

## Topic 1(o) Other providers

### Who are these other providers?

Banks and building societies make up a large part of the financial system but there are other providers who also play a role. Some provide services directly to customers and others give back-up to these providers.

### What is an insurance company?

An insurance company is an organisation that provides insurance services. The financial world is complicated these days – some insurance companies offer banking services as well and at the same time all the main banks offer insurance services.

Prudential plc is a very large insurance company but it also owns Egg, an Internet banking service.

The Royal Bank of Scotland (RBS), one of Britain's largest banks, also provides insurance services via its insurance companies Direct Line and Churchill.

Legal & General is a large company that provides all types of insurance to around 5½ million customers. It began in 1836 and is now one of the top 50 companies in the UK.

### The UK insurance market

The insurance market in the UK is the largest in Europe and the third largest in the world. There are 806 insurance companies; about 600 are for general business, 160 for life insurance and pensions, and 54 do both. Some insurance companies are connected to banks and others are separate.

### Did you know?



Insurance companies started the first fire service in London. Because they had agreed to cover losses caused by fire, they were anxious to make sure that fires were put out quickly so they would not have to pay out so much. If an insurance fire engine was called to a fire and they discovered that the owner of the property was not insured with them, they would leave without putting out the fire.



## The history of insurance companies

The first insurance policies were drawn up several hundred years ago on ships and their cargoes. Sea travel in those days was extremely risky and many ships were lost, so owners needed a way to pass the risk on to someone else. Lloyd's insurance market began in a coffee shop in the City of London in 1688. Ships' captains, merchants and insurance people used to come to drink coffee and talk business, so Lloyd's was the place to go to find out the latest information about ships and cargoes and it became an early form of the insurance market. Eventually the brokers found bigger premises and the market moved several times before settling in today's high-tech building at One Lime Street in the City of London. Lloyd's of London, as it is now known, is not an insurance company but a market where groups of insurers known as syndicates come together.

## The Post Office

As well as collecting and delivering post and parcels, the Post Office also has a financial division that offers a number of services:

- saving methods, including bonds, Child Trust Funds and National Savings and Investment products;
- car, home and travel insurance;
- direct payment: benefits and pensions can be paid directly into accounts;
- foreign currency: 0% commission – you can either order online or collect at a branch;
- money transfers and bill payments;
- personal loans: to finance consumer purchases;
- postal orders and saving stamps.



All these services are offered at competitive prices. The other great advantage is that the Post Office is familiar to everyone, even those who do not have a bank account. There are branches in all town centres and in some villages so it is easy to find and to use. It is also available online.

## National Savings and Investment (NS&I)

NS&I is one of the largest and best-known savings organisations in the UK and it offers a wide range of savings products to personal savers and investors. The money saved is lent to the government to help it to pay for public services that are not fully financed by taxes. The National Savings movement began in 1861 at the Post Office Savings Bank – it has always had two aims:

- to give people a place to save that is safe because it is backed by the government and that is easy to manage because it is provided via the Post Office;
- to collect money from savers and lend it to the government.



Here are just a few of the many savings products offered by NS&I.

- Children's Bonus Bonds – children can save for a minimum of five years without paying tax.
- Easy Access Savings Account – an ordinary savings account for anyone over 11 with a minimum balance of £100.
- Premium Bonds – your bonds don't earn any interest but they are entered into a monthly draw and you can win up to £1 million.



**Go to the NS&I website ([www.nsandi.com](http://www.nsandi.com)) and find out about other savings products they offer.**

## The Bank of England

There is only one bank in Britain that is owned by the public sector and not by private shareholders. This is the **Bank of England**, which is the country's **central bank**. It was founded in 1694 and nationalised in 1946 – this means that it was taken into public ownership. It does not perform ordinary banking functions, like the ones discussed in Topic 1(n), so you cannot open an account there or ask for a loan.

The Bank of England supervises the other banks and works together with the government to keep the financial system healthy and stable. It also prints the banknotes that we use as money.

The Bank of England is situated in Threadneedle Street in the City of London. It is affectionately known as 'The Old Lady of Threadneedle Street'.



**The outside of the Bank of England, Britain's central bank.**

Most countries have a central bank – here are a few examples:

- the eurozone – the European Central Bank;
- the USA – the Federal Reserve System;
- France – the Bank of France;
- Germany – the Bundesbank.

**Note that, even though the eurozone has its own central bank, the individual countries have kept their own central banks as well.**

Have you ever heard the phrase 'As safe as the Bank of England'? This saying shows that people have always trusted the Bank of England.

## Scottish banks

As we learnt in Topic 1(b), three Scottish banks are allowed to issue banknotes. These banks are:

- Bank of Scotland (part of HBOS);
- Clydesdale Bank;
- Royal Bank of Scotland (RBS).



Scottish banknotes are issued freely in Scotland but are not so familiar in England, Wales and Ireland. If a shop will not take a Scottish note from you, you can always take it to any bank and they will change it into a Bank of England note.

The notes issued by the Scottish banks have to be backed pound for pound by Bank of England notes. Because the three banks between them issue more than one billion pounds (£1,000,000,000), it would be too difficult for the Bank of England to hold

ordinary Bank of England notes as cover, so they issue special one million pound notes (£1,000,000) for internal use only.

The notes issued by the Clydesdale Bank show, on the front of notes of different denominations, the portraits of the following Scottish people:

- Robert Burns, the poet;
- Mary Slessor, the missionary;
- Robert the Bruce, the Scottish warrior and king;
- Adam Smith, the economist;
- Lord Kelvin, the researcher and inventor.

### Did you know?

The Bank of Scotland has been issuing its own notes since 1696, just two years after the Bank of England was founded. The current series of notes bears on the front a portrait of Sir Walter Scott, the 19<sup>th</sup>-century author. He was chosen because in 1826, when the English Parliament wanted to scrap Scottish banknotes, he successfully defended the Scottish £1 and the Scots were allowed to keep their pound notes.



**Using books and the Internet, find out more about these five people. Why do you think they were chosen to appear on Scottish banknotes?**

The Royal Bank of Scotland's notes show (on the front) portraits of Lord Ilay, who was the first Governor of the RBS.



### Review questions

1. Why might some people prefer to organise their finances through the Post Office rather than through a bank?
2. What are the two main aims of National Savings & Investments?
3. Name the central bank of:
  - a. the UK;
  - b. the eurozone;
  - c. the United States of America.
4. Why does the Bank of England issue £1,000,000 notes?
5. Can you use Scottish banknotes in England?



## Case study

Cindy's mother, Jill, is teaching her how she can buy financial services and get financial information without moving from her computer. Here is what her mother does.

1. The family is going on holiday to France soon, so Jill goes to the Post Office website and orders foreign currency, using her Visa credit card.
2. It will soon be Cindy's 15th birthday and Jill wants to give her a present of £100 worth of Premium Bonds. She goes to the NS&I website and orders them.
3. Cindy was recently given a £5 Bank of Scotland banknote in change at a local boutique. She didn't notice until she got home and now she is worried because she thinks it's a foreign note and she won't be able to spend it. Jill goes to the Bank of Scotland website to find out if Cindy's note is a real one. She selects the 'note issue' tab and they find pictures of the notes issued by the bank – Cindy is pleased to see that one of them is exactly the same as her note.
4. It will soon be Cindy's Dad's birthday and she wants to give him a present of a special commemoration coin. They go to the website of the Royal Mint and they find that there is a special £5, minted to celebrate Nelson and the Battle of Trafalgar. The 2005 Gold Proof coin is sold out but there is a £5 Silver Proof coin that is still available so they order one of these by credit card.

**Go to all these websites and check the information and links that Cindy and Jill were able to use.**

## Learning activities



### Internet

Go to the following websites to find out more information about the issues covered in this topic:

[www.bankofengland.co.uk](http://www.bankofengland.co.uk)

[www.postoffice.co.uk](http://www.postoffice.co.uk)

[www.nsandi.co.uk](http://www.nsandi.co.uk)

[www.rbs.co.uk](http://www.rbs.co.uk)

[www.hbosplc.com](http://www.hbosplc.com)



## Individual

Where would you go in the following cases?

- a. You want to buy foreign currency without paying any commission.
- b. You are 13 years of age and you want to save up for going to university when you are 18.
- c. You are 15 years of age and you want to save up for going to university when you are 18.
- d. You want to save but you like to take part in lotteries and have a chance of winning money.
- e. You have been to Scotland and have some Scottish notes in your wallet but you are having trouble getting English shops to accept them.



## Key points for Other providers

- There are other organisations besides banks and building societies that provide financial services.
- There are more than 800 insurance companies in the UK; some of these are linked to banks and others offer banking services as well.
- The Post Office offers a wide range of personal financial services, which are competitively priced and available at a familiar location.
- National Savings and Investments (NS&I) is an organisation that provides a wide range of savings and investment products for personal customers. The money it raises is lent to the government, so these products are safe.
- The Bank of England is the central bank of Britain. It does not offer normal banking functions but it supervises the financial system and prints legal tender banknotes.
- Three Scottish banks are authorised to issue banknotes for circulation in Scotland. These must be backed up at the Bank of England with Bank of England notes.