

## Essential for our everyday lives

### Banking services for everyone

Almost everyone in the UK has access to a bank account which they can use to pay bills and carry out other transactions. The latest figures show that just 3% of adults live in homes without a transactional bank account – down from 8% nine years ago, and one of the lowest levels in Europe. UK banks operate 150m current, deposit and savings accounts for their UK customers, and new basic bank accounts introduced in 2003

allow customers to receive money, pay bills and withdraw cash through post offices.

It is easier than ever before to withdraw money from bank accounts or use it to pay bills. There are around 10,500 bank branches and more than 63,000 ATM cash machines in the UK – more per million people than in France, Germany and Italy. Meanwhile banks have been phasing in faster clearing of telephone, internet and

#### Case Study

#### Account-holders reunited

A scheme to track down lost bank and savings accounts has reunited customers with over £475m since it was launched

in January 2008. More than 430,000 people have submitted search requests through [www.mylostaccount.co.uk](http://www.mylostaccount.co.uk),

a website that searches banks, building societies and NS&I records for dormant accounts.

standing order payments so they can be completed within a few hours, down from three or more days previously.

Cash is still popular for many smaller transactions, but the amount paid by debit card overtook notes and coins for the first time in 2010. There are now around 85m debit cards in issue and 62m credit and charge cards.

Bank customers increasingly use their accounts online, without the need to

visit a branch. One in four UK adults say they log into their bank account daily, and two-thirds say it is their preferred way of managing their money.

The widespread use of cards has helped the growth of internet retailing, with more than 37m UK consumers making 718m online card purchases in 2010, to a total value of £54bn.

#### The UK payments market in 2010

| Method of payment         | Number of transactions | Value of transactions |
|---------------------------|------------------------|-----------------------|
| Cash                      | 20.4bn                 | £262bn                |
| Debit card                | 6.5bn                  | £288bn                |
| Direct debit              | 3.2bn                  | £948bn                |
| Credit card               | 2.0bn                  | £128bn                |
| Cheque                    | 1.1bn                  | £1,077bn              |
| Of which Personal cheques | 620m                   | £243bn                |
| Of which Business cheques | 493m                   | £834bn                |

Source: *Payments Council*

## Savings for the future

Most people in the UK save some money, and the financial services industry offers them a wide range of savings options.

Straightforward savings accounts provide a place for spare cash, whether to pay for a holiday, buy a new car or to put money aside for a rainy day. Around half of UK households have a bank or building society savings account – some are simple deposit accounts, while others are term accounts paying a fixed rate of interest for a set period.

Financial services can also help people put away money for the longer term. Investments such as shares, bonds, unit trusts and life assurance policies are just some of the options for longer-term savings. Nearly one in five households have invested in shares or unit trusts.

The most popular way to save for retirement is through a pension scheme, with some 8.7m people in active membership of occupational pension schemes at work. When other employer-sponsored schemes are taken into account, around half of all UK employees are covered. And over the last three decades, increasing numbers have taken out personal pensions, bringing the total number saving through pension schemes to 14m.

One important consequence of the availability of such savings products is that the income of pensioners has risen faster than earnings over the last decade. The average pensioner household today has nearly as much income from pensions and savings as from state benefits which now account for less than half the total. This share is likely to rise with the government's policy of promoting more saving for pensions, starting at an earlier age.

### Case Study

#### Who wants to be a millionaire?

Two out of five UK households enjoy tax-free returns on investments held in Individual Savings Accounts (ISAs), owning cash, stocks and shares worth £350bn in April 2010.

But some have become "ISA millionaires" by investing the maximum amount each year – £10,680 for 2011-12 – in ISAs and in the Personal Equity Plans (PEPs) which preceded

them. Stockbrokers say they have clients who have built up portfolios worth more than £1m by choosing their investments well and reinvesting the income from them.

#### Pensioners' weekly income in 2009-10

| Source of income          | All pensioner households | Pensioner couples | Single pensioners |
|---------------------------|--------------------------|-------------------|-------------------|
| Benefit income            | £186                     | £203              | £169              |
| Occupational pension      | £112                     | £161              | £65               |
| Personal pension          | £17                      | £26               | £8                |
| Investment income         | £34                      | £52               | £18               |
| Earnings                  | £90                      | £161              | £23               |
| Other income              | £3                       | £4                | £3                |
| <b>Total gross income</b> | <b>£442</b>              | <b>£607</b>       | <b>£286</b>       |

Source: *The Pensioners' Income Series 2009-10*, Department for Work & Pensions, 2011

## A home to live in

Financial services have helped millions of people to buy their homes for the first time, and also support private landlords and housing associations in providing rented accommodation.

Over two-thirds of homes in the UK are owned by the people that live in them. In most cases, owner-occupiers have been able to buy their homes because of the availability of mortgage loans, secured against the value of their property.

More than half of home-owners in England – some 7.7m households – currently have a mortgage, with the majority paying less than £120 a week. The remainder, who are mainly over 55, will often have become home-owners with the help of mortgages which they have now repaid, leaving them with a valuable asset.

Home ownership does not suit everyone, and some 8.6m homes in the UK are rented. More than 42% are owned by private landlords, compared with about a quarter 20 years ago. Many of these private landlords have bought the homes they let out or financed new developments with the help of funds provided by banks and other financial services institutions.

The rest of the rented accommodation is social housing provided by local authorities and housing associations which charge their mainly lower income tenants rents at about half the levels of private landlords. Even here, the financial services sector provides more than £60bn of credit facilities to the housing associations which own just over half of social housing so they can make their government grants go further.

### Case Study

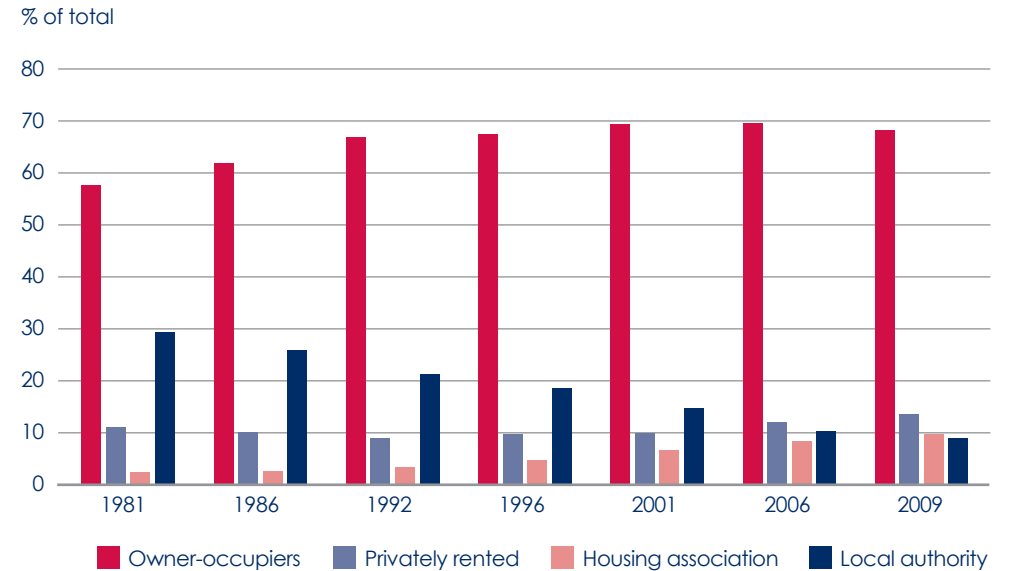
#### Fixing the cost of a mortgage

People buying their homes with a mortgage used to pay a variable rate of interest on the loan, which rose and fell with other interest rates – making it hard to budget at times

when interest rates were rising. Today most borrowers are paying a fixed rate of interest, protecting themselves from sudden increases in mortgage payments. Lenders can

raise funds in the financial markets in a variety of ways that let them guarantee fixed interest rates over short or long periods without making a loss.

## The growth of home ownership and private renting



Source: UK Housing Review 2010-11, Chartered Institute of Housing, December 2010

## Protection against risk

Risk is inescapable for people, businesses and public bodies, whether it be fire, floods, crime, accidents or other costly threats. Insurance companies pool these risks by collecting relatively small premiums from those threatened by them, creating a fund to pay out to the minority of policyholders who are hit by them.

The UK insurance industry took in almost £32bn in premiums for general business such as vehicle, property and accident cover in 2010, and paid out £23.4bn in claims. Premiums for long-term life assurance and pensions business were £110bn in that year, while payments to policyholders totalled £151bn.

The scale of protection can be seen in the amounts paid out daily: £147m to pensioners and long-term savers, £22m in private motor claims and almost £10m to householders for property damage or the loss of possessions. There were 3.7m private motor claims and 2.1m household claims in 2010.

Insurance protection is also essential for businesses and other organisations, with average daily pay-outs of £4.6m for property damage and £5.2m in claims for accidents at work, professional liability and injuries to the public. UK-based insurers operating through the London market and Lloyd's of London can cover very big or unusual risks, such as those faced by airlines, oil and gas exploration companies and the organisers of events such as the 2012 London Olympic and Paralympic Games.

Insurers invest large amounts in company shares and other assets on behalf of savers and policyholders – more than £1,700bn at the end of 2010.

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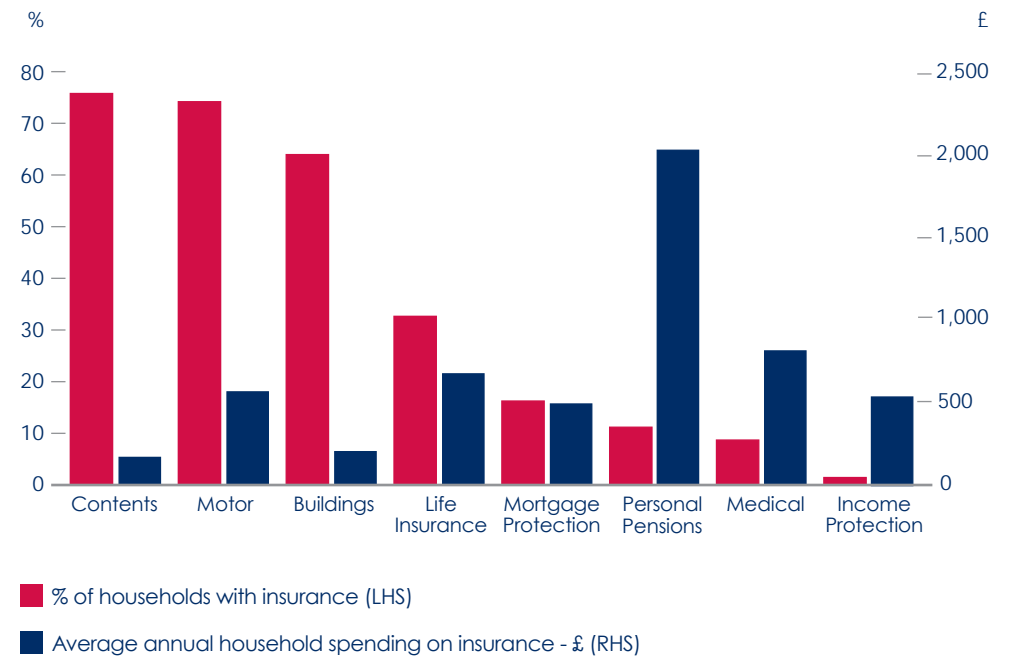
#### Insurance for all eventualities

Event insurance, which protects organisers against a variety of threats, is a speciality at Lloyd's. Cover against damage to property or personal injury at firework displays, for example, starts

at around £100, while protection against washout losses caused by bad weather or industrial action can cost a little more. Organisers of golf days offering big prizes in

hole-in-one competitions can also insure against paying out – whether the prize is \$1m, a smart new car or the holiday of a lifetime.

#### Take-up of insurance by households and the cost of premiums\*



\* Excluding insurance provided by employers, such as medical cover  
Source: ONS Living Costs and Food Survey 2009