The London Institute of Banking & Finance

Level 3: Certificate in Financial Studies (CeFS) 600 / 8537 / X

Unit 2 – Financial Capability for the Medium and Long Term (FCML) D / 504 / 8110

April 2018 Examination

Examination Copy
Case Study Information and Data

Instructions to learners:

This material has been designed to provide background information / research material for the examination. It is intended to help candidates familiarise themselves with the enclosed material prior to the examination.

The information and data is made up of:
- Case study 1 information and data.
- Case study 2 information and data.

Candidates are advised to read **both** sets of case study information and data prior to the examination. At the beginning of the examination, candidates are advised to review the case studies in conjunction with the question paper before committing to answering a particular case study.

Please note:

- You may annotate the case study material.
- The figures and products featured in the case study information and data were correct at the time of writing. Learners are not expected to know current interest rates of specific products and services, nor to have detailed knowledge of changes to products and services.
- Although this material contains certain information relating to the examination scenarios and questions, the actual scenarios / questions are provided in the examination question paper.

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Case study 1: Information and Data begins on page 3

Case study 1

Udish is off to University.

Udish has done really well in his college examinations. He has decided to study International Relations, but is concerned that the university he is going to is an hour's train ride away. This is likely to make travelling costs rather expensive.

Udish knows that he needs to decide which bank account to use before going off to university. He has had a current account for about two years, but he has not been entirely happy with the quality of service he has been receiving. He is thinking about whether he should have a normal current account or a student account.

Udish's friends have told him that he needs to 'shop around' to make sure that he gets the best deal on offer, but he is not entirely sure how to determine exactly what the best deal is. Some of his friends have suggested particular banks and accounts to apply for because they offer free gifts when you sign up.

He has a range of leisure interests and likes buying books and CDs. He enjoys going to the cinema and likes to eat out occasionally, when he can afford it. Udish uses his mobile phone a lot, especially in terms of the number of text messages he sends and receives.

Udish knows that he will need to be well organised in terms of his financial affairs once he gets to university. He has arranged for a student loan and he will also be able to use the money he has managed to save from his part-time job at the local Sainsbury's store, where he works two evenings a week and all day on Saturday. He will have to use his loan and his savings to finance important items of expenditure, such as tuition fees, payments for his room in a hall of residence and the purchase of books.

As Udish really wants to make sure that he chooses the right bank account, he has asked you to do some research to help him with his decision.

The research

Banks luring undergraduates

This Is Money (August 2017) reported that high street banks are luring undergraduates into accounts that, while offering attractive introduction offers, can result in very high fees if the

student goes into an overdraft and remains there past the end of their studies. This is because a student overdraft limit can be double that of a standard current account. For example, HSBC has offered an account that promises a £60 Amazon gift card upon signing up and a £3,000 overdraft limit; however, that limit goes down to £1,500 when the course finishes, meaning that many students could end up with an unauthorised overdraft – and hefty charges. Meanwhile, some banks allow student customers to benefit from the better deal for a year after graduation so that they have a chance to clear the debt without fees.

What do students spend their money on while at university?

While tuition fees comprise a large amount of student debt following graduation, there are still day-to-day living costs that need to be considered. In NatWest's 2017 Student Living Index the following points were made:

- The average student spends £43.30 a month on going out and socialising with friends, which is over three times more than money spent on other hobbies and interests (£14.00 a month on average).
- Students spend on average £38.61 on alcohol each month.
- Students in Stirling appear to be the most fashion-conscious, spending on average £38.60 on clothes, shoes and accessories each month – compared to only £19.10 on average a month in Durham.
- Students in London have the highest monthly rent (£584.23), but spend below the sample average on household bills.
- 29% of students don't budget at all, but say that they're not frivolous with their money.
- Over half rate the stress of managing their money at university a 6 or above on a scale of 0–10, with 10 being the most stressed.
- 74% of students rate the stress of studying for their degree as a 6 or above on a scale of 0–10, with 10 being the most stressed.
- Despite working an average of 14.6 hours a month in a part-time job, financial help from the Bank of Mum and Dad (£205.20) is more than double what the average student earns from term-time work (£96.70).

Debt

In June 2017, the House of Commons Library published a report on student debt statistics. The amount of loans given for maintenance and tuition fee loans since 2012/13 were as follows:

Period	Number (thousands)	Value (£ million)
2012/13	987	7794
2013/14	1031	9493
2014/15	1033	10783
2015/16	1061	11623
2016/17	1989	13206

The Debt Advice Foundation offers the following information to those who may get into debt on their website:

“A debt problem is defined as a situation where you are unable to meet your monthly credit commitments as they fall due and at the same time maintain a reasonable standard of living. A money management problem is where your income is sufficient to cover both your debt repayments and your essential living costs but you spend too much on non-essential items.

You should always continue to pay your priority debt arrears before your unsecured debts.”

It is clear to Udish that with a lot of other outgoings on top of his university fees, he needs to think about where he gets his money from and how he spends it.

Range of different offers of selected banks

Money Supermarket suggests that a degree student’s top priority “is most likely to be a 0% overdraft – and ideally one that’s as big as possible. But you might also want to consider whether you’ll earn any interest when your account is in credit and whether the account comes with any freebies”.

Udish found that what was on offer for undergraduates varied and what happened to the overdraft after graduation was different as well.

Amelia Murray, writing for the *Daily Telegraph* on 17 August 2017, warned students about the traps that lurk in student current accounts:

“Most banks offer dedicated student bank accounts with a range of perks and interest-free overdrafts. Avoid the temptation of signing up to a poor account just because of a freebie.

While a free NUS card or coach discount might seem appealing, students should do the maths and work out if the perk will actually be financially beneficial.

The generous interest-free overdraft and cashback perks on display can turn into a money trap if you fail to keep to the conditions of the account or pay money back in time.

Our research shows generous switching incentives worth up to £160 can quickly be cancelled out by onerous overdraft penalties of £5 a day.”

Case study 2: Information and Data begins on page 8

Case study 2

Nina wants to invest

Nina is a 17 year old student studying for an Extended Diploma in Photography. She is in the first year of a two-year course. She has a part-time job for 10 hours a week with Marks & Spencer as a sales assistant.

Nina plans to go to university to study for a degree in commercial photography. The university at which she wishes to study has just announced that a new three-year course is to be launched that fits Nina's requirements exactly and would assist her in achieving her career objectives. However, the course will not start until two years after her Extended Diploma has been completed. She thinks that the course is so perfect for her that she is happy to wait. She plans to fill the time before the course commences with a gap year travelling around Asia (which she has already saved up for), and a year's paid full-time work experience with a commercial photography company.

Nina has recently been fortunate enough to win some money from the National Lottery. Her family have been regular purchasers of lottery tickets, with Nina joining the family syndicate on her sixteenth birthday. She has won £20,000 and has to decide what to do with the winnings.

Nina is a careful planner and has established that the tuition fee for university study will be £9,000 per year. She has decided that she would like to put aside £15,000 of her lottery winnings to cover some of her tuition fees, rather than borrow the full amount. She will use the remainder of her winnings to finance her gap year travels.

Nina has to decide where to place the £15,000 until she needs to pay her tuition fees. She has recently visited the National Savings and Investments website, from which she downloaded some leaflets about Premium Bonds and Income Bonds. Nina had not previously heard of these forms of savings. She also knows that her employer, Marks & Spencer, has very good savings and investment schemes and she has already collected some leaflets on these whilst at work. She is also thinking that she could put the money into a new savings account.

Nina needs to decide what to do and needs to see some research.

The research

The story of National Savings and Investments

Over 140 years ago, in 1861, the government set up the 'Post Office Savings Bank'. This was designed to be a simple savings scheme to allow and encourage ordinary people "to provide for themselves against adversity and ill health".

The scheme became popular and the money deposited was transferred to the Exchequer. This provided the Chancellor of the Exchequer with the ability to 'borrow' those funds to finance public spending.

Since 1861, considerable changes have occurred in the organisation of National Savings and in the savings schemes offered by the organisation. The most recent was the decision to offer many NS&I products exclusively through their website and no longer through post offices. Over the years, National Savings and Investments has "developed its range of savings and investment to suit the needs of customers and the UK government's need for funding." (All quotations taken from www.nsandi.com)

Table 1: Range of selected National Savings and Investments products

Premium Bonds
Guaranteed Growth Bonds
Income Bonds
Direct Saver
Direct ISA
Junior ISA
Income Bonds
Investment Account

Source: www.nsandi.com (Source: '10 New Year's resolutions to change your spending habits', Holly Thomas, Moneywise, January 2016)

The National Savings and Investments annual report for the year ending 31 March 2017 highlighted the following:

- NS&I is one of the largest savings organisations in the UK, with 25 million customers and £147 billion invested.
- NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer.
- When customers invest in NS&I products, they are lending to the government. In return they offer 100% security on all deposits.

Premium Bonds

Premium Savings Bonds (as they were originally known) were launched in 1956. Savers were offered the opportunity to participate in a lottery for dividends in a monthly draw.

Premium Bonds have not really changed since they were introduced. Each £1 Bond still has the same chance of winning a prize as any other. ERNIE – Electronic Random Number Indicator Equipment – selects all the winners and has done so since the launch of the Premium Bond.

In more recent years the 'serious' aspect of their potential as investments has been emphasised. Marketing campaigns have included high profile people who demonstrate ethical beliefs and sound business acumen.

Table 2: Premium Bond facts and figures

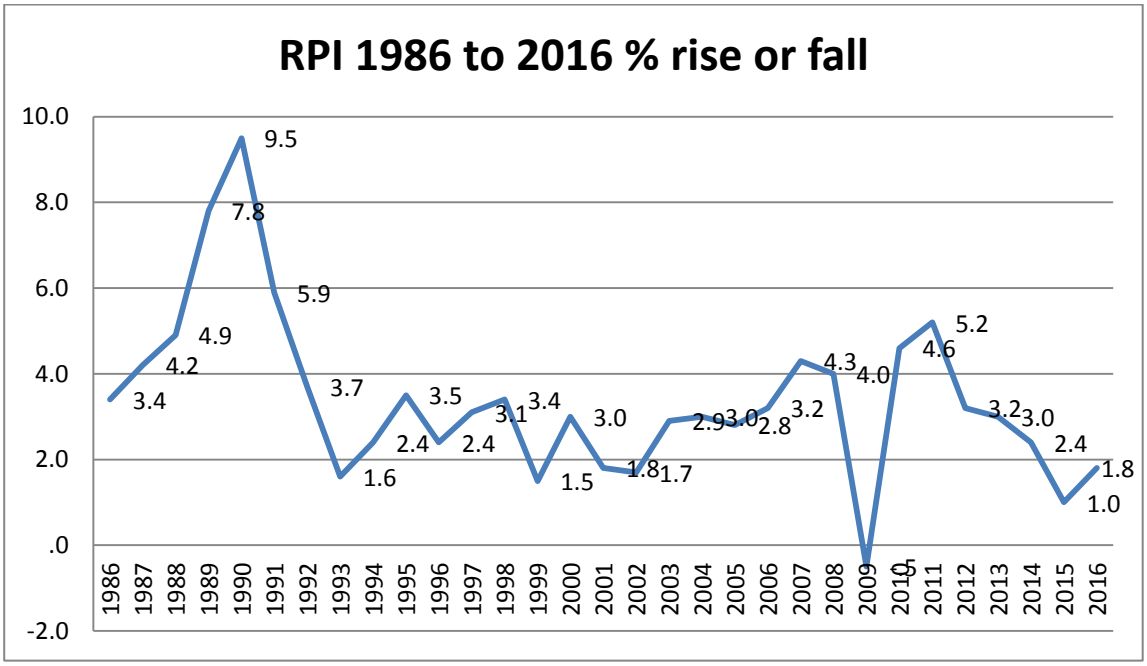
Over 21 million people hold Premium Bonds, worth over £24 billion.
Odds of winning a prize are 30,000 to 1.
NS&I pay out more than two million prizes every month. Over 5,000 of these are worth between £500 and £100,000.
The total prize fund for September 2017 was £67 million and there were 2.3 million prizes.

The Retail Price Index and the Bank rate

The Retail Price Index (known as the RPI) is used by the government to measure the rate of inflation. The RPI measures the average change in the price of goods and services bought by most households in the UK. It is compiled and published by the Office for National Statistics. The growth in the value of Income Bonds is linked to both the RPI and the Bank of England Bank rate.

Income Bonds are suitable for savers who want a monthly income at a variable rate, want easy access to their money and have £500 or more to invest.

Graph 1: Inflation 1996–2016



Source: Office for National Statistics

Table 3: Bank rate changes

Date changed	Bank rate %	Date changed	Bank rate %
August 2016	0.25	January 2007	5.25
March 2009	0.50	November 2006	5.00
February 2009	1.00	August 2006	4.75
January 2009	1.50	August 2005	4.50
December 2008	2.00	August 2004	4.75
November 2008	3.00	June 2004	4.50
October 2008	4.50	May 2004	4.25
April 2008	5.00	February 2004	4.00
February 2008	5.25	November 2003	3.75
December 2007	5.50	July 2003	3.50
July 2007	5.75	February 2003	3.75
May 2007	5.50	November 2001	4.00

Source: Bank of England

Marks & Spencer's UK 100 Companies Fund

The graph below shows the share price of the fund over the past five years.

Graph 2: Share price of the Marks & Spencer UK 100 Companies Fund

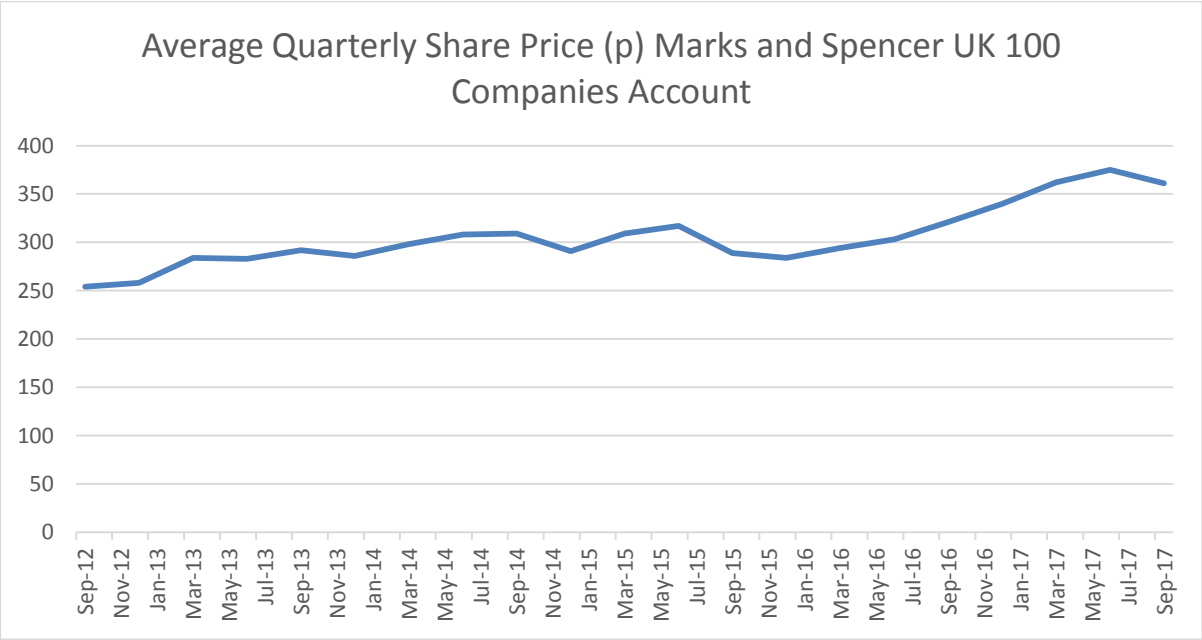
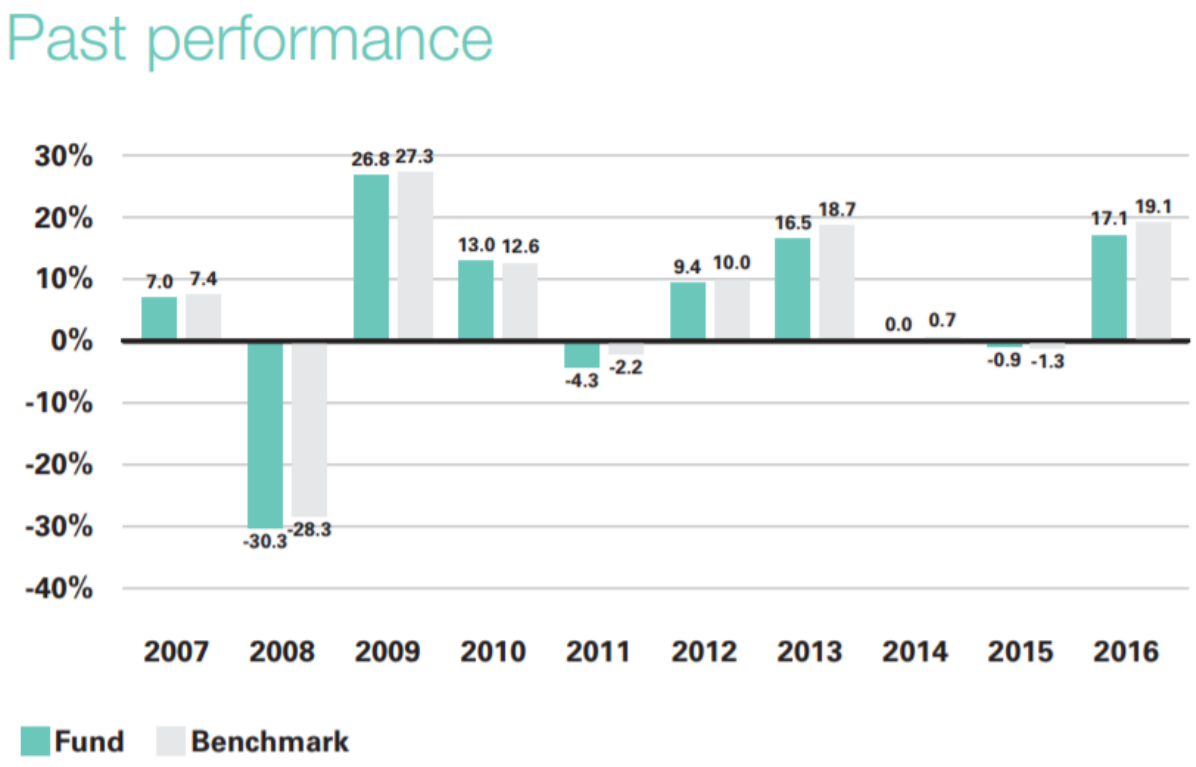


Chart 1: Past performance of the fund



Source: www.fundslibrary.co.uk