services provider for saving your money rather than spending it now.

You purchase goods and services to fulfil your needs and wants.

- By saving, you are postponing the fulfilment of some needs and wants until the future.
- In return, the financial services provider can use savings deposits to lend to others with immediate needs and wants that require borrowed money to fulfil them.
- Providers pay interest to savers in return. Both parties get something out of it.

In the following sections we explore how savings interest is calculated and the impact that inflation has on savings returns.

Annual savings interest calculations

Interest is the income earned from saving a sum of money (known as the principal).

Two things are needed to calculate how much interest will be earned on saving a sum of money for one year:

- the **interest rate** itself, quoted by a bank or another savings provider
- **how often** interest is calculated and added to the principal, eg daily, monthly, quarterly or annually.

Example: annual interest

Jemma is considering making a bank deposit of £10,000. She is happy to leave her money in a bank savings account for one year, as she does not need the money to spend right now. She is keen to earn as much interest as possible. ABC Bank will pay Jemma interest at a rate of 3%, all of which will be paid one year after her deposit is made.

How much interest would Jemma earn in the year?

Annual interest calculation

- Deposit amount: £10,000
- Annual interest rate: 3%

If Jemma's deposit was left in her savings account for a year, it would have a future value of £10,300.

The formula used is:

Present value x (1 + Annual interest rate) = Future value

So for a one-year deposit:

£10,000 x (1 + 3%) = £10,300

Jemma's annual savings gain is £300. This is the difference between the future value of £10,300 and the present value of her £10,000 deposit.

Compound interest

Often, a savings account provider will calculate and apply interest to a savings account more than once per year.

Compounding means interest is payable on the interest accumulated in previous periods, in addition to interest on the original deposit.

This means that if interest is calculated and applied more regularly than annually, a saver will earn more interest over the same period.

Example: compound interest

Let's return to the example of Jemma and her £10,000 deposit.

Jemma knows that if she made a deposit with ABC Bank, which pays interest annually, she would achieve a savings gain of £300 after one year.

However, Jemma has discovered that DEF Bank, which has also quoted an interest rate of 3%, pays interest quarterly to its savers.

If Jemma made her deposit with DEF Bank, her annual savings gain would be calculated like this:

In **quarter 1**, she would earn £75. This is calculated as follows:

£10,000 x 3% ÷ 4 = £75.

As interest is paid quarterly, Jemma would only receive the interest due for the first three months. The interest would be applied to Jemma's account at the end of the first quarter, so her account balance would rise to £10,075 (£10,000 initial deposit plus £75 interest).

In **quarter 2**, Jemma would earn £75.56. This is calculated as follows:

£10,075 x 3% ÷ 4 = £75.56.

This amount would be applied to Jemma's account at the end of the second quarter and her account balance would rise to £10,150.56 (£10,000 initial deposit plus the two quarterly interest payments of £75 and £75.56).

In **quarter 3**, Jemma would earn £76.13. This is calculated as follows:

£10,150.56 x 3% ÷ 4 = £76.13.

This amount would be applied to Jemma's account at the end of the third quarter and her account balance would rise to £10,226.69 (£10,000 initial deposit plus the three quarterly interest payments of £75, £75.56 and £76.13).

In **quarter 4**, Jemma would earn £76.70. This is calculated as follows:

£10,226.69 x 3% ÷ 4 = £76.70.

This amount would be applied to Jemma's account at the end of the final quarter of the year and her account balance would rise to £10,303.39 (£10,000 initial deposit plus the four quarterly interest payments of £75, £75.56, £76.13 and £76.70).

The effect of compounding means that if Jemma deposited her £10,000 with DEF Bank, she would earn an additional £3.39 over the same one-year period compared to saving with ABC Bank.

- ABC Bank – Interest earned would be £300.00
- DEF Bank – Interest earned would be £303.39.

The difference is that with the compounding of DEF Bank, interest is earned on a higher balance each quarter.

Go to the course site to complete the activity: Annual and compound interest.

Annual equivalent rate (AER)

Because interest rates can be annual or compound, direct comparisons between quoted rates can be confusing unless appropriate adjustments are made.

To compare rates on savings products, the annual equivalent rate (AER) is used. This is similar to what the annual percentage rate (APR) achieves for comparing borrowing products.

AER is the annual rate of return after adjusting for the effects of compounding. AER assumes that interest is compounded at the end of each interest period but with interest paid once a year.

Example: AER

Jemma decides to deposit her £10,000 in a savings account with DEF Bank, as it offers a higher savings gain than ABC Bank.

As ABC Bank pays interest annually, there is no compounding. So, ABC Bank's AER is the same as its quoted rate of 3%.

While DEF Bank also advertises a headline rate of 3%, its AER is actually 3.03%, as interest compounds quarterly. The AER can be calculated as follows:

Total interest payable ÷ amount of original deposit (303.39 ÷ 10,000.00) x 100

Savings account providers usually quote their AERs, to enable potential savers to make simple comparisons of 'true' rates on offer rather than having to do complicated calculations themselves.

Annual inflation rate

As we established in Topic 5a, inflation is a sustained rise in the general level of prices of goods and services over a period.

We also explored the steps for calculating inflation in the UK, using the CPI.

Check your understanding

Answer the two questions about CPI on the course site.

One of the CPI measures is the annual inflation rate.

A formula is used to calculate this:

(Current CPI – Past CPI) ÷ Past CPI x 100 = Inflation rate

Example: calculating inflation from the CPI

The CPI for June 20X2 was 109.2. The CPI for June 20X3, a year later, is 115.1.

The inflation rate for June 20X3 is 5.4%, calculated as follows:

(115.1 – 109.2) ÷ 109.2 x 100 = 5.4%

Real rate of return

Quoted AERs typically include inflation. These conventional rates are sometimes also known as nominal rates.

A real interest rate is one that has been adjusted for inflation. It is calculated as the difference between the nominal interest rate and the inflation rate:

Real interest rate = Nominal interest rate – Inflation rate

So if a bank pays an interest rate of 5% per year but the inflation rate is currently 3% per year, the real return on your savings is only 2% (5% - 3%).

Low-risk savings

Saving usually results in you earning a low return with almost no risk.

For those seeking the opportunity to earn a higher return, they have to take the risk of losses by making investments.

Nevertheless, while the amount you save may be secure, savers are still at risk of losing money when considering savings returns in **real terms**. There is a real risk of losing purchasing power.

Example: loss of purchasing power

Aziz has saved £10,000 in a bank savings account.

The account pays him an AER of 2% per year, so in a year's time his savings will have grown to £10,200.

Aziz hopes to pass his driving test during the year. He has seen a car today that he really likes. It is priced at £10,000, so he hopes to buy a similar one for this price in a year's time.

Inflation during the year is 5%.

At the end of the year, Aziz's savings have grown to £10,200. However, the impact of inflation means that the car, which was priced at £10,000, now costs £10,500, so Aziz can't afford it and will either have to save more money or buy a lower-value car.

The impact of inflation means that in real terms Aziz's purchasing power has reduced by 3%, as the real rate of return is negative. This is because the rate of inflation has exceeded the AER paid by Aziz's bank.

Using the formula for calculating the real interest rate:

Real interest rate = Nominal interest rate – Inflation rate

Aziz's real interest rate in the year was 2% – 5% = -**3%**

He is therefore £300 worse off in real terms, as his purchasing power has reduced by this much. Even though he has gained £200 in interest, he cannot afford the car now priced at £10,500 because of the impact of inflation.

Congratulations

You have completed Topic 5!

Complete the end-of-topic quiz and activity to expand your learning for this topic.