

Topic 2(d) Bank accounts

Storing money in a bank or building society

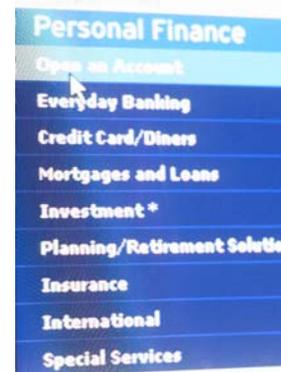
If you have money you don't want to spend immediately, the best thing you can do with it is put it in a bank account. This will keep it safe, you can use it to make payments and, depending on the account you choose, you might receive interest on it.



Is it safe to put your money in a bank? What happens if the bank is robbed?

Accepting **deposits** (money paid into accounts) is one of the main functions of a bank. All the main banks and building societies in the UK offer a range of bank accounts for people to choose from. They come under different headings:

- **current accounts;**
- **savings accounts;** and
- **basic accounts.**



Current accounts (cheque accounts)

This is the most common type of bank account and it is suitable for money you need in a hurry or that you use to pay your monthly bills. With a current account, you pay money in (either cash, **cheques** or **electronic transfers**) and you can use your **balance** to make payments. There are different ways of making these payments.

Taking out cash



The most basic way of using the money in your current account is to withdraw cash at a bank branch by using your debit card at the counter or the **Automated Teller Machine (ATM)** outside the bank. Another way of getting cash out of your bank account is to ask for **cashback** at a shop when you use your debit card (see below).

Cheques



You are given a **chequebook** when you open a current account and you can use this to pay for goods and services in shops, restaurants etc, or by post. To pay by cheque in a shop, you need a **cheque guarantee card**, which is a plastic card (often your debit card) issued by the bank. It guarantees that any cheque you write, up to a maximum amount (usually £50) will be honoured by the bank, i.e. the person selling the goods and services knows that the money will be paid into their

account, even if the customer does not have any funds in the current account. For a bank to give a cheque guarantee card to customers, it must trust them and know that they will not abuse it by continually writing cheques for money that they don't have in their accounts. A cheque takes several days to clear and you have a short time to put funds into your account if your balance is low.

Debit card



A plastic card that does the work of a cheque. You can use it in shops to make payments by giving it to the salesperson, who will insert it into the computer. The payment will be automatically taken from your account, just as if you had paid by cheque. The main difference is the length of time it takes to complete the transfer – the amount comes off the account almost straight away and, if your payment is more than your current balance, you will become **overdrawn**. You can also use your debit card to get cash out of an ATM (cash machine) and many shops nowadays will give you cashback – this means they give you cash out of their till when you make a transaction and they add the amount of cash on to what you owe them for the goods you have bought.

Standing orders



An instruction given by the current account holder to the bank to make a payment on a regular basis. For example, if someone pays £40 a month for their car insurance, they can tell their bank to pay £40 on a particular date every month to the insurance company. To set up a standing order, you fill in a form called a **standing order mandate**; you have to enter your details and the details of your bank account, the person you want to pay and the amount and date you want to make each payment. The bank will automatically pay the amount every month until further notice. It is a very useful service because it means that you can arrange to make monthly payments for a service (instead of paying the whole amount at once) and know that you will not forget to make each payment.

Direct debits

Also an instruction to the bank to make a regular payment but it is different from a standing order because it is used when the payment is different every time. For example, if you want the bank to pay your telephone bill for you every quarter, you can set up a direct debit that tells the bank to pay the telephone company the amount of the bill in full each quarter.

Online payments



You can use your current account online. The bank gives you a user name and number and a password. Once you are through the security checks, your account is shown to you and you can make transfers and pay bills. To pay money to someone's bank account, you need the account name, number and the **sort code** of the bank branch where the account is. (Sort codes are six digit numbers that are used to identify each branch of each bank in the country.) The money goes straight out of your account and takes a few days to reach theirs.

Note: A **credit card** is also a method of making payments but it is not connected to a current account. A customer has to apply separately for a credit card – it is not only a method of payment but it is also a way of borrowing money.

As you can see, a current account gives you a lot of different services. It is the basis of more or less everything that you do at your bank and of your financial life in general. Nowadays, it is difficult to manage without a current account, especially as most employers like to pay wages directly into a bank account, rather than handing over cash. This is partly because of the increased security and partly because it costs less to send money by computer than to pay a security company to transport large amounts of cash and then to make up physical pay packets.



Many people nowadays do their shopping with a debit or a credit card. How does this compare with using cash? Is it easier to use the cards? Is it easy to spend too much and get into trouble with the bank?

Did you know?

Around 2.8 million adults in the UK don't have a current account. These are usually people on low incomes or benefits or who have had financial problems in the past. It is government policy to encourage people to open bank accounts – this is called **financial inclusion**. The basic bank account was introduced to encourage these people to open accounts. We will discuss the basic bank account later.



Activity 1

Which current account service would you use to make the following payments:

- paying an electricity bill that is different every quarter;
- paying a car insurance policy that costs £30 every month;
- buying a new pair of boots in a shoe shop;
- going to town for the afternoon to make some small purchases and have a coffee;
- buying music CDs over the Internet?

Savings accounts

As we noted above, you should keep enough in your current account so you can make your monthly payments. But, if you have more money than this and you don't need instant access to it, you should put it into a savings account. Some current accounts pay interest on a positive balance, but this tends to be at a low interest rate. Savings accounts pay a higher rate of interest than current accounts and are designed to help people to put away money they don't need now, in order to save for something more expensive later. Savings accounts don't give you a chequebook or debit card and you can't pay bills from them, but you can make transfers into your current account when necessary. This is especially easy to do if you manage your money online.



There are different types of savings accounts and we have already studied these in Topic 2(b) Storing money. To recap, we can say here that the amount of interest paid will depend on the amount of money deposited (usually higher rates are paid on larger balances) and on the amount of notice the bank needs the customer to give before withdrawing the money (the longer the period of notice agreed on, the higher the rate of interest paid).

Basic accounts

These aim to give people on low incomes a way of keeping track of their income and their expenses. People who don't earn much, and who may already have been in financial trouble, are not the type of customers that banks want to lend to or give overdraft facilities to. So the banks prefer not to give them a normal current account.

With a basic account, you get **paying-in slips** and you can pay money into the account. You don't get a chequebook but you are given a **cash card** that you can use in the ATM and you can pay regular bills from the account. Because you can't become overdrawn, you avoid the risk of running up debts and facing bank charges. It's a good idea to use a basic account as a first bank account, especially if your income is very low. When you have got used to operating it, and when your income increases, you can switch to a normal current account.

Basic accounts are available from most banks, including HSBC, Lloyds TSB and Nationwide building society.



To what extent do you think someone could manage without a bank account? Why might it be easier for someone on a low income than someone on a high income?

Did you know?

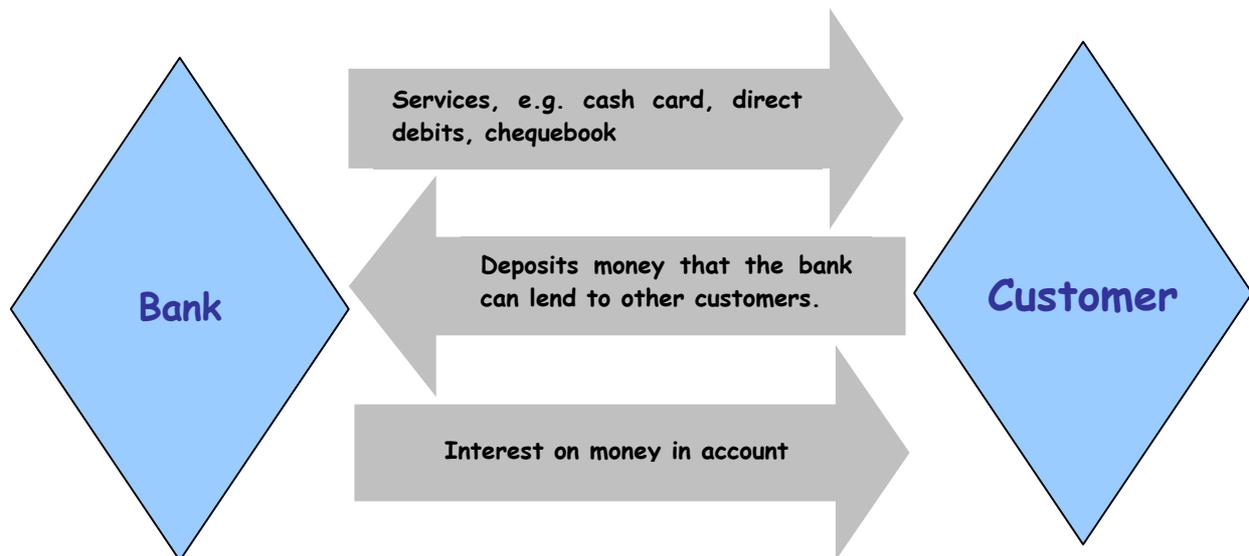
All the main banks and building societies have responded to the needs of low-income people and have made basic accounts available. However, a report published in August 2005 by the National Consumer Council says that basic bank accounts, designed to promote financial inclusion for people on low incomes, are failing to close the gap between rich and poor. The research found that around half of low-income consumers prefer to manage their money in cash because basic accounts don't meet their needs.

What do you get from your bank account?

There are two main ways that people look at their bank accounts.

- The bank uses their money to make its loans and makes a profit out of charging a higher interest to borrowers than it pays to savers.
- The bank provides them with certain services.

Both of these are true and it is important to see each side of the transaction. By depositing your money in a bank, you benefit from having a safe place to store your funds and, depending on the type of account you use, you also have access to a range of money transmission services. At the same time, the bank is able to use your money to lend to others. This should not bother you as long as the bank is able to let you withdraw your money when you need to.



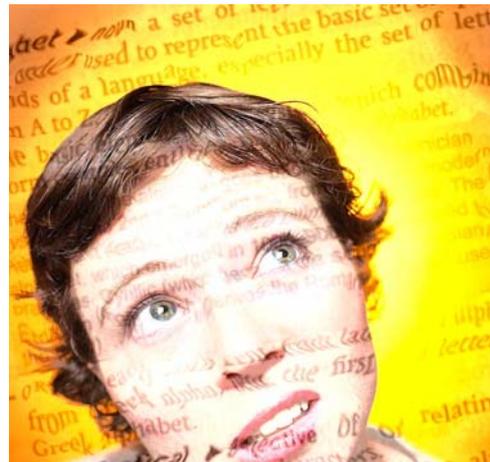
What is important to consider is the interest rate the bank pays its savers and the charges it makes for **money transmission services**. Banks must make a profit to stay in business, so it is reasonable for a bank to charge a higher interest rate to a borrower than it pays to a saver. But the profit margin between the two rates should not be too much. At the same time, the charges made for services should be 'within reason'. Customers decide what is 'too much' and 'in reason' by comparing the rates and charges of the different banks and building societies and finding out what is usually provided and charged.

The bank 'pays' the depositing customer in a combination of interest rates and services, depending on the type of account. A savings account pays an interest rate and does not provide any services, apart from letting the customer have access to the money after an agreed period. A current account pays a very low level of interest or no interest at all, but it does provide money transmission services for no charge as long as the balance is not overdrawn.

Some current accounts pay a low rate of interest on positive balances and others do not; this is a matter of competition between banks. People sometimes complain that, if no interest is paid, the bank is getting their money 'for nothing' and using it to make loans. This is partly true but it is important to remember that current accounts offer a lot of payment services. Most personal current accounts do not charge customers for writing cheques, using debit cards, etc, and it can be argued that the provision of these 'free' services is, in effect, the interest on the money deposited. We must weigh up all these points when choosing a current account. But, whichever is seen to be the best, the interest rate will never be very high and it is not advisable to leave a lot of money in a current account. Anyone who has more money than is necessary to finance their weekly and monthly requirements should choose a savings account and not a current account to store the extra money.

Choosing a bank and an account

There is a lot of competition nowadays between different banks and building societies. The main service provided with a current, savings or basic account is similar wherever you go, but charges, interest rates, flexibility and the extra services offered are different – so it pays to shop around. You could open different accounts with different banks or building societies – a current or basic account with one bank and a savings account with another, if you wanted to get the services that came with these different accounts. The choice of different accounts with different banks may seem confusing, but it is worth spending time making sure that you get an account you are happy with, as you will use it frequently.



Choosing a bank account that suits you can be confusing but it is worth spending time getting it right.

What do people look for in a current account?

People demand various things from a current account. How good a bank is at offering these things affects that bank's success in attracting and keeping customers.

- ✓ **Safe-keeping:** all the big banks and building societies offer a high degree of security and nobody believes that the large well-known banks are going to fail.
- ✓ **Efficiency** in providing the services, e.g. in clearing cheques, paying the right amounts to the right people, sending out statements, etc.

- ✓ The level of **interest** paid and **charges** made.
- ✓ **Easy access** to their accounts (see below).
- ✓ **Competition**: customers nowadays are very aware of other banks as well as their own and it is easier than ever to switch your account if you are not happy.
- ✓ **Flexibility**: customers want to be able to make transfers between accounts and to be able to become overdrawn for a short period to overcome the problem of the timing of **receipts** (money coming into their account).
- ✓ **Simplicity**: banks and building societies are always trying to think up new ideas to make their bank accounts sound better and more attractive. But what many people want is a simple current account that accepts deposits and provides the usual ways of making payments. Because there are so many accounts, each providing something different for a different charge, people get confused and don't know which to choose. Too much choice can be a problem.

As you read through the accounts given below and find other accounts on websites and at bank branches, remember the above points so you can be critical. For example, are the services provided useful, simple and value for money?

Customer inertia

Customer inertia refers to some people's tendency not to move or make a change. This might be because they are too busy or lazy, or they do not know there are better deals available elsewhere. Many people open an account with a particular bank for a reason of convenience (e.g. it is their parents' bank or it is the one nearest to their home) and then cannot be bothered to change it later, even if they grumble about it sometimes. The banks have been criticised for making it too difficult for people to take their account from one bank and move it to another, and now some banks have picked up on this and are taking steps to improve. The **Banking Code** states that banks should make it easy for customers to switch accounts. (We will look in more detail at switching accounts in a later topic.)



Some customers are too busy... or too lazy... to change their bank account if they are unhappy with it.

Here are some examples of the accounts offered by some banks and building societies.

Barclays

Barclays advertises its current accounts as being straightforward and ‘doing what they are supposed to do’. Their website says:

‘Sometimes it’s great when you’re spoilt for choice. But other times you just want to keep things simple.’

This is a reaction to criticisms that financial services have become too complex for customers to understand. Choice, which sounds like a good thing, can be difficult as well, and people don’t know how to choose between all the different but similar products on offer.

Barclays’ television advertisements use the slogan ‘Now there’s a thought’ and they are trying to sell their accounts on the basis of innovation, i.e. that they are a new and good idea. This refers particularly to the Additions accounts, which provide extra services such as insurance.

Barclays offers the following:

The standard Barclays current account, which is similar to the description of current accounts given above. It can be accessed by **telephone banking** and **online banking** as well as by visiting the bank’s branches. There is no charge or fee as long as the account is not overdrawn, but charges are made for some extra services, e.g. a same-day transfer costs £20. Agreed overdrafts are charged at 15.6% **EAR (Equivalent Annual Rate)**.

The Cash Card account, which is the Barclays version of the basic account. There is no chequebook, online banking or debit card but money can be paid into the account and can be withdrawn by using the cash card.

The Platinum account for valued customers, i.e. those with higher incomes and good credit records. There are no fees or charges, even for the extra services. Agreed overdrafts are charged at 12% EAR.

Barclays offers a range of accounts for young people under the following headings:

- 16-19s: Young Person’s account, which offers the normal current account services;
- 11-15s: BarclayPlus account, which is a savings account;
- Children’s savings account.

(Note that nobody under 18 will be able to borrow money so they will not be able to have an overdraft or a credit card.)

The Additions range comprises various accounts that provide extra services in exchange for a monthly fee.

- ✓ First Additions aimed at young people in their first job, which costs £6.50 a month and provides over £330 worth of benefits a year.
- ✓ Additions for general customers, which costs £9.50 a month and provides up to £500 worth of benefits a year.
- ✓ Additions Plus for customers on higher incomes, which costs £14.50 a month and provides £800 a year.
- ✓ Graduate Additions aimed at graduates, probably at the beginning of their careers, which costs £5 a month and provides £382 worth of benefits a year.
- ✓ Student Additions designed for students. There is no cost and the benefits are worth up to £287 a year.

Agreed overdrafts on the Additions accounts are charged at 9.9% EAR, except for the Student Additions account, which has a rate of 8.9% on overdrafts bigger than £2,000 (smaller overdrafts are free up to certain levels, depending on year of study). The extra services include motoring breakdown protection, legal advice, various insurance protections, discounts and interest-free overdrafts. The more expensive the monthly fee, the more services that are provided.



Activity 3

Go to Barclays' website (www.barclays.co.uk) and you will see more details of these services.

- (a) Do you think the services offered on the Additions account are worth the money charged for them?**
- (b) Do you agree that this product range is simple and straightforward?**
- (c) Are these accounts a 'good idea'? Are they any different from the accounts offered by other banks?**



Activity 4

Which Barclays account would you choose for each of the following people? Give your reasons in each case.

Person wanting account	Account	Reason for choice
Jenna is 14 and is saving up for her university education.		
Max is a university student and needs a bank account to manage his finances.		
Martin is unemployed. He wants to open a bank account and have his weekly benefit paid into it.		
Martha has just got her first job. It is in a call centre and she will earn £12,000 a year. She needs an account that she can have her salary paid into and out of which she can make payments.		
Kelly has a good job in a legal firm and earns £30,000 a year. She runs a car and spends quite a lot of money on clothes.		
Robert runs his own business and takes around £80,000 a year for his own personal use. He has a big house, runs two cars, takes two holidays a year with his family and is a member of a golf club.		

Halifax

Halifax is now part of HBOS, together with the Bank of Scotland. The main selling point for its current accounts is that they pay interest: 'Who gives you extra?' as its song says. Here are the main types of current account offered by Halifax:

- (i) **Halifax Moneyback Current Account:** as long as the customer pays in £1,000 every month, this account gives 1% moneyback on the first £10,000 of purchases made by debit card. It pays an interest rate of 0.5% AER and it also gives the usual current account services – an overdraft facility, a debit card, cash machine access, online and telephone banking and access to the branch network.
- (ii) **Current account:** this pays 1.5% AER to customers who pay in £1,000 or more a month and 0.10% AER to those who pay in less than £1,000 a month; if less than £1,000 is paid in for two consecutive months, the lower rate applies. The advertising slogan says: 'Our current account pays 25 times more interest than most High Street banks'.
- (iii) **Student current account** which pays 2.02% AER to accounts with a positive balance and it also allows for overdrafts.
- (iv) Accounts for under-18s:
 - ✓ Cardcash for customers aged 16- and 17-year olds
 - ✓ Expresscash for customers aged 11-15-year olds
 - ✓ Save4it – a pocket money account for children aged 0-16.



Look at the Halifax accounts given above. Why do you think they emphasise the interest rate paid on current accounts? What do you think of the rates they pay, compared to the Barclays accounts?

Building societies

The examples given above are accounts with banks, but remember that building societies also provide current and savings accounts. Building societies, unlike banks, do not have to make a profit for shareholders and aim to give their members (their customers) the best rates. For this reason, the interest they pay on current and savings accounts is sometimes a little higher than that paid by banks. Some years ago, building societies offered only savings accounts but nowadays their current accounts are comparable with those provided by banks.

The biggest and best-known building society in the UK is the Nationwide. Here are a few details of their accounts and the rates they pay.

The Nationwide's main current account is called the **FlexAccount**. Here are some details (correct in July 2007):

General terms

Average interest rate £0 – £499	0.25% gross AER
Average interest rate £500 – £999	1.25% gross AER
Average interest rate +£1,000	4.25% gross AER
Authorised overdraft rate	7.75% EAR
Unauthorised overdraft rate	24.90% EAR

Charges

Stopping cheques	Free
Duplicate statements	£5 minimum
ATM charges worldwide	None
Monthly unauthorised overdraft fee	£20
Unpaid items fee	£30

In its advertising, the Nationwide stresses its building society status and says that it gives a better deal to the customer than a bank that has to make profits for its shareholders. On its website, the Nationwide publishes the above data and invites you to compare with other current accounts. It gives you a drop-down list of more than a dozen banks; when you select one, it gives you a comparison chart of what that other bank charges on the above items.



Activity 6

This can be done as a group activity or in pairs.

Go to the Nationwide website (www.nationwide.co.uk) and choose banking and then current accounts. Go to 'Compare your current account to FlexAccount' and you will see the drop-down list. Each pair of students should choose a different competitor and find out the charges made by that bank. Get together in your pairs and prepare an overall chart showing the various interest rates and charges made by the different competitors.

Is it true that Nationwide comes out best?

Becky is doing a course in financial studies at school and has been asked to find out what people think about their bank accounts. One Sunday, her parents invite some friends for a barbecue and Becky interviews them on the subject. Here are some of their comments.



Karim: *I'm not too bothered about my current account not paying interest because I have a savings account as well. I access my accounts online every day and I make transfers between the two so I never leave much money in the current account. This way I get as much interest as I can on money I'm not using at the moment.*



Suzanne: *What bothers me is the time they take to clear a cheque! Five days is normal and they're getting interest on your money in the meantime.*

Lee: *Yes, I agree with Suzanne. Last month, I was overdrawn by £10 and only because my salary cheque was late going into my account. The bank charged me £20 because I hadn't arranged an overdraft but I was only overdrawn for 2 days!*



Yasmin: *I wanted to move my current account from my bank to a new one but it was so hard and took so much time, I gave up. I think I'm stuck with my bank forever!*

Alan: *I don't like my bank because it doesn't pay me any interest on my current account. They get my money for nothing but look at the rates they charge if I borrow money!*



Safia: *I find that bank accounts have become very complicated. There are so many of them, even from the same bank, and I'm never sure which is the best one to open. They all offer different services and interest rates or charges - I would prefer it to be simpler.*

Ed: *The trouble is that you can't do without them these days! It's just not possible to do much in cash anymore so you've got to have an account. There may be different banks but their accounts are very similar. I think they all get together to make money out of us customers!*



Now that you've read this topic, what do you think of these comments? Are they fair? Are they representative of what people think? Is there anything the banks can do to address these issues?



Review questions

1. Give three reasons why someone might deposit money in a bank account.
2. What are the three main types of account offered by banks and building societies?
3. Name three ways in which you can take cash out of your current account.
4. Which type of payment is being described in each of the following?
 - (a) Payment regularly made by the bank for the same amount each time.
 - (b) Payment regularly made by the bank for a different amount each time.
 - (c) Plastic card which is not only a method of payment but also a way of borrowing money.
 - (d) Plastic card which makes payments straight out of a bank account.
 - (e) Bank document which someone writes in favour of the person being paid and which they back up with a plastic card.
 - (f) Payment made via computer from one person's account to another's.
5. What is the name given to the government policy that encourages as many people as possible to open a bank account?
6. Say whether the following statements about savings accounts are true or false:
 - (a) Savings accounts provide you with a chequebook.
 - (b) Savings accounts pay a higher rate of interest than current accounts.
 - (c) Savings accounts that give you instant access to your money pay a higher rate of interest than those that ask you to give a period of notice.
 - (d) You can make transfers between a savings account and a current account.
7. Why does a basic account not provide customers with a chequebook or a debit card?
8. 'Not charging for the payment services provided is the way a bank pays interest to its current account customers.' Explain how this works.
9. Why do many people want a simple bank account rather than one that gives them a lot of extra services? Why might others choose a more complicated account?
10. Why is a building society able to pay a slightly higher rate of interest to its savers and charge a slightly lower interest rate to its borrowers?



Case study

Benedick works in the office of a small plant hire firm. He doesn't like banks and insists on doing all his financial transactions in cash. He has persuaded his employer to pay him in banknotes and he uses the same means to pay all his bills.

- (a) Consider what Benedick must do to be able to make all his payments to different companies without using a bank current account – he needs to pay his electricity, gas, water and phone bills.
- (b) What problems does he come up against?

Learning activities



Individual

The British Bankers' Association (BBA) gives the following advice to someone wanting to choose a bank account. Think about the following:

- What interest rates are paid?
- How close is a branch or cash machine to where you live, work or shop? What is the parking like or can you get there on public transport?
- How important is it to have free access to other banks' cash machines?
- Does the bank allow you to use post offices to pay money in, pay bills and withdraw cash?
- Does the bank allow you to use the telephone for things like checking how much you have got in the account or paying bills?
- Is there an option to use an Internet service?
- Do you have any particular needs, such as Braille statements, and how good is the bank at meeting those needs?
- Are there special services you will use a lot (e.g. sending money abroad)? Discuss these with bank staff and see which bank you think is best.
- Do you want a small overdraft facility, to cover temporary shortages (sometimes called a buffer zone) and how much will the bank charge for this?
- Does the bank subscribe to the **Banking Code**?

Using the above as a guide, draw up a questionnaire and interview an adult (parent, teacher or friend) about their bank current account. Make a note of any areas they are dissatisfied with. Find out if they would be willing to change their account to another bank if this gave them a better deal.



Internet

Go to the websites of three high street banks or building societies. Find out the main current accounts offered by each and rate them according to the following criteria:

- interest rate paid (if any)
- charges made for overdrawn accounts
- ease of access
- any extra services offered
- flexibility
- simplicity.



Group

Go to the website of the Building Societies Association (www.bsa.org.uk) and find out the names of some other building societies apart from the Nationwide. Go to their websites and find out some information about the current account services they offer, the interest they pay and the charges they make. How do they compare with the other accounts you have studied? This can be done as a group activity, with each person choosing a different society; the information can then be collated into an overall guide.



Key points for Bank accounts

- Depositing money in a bank keeps it safe, earns interest and gives access to various methods of making payments.
- Accepting deposits is one of the main functions of banks and building societies.
- Bank accounts come under three main headings: **current accounts**, **savings accounts** and **basic accounts**. Each bank offers its own versions of each and calls them by different names.
- Bank current accounts offer a number of payment facilities – a chequebook, debit card, standing orders, direct debits and online payment facilities.
- A significant number of people on low incomes still do not have a bank current account. The government's **financial inclusion** policy aims to reduce this number.
- Basic accounts are aimed at people on low incomes or benefits. Since these customers are not **creditworthy**, they are not allowed to become overdrawn.
- Savings accounts allow people to deposit money and to earn interest. The rate of interest depends on the size of the deposit and the length of time they leave the money there.

- ❑ Most current accounts do not pay a rate of interest (some pay a very low amount) but pay the customer by providing the payment services free of charge.
- ❑ There is a lot of competition between banks in the current account market and so a lot of choice for customers. The main factors that influence people's choice of a bank and an account are efficiency, the interest paid and charges made, ease of access, flexibility and simplicity. There is also an element of customer inertia, i.e. people can't be bothered to change their accounts.
- ❑ We give details of some of the accounts offered by Barclays and by Halifax (HBOS) but you should ensure these details are still up to date and research the accounts offered by other banks before making a choice about your own account.
- ❑ Building societies offer similar current account services to banks but, because they do not have to make a profit for shareholders, they can afford to pay a little more interest than banks do. (In this topic we give details of some of the accounts offered by Nationwide, the UK's largest building society at the time of writing (these details were correct at the time of writing) but there are 62 other building societies.)