

## Chapter 7

# Financial services providers

### Introduction

In this chapter, you will:

- recognise the different types of financial services provider that you will encounter;
- recognise the distinctive features, and relative advantages and disadvantages of banks and building societies, and of other financial services providers, such as:
  - new entrants (eg supermarkets, high street stores);
  - National Savings and Investment (NS&I);
  - the Post Office;
  - investment companies;
  - finance companies;
  - credit providers;
  - insurance providers;
- understand the different types of distribution channel used by financial services providers, and their merits and drawbacks, including:
  - post;
  - face to face;
  - telephone;
  - online.

### Learning outcomes

In this chapter, you will:

- be introduced to different types of financial services provider;
- learn about government as a financial services provider;
- learn how the financial sector has changed since 1997 and since deregulation;
- understand how those providers reach their customers or potential customers;
- understand why different distribution channels are used.

## 7.1 Introduction

Financial services providers are those bodies or organisations that provide facilities for the storage, exchange and handling of money, and which therefore allow it to fulfil the functions outlined in Chapter 1. People have transaction needs, storage and saving needs, and payment needs.

## 7.2 Different types of financial services provider

The main financial services providers have, historically, been banks, but there are many other different types now available (including many that operate in the market very much like banks, but which don't call themselves banks).

Each financial services provider has distinctive features that make it more or less useful or suitable depending on the service that customers may want.

We may divide financial services providers into two main groups:

- those that provide a **commercial service**, such as banks, building societies and insurance companies;
- the non-commercial service provided by the government.

A **commercial service** is one that is run for a profit.

### 7.2.1 The government as a financial services provider

In many ways, the government can be seen to fill in the gaps in provision left by commercial providers. There are a number of possible benefits of dealing with the government:

- it's regarded as a very safe home for your money;
- it's not a business, so it isn't out to make a profit from you;
- it's responsible for the social welfare of people in this country, and so should be developing products to suit those for whom other providers don't cater;
- it's big enough to have a wide range of products, to suit lots of different types of need;
- it's a body with which we all deal anyway – for taxes and so on – so we already have a relationship with it;
- its distribution channels can be consumer-friendly – through places such as post offices – so it's not as intimidating as some other providers can be.

The government meets a number of different financial needs, such as provision for old age, savings needs and helping those who might otherwise be financially excluded. The government provides:

- a state pension to those who have paid sufficient National Insurance contributions;
- safe and convenient savings products;
- products targeted at those who are financially excluded.

### 7.2.1.1 Financial exclusion

Some people are 'excluded' from mainstream financial provision. These include those who can't get access to accounts offered by commercial providers, because:

- their savings are too small for the provider to let them open an account;
- they have a bad **credit history** – possibly through their own actions, but perhaps through no fault of their own;
- they choose not use commercial providers, because:
  - they don't trust them;
  - they don't understand the products and systems;
  - they don't understand their own needs.

A **credit history** is assessed by looking back over loans made and repaid (or not) in the past.

The issue of whether or not you are able to understand your financial needs and how to deal with them is called **financial literacy**. Financial exclusion, as a whole, and the more specific issue of poor financial literacy are surprisingly widespread problems in the UK.

**Financial literacy** refers to understanding how to look after one's own financial affairs.

There are a number of initiatives that the government has spearheaded, which are aimed at helping combat the problems of financial exclusion, including:

- commitments sought by the government from the banking community that it will support basic banking services for the financially excluded – even though the banks may make lower profits on such accounts;
- public consumer education, such as that which the Financial Services Authority provides (see <http://www.fsa.gov.uk/>).

#### Activity 7.1

The age at which people receive the state pension is subject to regular discussion. Go to <http://www.thepensionerservice.gov.uk/> to find out what the current state retirement age is. Find out how much the state pension is at present.

#### *Did you know?*

There is a range of state benefits that people can claim if they have difficulties, the full range of which can be viewed online at <http://www.dwp.gov.uk/lifeevent/benefits/atoz.asp>.

For example, Attendance Allowance (which is paid to people who need help with personal care because of illness or disability), Incapacity Benefit, Industrial Injuries Disablement Benefit and many others.

Benefits are paid for from National Insurance contributions.

## 7.3 Commercial providers

All providers other than the government may be put under the heading of 'commercial providers' – that is, those whose intention is to make a profit out of the services that they offer. Even **mutual organisations** are commercial providers – they must make enough money to cover costs such as wages and rents, etc, even if they don't have to pay out a dividend to shareholders.

A **mutual organisation** is a financial services provider – a building society – that is owned by its customers, who are classed as members.

### 7.3.1 Banks

The core service offered by a bank is the bank account, of which there are various types. In the past, only the banks were allowed to operate certain accounts and other financial providers concentrated on other services. This was thought to be unfair to both groups, however, so some of the regulations were removed. Since **deregulation**, many banks have diversified into a wider range of financial services offerings, such as insurance, estate agencies, mortgages, credit cards, etc.

**Deregulation** refers to the removing of some of the regulations that defined which provider could sell which service.

Banks satisfy a number of the financial services needs that we have already identified.

#### Activity 7.2

Name as many different bank accounts as you can. Describe the payment mechanisms that enable account holders to pay directly from their current account.

### 7.3.1.1 Bank accounts

The main accounts offered are as follows.

- *Current accounts*

Current accounts satisfy transaction needs by enabling people to receive money directly into their account: for example, their weekly or monthly pay. These accounts also enable account holders to pay for things easily. Account holders are usually issued with a chequebook (with which they can write instructions to pay people from the account) and/or a debit card (which does the same job). Sometimes, these are combined with a cheque guarantee card, which guarantees the amount on a cheque up to a certain level.

- *Deposit accounts*

Deposit accounts are savings accounts (therefore fulfilling savings needs) into which people can put their money until they want it later and earn interest on it in the meantime. Some savings accounts are flexible: you can add to them whenever you want and take money out from time to time. These accounts usually earn a variable rate of interest. Some require savers to leave their money in the account for a fixed period of time. These accounts usually earn a slightly higher rate of interest, but you can't withdraw your money part of the way through the period. These are called 'term deposits'.

Another savings account is called a 'notice account'. These accounts also earn a slightly higher rate of interest, but you must give the provider notice – that is, a warning – before withdrawing any of the money. The provider specifies how much notice is required, such as 30 or 60 days. Savers can withdraw their money without giving notice, but they will lose some of the interest due on the account as a penalty.

#### ***Did you know?***

A variable rate account is any sort of account on which the interest rate is not fixed over time, but may be changed by the bank or building society from one day to the next.

### 7.3.1.2 Borrowing

Banks also meet people's needs to spend money that they don't have now, but can repay later, through different kinds of loan. Before lending to someone, banks make certain checks on that person, to see whether they are a good risk and therefore likely to repay the money on time.

There are different ways in which people can borrow money. The main ones are as follows.

- *Overdrafts*

When the bank allows a customer to take more out of their current account than it holds, so that there is a negative balance, the customer is said to 'overdraw' their account. Overdrafts are flexible, but they can be expensive in terms of charges and interest.

- *Fixed-term loan accounts*

Such accounts are usually for an agreed purpose (such as buying a new car) and demand a set amount of repayments each month.

- *Mortgages*

Mortgages are long-term loans (often of 25 years or more), usually used to buy houses and, traditionally, the main product of a building society. Since deregulation, however, building societies now operate as banks and banks as building societies. A bank will lend its customer the majority of the price of the house that they are buying and take security over the house. This means that if the customer doesn't repay the loan, the bank can take the house and sell it, or take other actions to get its money back.

### 7.3.2 Building societies

At one time, banks and building societies had quite different ranges of products. Building societies mostly undertook residential mortgage lending, while banks offered current accounts, overdrafts and personal loans. Now, building societies offer many products that are similar to bank accounts.

The two kinds of business may, however, work in different ways depending on whether or not the building society has been subject to **demutualisation**. A building society was, traditionally, owned by its customers who were classed as members (it was consequently called a 'mutual organisation'). If it made money on the products and services that it provided to its customers, it shared this out among them by reducing the interest that they paid on their loans, or giving them more interest on savings.

**Demutualisation** involves taking a business from mutual ownership, by members, into commercial ownership, by shareholders.

A bank, on the other hand, is owned by shareholders and it aims to make a profit that it can pay out to them as a dividend.

#### 7.3.2.1 Demutualisation

If a building society decides to stop being a member organisation and instead issue shares to become a public limited company, this is known as demutualisation. Many building societies have taken this step, and are now indistinguishable from banks in the products and services that they offer. Some have even changed their name to 'bank'. The Abbey National Building Society, for instance, became, first, the 'Abbey' and then the 'Abbey Bank'.

The reasons for this change are as follows.

- Building societies operate under stricter rules than banks, in terms of what business activities they can and can't undertake – particularly in relation to lending money without taking security. So, if a building society wants to start making unsecured loans, it must convert to being a bank.

- When a building society converts into a bank, shares are offered to new shareholders – that is, to people who are not customers. New shareholders lend the organisation money in exchange for a share in the profits. The new bank can use this extra funding to develop its business – buildings, staff, computer systems, and so on. Converting from a mutual to a company with shareholders can also benefit the former members of the building society, who may receive shares or a cash payout.

There are also disadvantages of converting from a building society to a bank: the new bank must pay shareholders from its profits, and there may be a conflict between how the shareholders and customers want the organisation to operate.

### 7.3.3 How banks and building societies make an income

Banks make their income from transaction and borrowing services in two ways:

- *by way of charges* – for example, a set fee per transaction or a fee for a copy of a bank statement;
- *by way of an interest rate margin* – that is, the difference between the higher interest rates that a bank charges for loans and the lower interest rates that it pays people on savings accounts.

#### Example 7.1

ABC Bank charges its borrowers 7 per cent and pays its savers 4 per cent.

The difference of 3 per cent covers its costs, administration, staffing and premises, etc, and the rest is its profit.

#### *Did you know?*

Banks can (and will) charge different interest rates linked to the size of a loan and to the risk involved; they will do the same on deposits.

- They will usually pay better rates of interest on big deposits, or on those deposited for longer time periods.
- They may charge lower rates of interest to borrowers who they are very sure will repay them.

## 7.4 Other commercial providers

While banks and building societies provide a commercial service for many of the savings, borrowing and transaction needs that people have, there are many other commercial providers that specialise in different elements of finance and in providing for different types of need.

### **7.4.1 New entrants**

There are now a number of other businesses offering financial products, the core activities of which are not in the financial services industry. These include several supermarkets, such as Tesco, Sainsbury's and Asda.

These new entrants are able to offer a range of products due to the deregulation of financial services, including credit cards, mortgages and loans for hire purchase. They can take advantage of the extensive branch systems that they already have and can also take advantage of the Internet. Customers are happy to use them for financial products, because of the trust that they have built up in the brand, their loyalty to the business, its convenience and familiarity.

### **7.4.2 National Savings and Investments (NS&I)**

Through the Post Office, the government offers access to a range of National Savings and Investment (NS&I) products. These include the Easy Access Savings Account and the Investment Account. The NS&I range also includes a variety of certificates and bonds, all entirely backed by the government and therefore very safe.

People who hold the certificates or bonds are, in effect, lending their money to the government for a set period of time. In return, they will get their money back, plus an element of growth or income. There are a range of different certificates and bonds, each designed to appeal to different kinds of investor.

The other main investments offered by the government are called 'gilt-edged securities', or 'gilts'. They are called 'gilts' or 'gilt-edged' because the value at maturity is guaranteed by the government; investors therefore cannot lose. These can be bought and sold through stockbrokers, or by completing a form that is available through the Post Office.

Gilts are a kind of loan that people make to the government. If investors hold them until the loan repayment date (the maturity date), they know for certain what amount of money they will get back: the face value of the loan. They are also certain about the amount and timing of interest payments, because the government pays them. This makes gilts very safe, if investors hold them for the full term.

There are lots of different gilts, each with different features. Some give a fixed rate of interest; others give interest (and a return of capital), which increases with the rate of inflation (these are called 'index-linked gilts'). This type of investment appeals to investors worried that rising inflation might make it hard for them to live on their savings.

**Activity 7.3**

You can find the full range of NS&I products at <http://www.nsandi.com/>. Investigate the site for yourself. See how many different NS&I products you can find on the site and list one of each that you might consider if you were looking for:

- a savings account;
- an investment to give you a regular payment of income;
- an investment that would pay you a capital lump sum at the end of a set period.

Find out what interest rates or returns are being paid on these products.

**7.4.3 The Post Office**

There are 13,000 Post Office branches in the UK, making it one of the most widespread and convenient networks. Accounts and products may also be accessed online. Many people (especially those whom we have called the ‘financially excluded’) are happy to use a Post Office, and are familiar with it as a point at which, for example, pensions and benefits are paid.

The Post Office offers a number of ‘customer-friendly’ products alongside the NS&I range, including fixed-term bonds, instant saver accounts and even a Christmas Club saver scheme.

**7.4.3.1 The Child Trust Fund (CTF)**

You can also invest your Child Trust Fund money in a special Post Office account. The Child Trust Fund (CTF) is a government scheme giving every eligible child at least £250 to invest in a specially designed savings and investment account. CTF accounts are designed to encourage saving and to help to give the next generation a better financial start to their adult lives.

In general, parents are eligible for CTF accounts for children who were born on or after 1 September 2002.

**7.4.4 Investment companies**

Investment companies offer people a wide range of product types to meet their particular needs. People with money to invest should have a clear investment objective – that is, they should know whether they want to achieve income, capital growth, or a mix of the two. The investment company that they choose should be that which is able to help them to achieve this objective, keeping in mind a number of other factors such as the person’s attitude to risk, the amount they can invest and for how long they can invest it.

- Fund companies offer packaged products that are often tailored for the private investor. They include things such as unit trusts, open-ended investment companies (OEICs) and investment trusts. Essentially these give private investors the advantage of pooling their money together, so that they can put the money to work towards a common investment objective.

- Portfolio managers will look after a portfolio of shares, bonds and other investments for people with quite sizeable sums. They will make investment decisions on behalf of the investor, in order to try to meet an agreed investment objective.
- Stockbrokers will carry out deals for people who want to buy and sell shares, bonds and other investments. Often, they will also offer a portfolio management service.

### 7.4.5 Finance companies

Finance companies might be better termed 'consumer finance' companies, because they tend to deal in consumer loans. If, for example, you were buying a new car, the garage might offer finance terms so that you could pay for it over a number of years. If you were to accept the terms, however, it would not be the garage that provides the finance, but rather a finance company.

Sometimes, these are part of leading banks (Black Horse Finance is part of Lloyds TSB Bank, for example), but they may also be independent and specialise in car loans, furniture loans, holiday loans, etc – in fact any area in which a consumer might feel that they would like to spread payments.

Before taking out loans with such companies, you should check the terms carefully, because it may be cheaper to take out a bank loan. A number of these companies do, however, manage to run **0% finance** deals.

**0% finance** refers to a loan on which no interest is charged provided that payment is made in full by the due date.

#### Activity 7.4

How do you think that finance companies that offer '0% finance' deals make their money?

### 7.4.6 Credit providers

All financial institutions are, in effect, credit providers. Many credit providers might be considered to be the same as finance companies. There are some, however, that provide credit on a much more modest scale and which may operate at a local level. But such providers may well be unregulated and may charge very high interest rates.

### 7.4.7 Insurance providers

Insurance companies provide policies that are designed to pay out if a particular event happens. They offer products aimed at satisfying our need for protection from the financial consequences of specific events. Insurers charge a premium for the policies that their customers take out, which is effectively the price that the customer pays for

the protection obtained. Some premiums are a one-off amount ('single-premium policies'), but most are paid for on an ongoing basis ('regular premium policies').

Insurance for personal customers is usually divided into two groups, as follows.

- *General insurance*
  - Buildings insurance pays out if specific types of damage occur to your home – for example, your property burns down or collapses.
  - Home and contents insurance pays out if the contents of your home are damaged, lost or stolen.
  - Motor insurance can cover damage to your car, injury to yourself and third-party liability – that is, the policy pays out if you cause damage or injury to someone else, or to their property.
  - Personal accident insurance will pay out if you are injured in an accident.
- *Long-term insurance*
  - There are many sorts of pension product, which allow people to put away lump sums or, more usually, regular payments, which are invested with an eye to growth. When the person retires, their pension pot can be used to buy an annuity – that is, a product that pays out a regular income.
  - Certain kinds of life assurance are included here, which pay out if a named person dies – but which also have an investment element. Different people can be named as beneficiaries – that is, as the people who will get the payout if the named person dies.
  - Permanent health insurance (PHI) pays a regular income if you are invalided and can't work (so it protects your income).
  - Critical illness cover pays a lump sum if you are diagnosed with certain diseases, such as cancer, heart problems, or a stroke. This helps to cover the costs that you might need to pay, such as converting your house to make it easier to get around.

Insurance companies have to decide how much to charge in premiums, or whether or not to issue a policy at all. They do this by estimating the likelihood of the event happening. For example, for life assurance, they estimate the likelihood of when the customer will die, based on the person's health, age, lifestyle, and so on.

#### **7.4.7.1 Meeting investment needs**

Some insurance products work more like investments than protection products. They let the owner take some, or all, of the money out after a set period, but they may also pay out if death occurs before this period expires. The person taking out a policy with an investment element therefore knows that they can cash part of the policy and spend the proceeds. But they also know that, on death, the people nominated to get the payout – the beneficiaries – will receive a lump sum.

These **endowment policies** solve two needs: protection and investment. They are a very popular product because there's some benefit if the person whose life is assured dies within the term of the policy and some benefit even if they don't.

**Endowment policies** are insurance policies that provide life cover as well as possible investment benefits.

#### 7.4.7.2 Meeting income needs

Insurance companies also provide annuities. These are policies that you buy with a lump sum, which pay a set income (or an income that rises every year, usually in line with inflation). You hand over your lump sum and, in return, you get an income every year for the rest of your life. The income may be paid for a fixed number of years or until the holder dies.

If the annuity is one that pays out until the holder dies and the customer lives for a very long time, the cost to the insurer will be quite high. If the holder dies shortly after buying the annuity, however, the insurer will have received a large sum as the price of the annuity – but it will not have had to pay very much out.

Insurers base their annuity pricing on their estimates of how long people will live – based on their health, age, lifestyle and other factors. They can calculate the risk of losing money on the annuity or the likelihood of making a profit.

#### Activity 7.5

In your group, decide whether a life company would charge higher premiums for a ten-year life insurance policy to:

- someone who is aged 20, fit and doesn't smoke; or
- someone who is aged 68, has had a heart attack already and smokes twenty cigarettes a day.

List the factors that you think that insurance companies might take into account.

## 7.5 Distribution channels

Distribution channels are the means by which a financial service provider gets its products into the hands of its customers – and they are one of the most rapidly changing aspects of financial services. Telephones and, more recently, electronic means, such as the Internet and email, have transformed financial services distribution in the UK. New channels are being used for advertising, sales and delivery of the product.

Providers can choose to use a number of distribution channels or just one. For example:

- Egg launched the first Internet-only bank in the UK – using one channel helped to keep costs down, but reduced the level of service possible;
- HSBC has traditional branches, telephone banking through First Direct and Internet banking, enabling customers to choose the most convenient distribution channel for them.

### 7.5.1 Face to face

To maintain a personal service, and to engender a good relationship between customer and provider, many providers have traditionally offered a face-to-face service. In the past, a customer would have to go into a bank branch to carry out almost any financial transaction. Major customers might have had the luxury of the bank manager visiting them, but this was rare.

#### 7.5.1.1 Branches

Branch-based, face-to-face delivery is the route traditionally used by providers such as the high-street banks and building societies. Providers that operate nationwide, or which have offices across a region, may maintain a network of branch offices into which customers can come to transact business, or to ask questions. National Savings products have branch-based delivery via the Post Office.

The advantages of branch-based delivery include that:

- customers can go in and talk to someone in person. Many customers prefer this, feeling that they trust the process more than one in which they deal remotely with people;
- the branch can advertise all of its products. This means that when a customer of one product – a deposit account, for example – goes into the branch, they may become aware of, and interested in, another – such as a loan account;
- branch staff offer a personal service – customers feel that local staff know them and understand their requirements.

The main disadvantage is that it is expensive for a provider to run branches in every town in which it has customers. The cost of this ends up being passed onto customers, through higher product charges.

### 7.5.1.2 Home-based

Some providers offer face-to-face service without maintaining a network of branches. For example, many financial advisers visit people in their own homes or workplaces.

The advantages of this are that:

- customers may appreciate the ease of holding a meeting in their own home, or the adviser's office, at a time that suits them;
- customers benefit from dealing with a real human being on a regular basis, who should get to know their personal financial needs.

The disadvantages include that:

- this is not a cheap way of doing business and the costs have to be passed on to the customer;
- some customers don't actually want to invite financial service providers into their home;
- some people feel pressurised by sales talk.

### 7.5.2 Postal

Many providers distribute their products by mail and also use it to advertise. Many products are in the form of a contract, so need to be physically signed. Generally, it is more convenient to send such paperwork into people's homes so that they can take a proper time to consider before signing.

Maildrop advertising might also be targeted at:

- existing customers – that is, an insurance company might write to those customers who have insurance policies with it, to offer them a new pension product;
- non-customers who the company has found through other means (some providers buy mailing lists of names and write to those people offering them new products).

#### **Activity 7.6**

- a) What are the advantages to the provider of targeting existing customers?
- b) What are the advantages of gaining new customers?

**Did you know?**

Your details should not be sold on to financial services providers for marketing purposes without your permission. There are laws and Codes of Conduct to which businesses must stick, so that your privacy isn't invaded and information held on you isn't misused.

Products aren't only marketed by post; they can also be operated by post on an ongoing basis.

**Activity 7.7**

Explain why extra care needs to be taken in non-face-to-face circumstances.

**7.5.3 Telephone**

Other providers let their customers deal with them by telephone. Banks offering telephone accounts usually issue their customers with a password, which the customer should keep confidential. The customer will be asked to quote that password before they can deal with their account by telephone, as well as being asked to give other personal or secure information.

Again, services operated in this way are often much cheaper for the financial services provider to operate. They can have a single call centre dealing with questions and instructions from all over the country. This can result in much lower charges to the customer (or, in the case of an interest-bearing bank account, higher interest rates).

**Activity 7.8**

Suggest five possible pieces of personal information that a bank might require. Remember, as well as obvious things such as your date of birth (which other people can find out), they should be things that only you will know. See if your friends can guess them and 'crack your code'.

**7.5.4 Online**

The growing popularity of the Internet has had a big impact on financial services providers in the past decade.

The Internet is an excellent place for businesses to advertise. By putting information on a website, providers can reach a potentially huge audience, without having the cost of printing and mailing paper brochures. You can apply to open accounts over the Internet and can operate your account without ever visiting a bank branch. Some providers only provide Internet access.

Customers can also use the Internet to compare the various products and providers online. They can then fill in the details of their application online – for a loan, for example – and get a very quick response.

### Activity 7.9

Visit <http://www.confused.com/> and <http://www.moneysupermarket.com/>. What service(s) are these websites providing and can you find any other websites providing a similar service?

### Activity 7.10

What do you think are the disadvantages of providing or using only online services?

## 7.6 Conclusion

You can see that, in spite of the detailed regulation of the financial services industry, there are still a huge number of financial providers and a variety of distribution channels from which you can choose. This shows that, even though heavily regulated, financial service providers are obviously filling a real need: they would not be in business if people didn't have these financial needs and want the products to fill them.

### Chapter summary

In this chapter, you have:

- learned that financial service providers may initially be split into two types – commercial and non-commercial;
- learned that the main providers in the commercial sector are banks and building societies;
- understood that there are a number of other providers that may give a more limited service, specialise in fewer products, or be less daunting for those afraid of finance;
- learned that specialist companies include finance companies, investment companies, credit companies and insurance companies;
- learned that providers use a wide range of distribution channels in order to reach as many customers as possible.

**Key terms: commercial service; credit history; financial literacy; mutual organisation; deregulation; demutualisation; 0% finance; endowment policies**

## Suggested answers to activities

### Activity 7.1

At the time of writing, the state pension age is 65 for men and 60 for women. The age for women will, however, rise to 65 between 2010 and 2020. There are discussions about increasing the state pension age for both men and women to 68. Current pension levels may be found on the website.

### Activity 7.2

The different bank accounts include the following:

- current accounts;
- fixed-term/flexible deposit/savings accounts;
- loan accounts.

The methods of payment include:

- chequebook;
- debit card;
- standing order;
- direct debit;
- Withdrawing cash and using it to pay.

### Activity 7.3

The answer can be found on the website.

### Activity 7.4

Finance companies don't make money if the '0% finance' is repaid in full, on time. What they rely on is the proportion of customers who find that they cannot meet the payments, or do not pay on time. These are then charged interest (sometimes for the whole of the loan period).

### Activity 7.5

The life company is likely to believe that the 68-year-old has a far higher change of dying in the next ten years than the fit 20-year-old, therefore it will either charge the 68-year-old much more for his policy or may refuse to insure him at all. Other factors include past diseases, family health history, type of work, amount of alcohol consumed and even the area of the country in which a person lives.

### Activity 7.6

- a) Targeting existing customers is useful, because the customer already knows and trusts the provider, and the provider has a lot of information about the customer.
- b) Providers need to have a growing and diverse client base, however, and so can't only limit themselves to selling new products to existing customers. They consequently tend to buy in mailing lists from specialist marketing organisations.

### **Activity 7.7**

Because the bank needs to be certain that the people with whom they are dealing are really who they say they are.

### **Activity 7.8**

This could be any of a number of pieces of information that only you know: a memorable address; the street in which you were born; the name of a pet; a brother's or sister's middle name; a relative's phone number, etc.

### **Activity 7.9**

These are price comparison sites for a variety of products. The two cited specialise in comparing the prices of financial products, but you will find many others that specialise in other comparisons.

### **Activity 7.10**

- It can be harder to 'know your customer' when the only contact made has been over the Internet. A lending provider might find it tricky to establish whether (for example) a customer is a good credit risk and likely to repay a loan.
- Internet security can go wrong and some providers have been very embarrassed to find that they have given unauthorised people access to their customers' accounts.
- Not every customer wants online services: some feel very alienated or mistrustful of electronic communication.