Glossary

Unit 2: Practices of managing money

This glossary is made up of key terms that you will also find at the end of the relevant Unit 2 topics.

A

Annual Equivalent Rate (AER) – the equivalent interest rate, restated from the nominal rate, if we allow for the effect of compounding over the year.

Aspiration – something a person would like or would aspire to, rather than something that they absolutely need.

Assets – personal possessions and investments that have a value if sold.

B

Bacs – a payment clearing scheme that allows electronic payments to be made between bank accounts.

Bad debts – debts that are used to buy things that have no real value, lose value quickly, produce no income or don't really improve the borrower's situation.

Bank rate (or base rate) – the interest rate set by the Monetary Policy Committee (MPC) for the Bank of England to lend to UK banks.

Bankruptcy order – a court order to recover debts from an insolvent person, under the supervision of a trustee in bankruptcy.

Benefits in kind – certain benefits, given to an employee by an employer, which are treated as income.

Bond – a savings account that offers a fixed rate of interest for a fixed term.

Brand snobbery – when people are prepared to spend more on something because it has a certain brand name, rather than buy a cheaper alternative that will serve its purpose just as well but does not have the name.

Budgeting – managing day-to-day money to pay bills, buy food, save and pay for other essential spending.

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Bureau de change – a currency exchange business, where people go to exchange one currency for another.

C

Capacity for loss – the amount of money that a person could afford to lose (or needs to risk) when trying to achieve their objectives.

Capital – the money or other assets owned by an individual or a business. In the case of a financial services provider (ie bank or lender), it refers to the funds provided by the shareholders, not deposits from customers.

Cash flow – the flow of money into and out of an account.

Cash flow forecasting – predicting when money will move in and out of the account and identifying pressure points in a budget.

Central bank – the institution responsible for managing a country's currency, interest rates and the supply of money in circulation.

Chancellor of the Exchequer – the British Cabinet minister responsible for financial and economic matters, and in charge of the Treasury (the government's economic and finance ministry).

Channel – in relation to banking, a channel is just a way of accessing the bank's services.

CHAPS – the electronic Clearing House Automated Payment System, which is used for very high-value payments and payments between large companies.

Cheque – a written order by the account holder to pay someone else.

Chip and PIN – the UK smart-card payment system for debit and credit cards, which uses a computer chip within the card itself, and a personal identification number (PIN) chosen by the customer.

Clearing – the process by which a cheque or card payment goes through the banking system.

Competition and Markets Authority – a government department responsible for promoting competition for the benefit of consumers. Along with the Financial Conduct Authority, it took over many of the responsibilities of the Office of Fair Trading (which closed in 2014).

Consumer borrowing – borrowing by members of the public rather than the government.

Consumer Contracts Regulations – a set of rules and requirements for traders selling over the internet or otherwise at a distance (such as via the telephone) designed to protect consumers.

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Consumer debt – the amount of debt built up by members of the public rather than the government.

Consumer Prices Index (CPI) – the official government measure of UK inflation.

Consumer spending – spending by ordinary people.

Contactless payment – where payment is made just by touching a card on a card reader in a shop, although sometimes the buyer may also be asked to enter their PIN for security.

Corporate bonds – similar to gilts (see 'Gilts') in the way that they work, but the borrower would be a large company, rather than the government.

County court judgment (CCJ) – a court order for the repayment of a debt.

Credit card – a form of borrowing offered by banks, building societies and some specialist firms. It allows the cardholder to borrow money by paying for things using the credit card, but is generally the most expensive way to borrow, unless the balance is paid in full every month.

Credit rating – an assessment of the risk that the borrower poses for the lender.

Credit reference agency – a company that collects data on the conduct of people's financial accounts (ie how well people stick to repaying their debts).

Credit union – a financial co-operative run by, and for the benefit of, its members.

Critical milestones – important points along the timeline for achieving an objective.

Currency – the money used in each country. For example, the UK currency is the pound and the US currency is the US dollar.

Currency falls (or **weakens**) – the currency will buy less of another currency than before.

Currency rises (or **strengthens**) – the currency will buy more of another currency than before.

Current account – a bank account used for convenient access to funds, with payments often (and easily) coming in and going out.

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D

Debit card – a card used by the account holder to make payments or withdraw money from their current account.

Debt consolidation – rolling up existing debts into one new loan.

Debt relief order – an arrangement for someone with debts not exceeding £20,000, limited assets and little disposable income to write off the debts after 12 months.

Deflation – prices fall over time.

Deposit – a sum of money placed by a customer with a bank.

Direct debit – an electronic payment out of an account, for example to pay a bill. The amount of a direct debit and how often it is taken can vary.

Discretionary expenditure – things that we might like to buy if we have the money, but that aren't essential to our standard of living.

Drawer – the person writing a cheque: the technical term for taking money from one's own account is 'drawing' money out, hence the term 'drawer'.

E

Earned income – income from working, either as an employee or from self-employment.

Emergency fund – a pot of money that can be used to cover emergencies, such as unexpected spending, loss of income or other unexpected financial problems.

Employment – working for an employer, who can dictate when, where and how the employee will perform their job.

Endowment policy – an insurance product that pays out a lump sum after a specified term or if the insured person dies before the end of the term. Endowment policies are often used as a way of saving over the long term.

Equity – the difference between the value of a property and the mortgage on it.

Essential expenditure – bills that are essential to a person's (or family's) way of life.

Exchange rate – the amount of one currency needed to buy another currency or to pay for something in another currency.

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F

Faster Payments – a way to make electronic payments to another bank account.

Financial Conduct Authority (FCA) – one of the two main regulators of financial services in the UK. It sets rules and standards that providers must meet. It is responsible for the way in which financial firms market and sell their products.

Financial planning – making plans to meet short- and long-term needs.

Financial Services Compensation Scheme (FSCS) – a scheme that provides compensation to customers if an authorised UK financial firm becomes insolvent (see 'Insolvency').

Fixed rate – the provider fixes the interest rate at the start, either for the whole term of a loan or for an agreed period.

Foreign exchange market – a global system for central banks, banks, large financial organisations and large investors to exchange currencies.

G

Gilts – the full name for these is 'gilt-edged securities', because the certificates used to be edged in gilt (ie covered thinly with gold leaf or gold paint). The government issues gilts when it needs to borrow money, and promises to pay a guaranteed rate of interest each year and repay the money at the end of the term. Gilts usually have a fixed term of between 5 and 30 years and are usually bought by large organisations and investment companies.

Goal – a target to plan for. See 'Objective'.

Good debts – debts that are used to buy something that will increase in value or result in something positive happening.

Gross domestic product (GDP) – the total value of all goods produced and services provided by a country; in simple terms, what the country has earned in the year.

H

HMRC – Her Majesty's Revenue and Customs, the UK tax authority.

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I

Income – refers to all income received from working, saving, investing, renting property, and any other source. Gross income is total income before tax, and net income is income after tax and NI have been deducted.

Income tax – a form of tax on income received by an individual. It helps to fund general government spending, and is charged at the rates of 20%, 40% or 45% of income above a certain amount, known as the personal allowance.

Individual savings account (ISA) – a savings account on which interest is paid tax-free and about which there are rules, including limits on how much money you can save.

Individual voluntary arrangement (IVA) – an agreement between a debtor and their creditors to pay some of the debts over a set term, usually five years.

Inflation – general increases in the price of goods and services over time.

Infrastructure – the important physical systems of a nation; for example, transport, communication, water and sewage, and power.

Insolvency – (1) when an individual's debts exceed their assets and they cannot meet the loan repayments on the debt, they are said to be 'insolvent'; (2) when a company cannot afford to pay its debts – similar to bankruptcy for an individual.

Instant access – a savings account that allows the saver to take out money as and when they need it.

Interbank exchange rate – the rate at which banks will exchange currencies with each other.

Interest – the regular charge a borrower pays for borrowing money, usually shown as an annual percentage rate.

L

Life stages – people go through a number of stages in their life. Each stage is based on their age. Each of the stages has its own typical opportunities, challenges and needs.

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M

Mandatory expenditure – bills that must be paid by law.

Mobile phone apps – Pingit, Zapp and Paym are examples of specially developed apps for people to pay bills and send money via their mobile phones without entering bank details each time.

Monetary Policy Committee (MPC) – part of the Bank of England that is responsible for controlling UK inflation and setting interest rates.

Money management – the process of managing money, including budgeting, banking, saving, investing and tax planning.

Mortgage – a loan to help people buy houses or flats. They are offered mainly by banks and building societies and can last for up to 30 years.

N

National Insurance (NI) – a form of tax on earned income paid by employees, employers and self-employed people. The money raised pays for the National Health Service, the state pension and a number of other state benefits.

Need – something that a person should or must have as part of their life.

Net disposable income – what is left after taking regular expenditure away from net income.

Net income – the amount a person earns after deductions have been taken by the government, ie for tax and National Insurance.

Non-essential spending – spending on items that we want, but which are not essential to surviving. Examples would include holidays and luxury items such as an iPad.

Notice account – a savings account that requires the account holder to give notice if they wish to take money out.

O

Objective – a target; something that the individual wants or needs to achieve. See also ‘Goal’.

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Overdraft – when a bank account holder has drawn more money out of their account than they have in it. Most banks allow a customer to overdraw as long as it has been agreed beforehand; this is an 'authorised' overdraft. If the customer overdraws without agreement, or goes over their overdraft limit, it is called an 'unauthorised' overdraft and the bank will impose heavy charges.

Overdrawn – when a person has no money in their bank account but still takes money out (ie they have 'overdrawn' on their account). See 'overdraft'.

P

P45 – the form that employees receive when they change jobs. It states how much they earned and how much tax they paid in their last job.

P60 – the form all employees receive at the end of the tax year, telling them how much they were paid and how much tax was deducted.

Payday lender – a company that provides short-term loans to people who need to borrow until their next payday, when the loan should be paid back.

PAYE (Pay As You Earn) – the way that income tax is collected from employees. Their employer deducts tax each time they are paid, which means they don't have a big tax bill to pay at the end of the tax year.

Payee – the person who will receive the money in a transaction.

Payment default – when the borrower fails to make payments on a credit agreement.

Personal allowance – every individual is allowed to receive a certain amount of income before they have to pay tax. There is a standard allowance that applies to most people, but some people have a different personal allowance because of their circumstances.

Personal loan – offered by banks, building societies and some specialist firms. It is usually paid back over a much shorter term than a mortgage, and tends to be unsecured, so the providers charge higher interest rates to cover the risk.

Personal savings allowance – the amount of savings interest an individual is allowed to receive without paying tax. The allowance is £1,000 a year for basic-rate taxpayers and £500 for higher-rate taxpayers. Additional-rate taxpayers are not eligible for the allowance.

Profit margin – the difference between the money received by providing a service and the cost of providing the service.

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Prudential Regulation Authority (PRA) – the UK regulator responsible for making sure that financial firms are authorised to operate in the UK and are financially sound.

R

Real rate of return – the savings interest rate minus inflation.

Recession – a period of at least six months when the amount of goods and services that a country is producing is shrinking. This has wide-scale negative effects on the economy.

Regular expenditure – bills and spending that occur each month.

Revolving credit – a loan where the borrower can borrow up to a set limit. Each time they pay back some of the loan, they can borrow it back later.

Risk tolerance – how the individual feels about the possibility that the value of their savings could fluctuate over time and that they could even lose some of their funds.

S

Secured lending – lending where the borrower has given the lender rights over something that has value – usually a flat or a house – to support the loan and reduce the lender's risk.

Self-assessment – the system by which self-employed people, higher-rate and additional-rate taxpayers and those with unusual circumstances declare their income for tax purposes.

Self-employment – someone who is self-employed doesn't work for an employer but has set up their own business. This means that they have to find their own work and sort out their own tax.

Shares – the name derives from the fact that the shareholder actually owns a share in the company. Shares will go up or down in value, according to how investors and large financial organisations think the company is doing.

Standing order – an electronic payment out of an account. In contrast to a direct debit, a standing order is used to make regular payments of the same amount.

Stock market – a system that regulates the way shares are issued, valued and sold, and through which shares are traded.

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T

Taxable income – income that is subject to tax deductions.

Teleshopping – shopping from a company that promotes its products on a dedicated TV channel, and sells them over the phone or online.

Tourist exchange rate – the rate offered to people wishing to exchange currency at a bank or bureau de change. It will be lower than the interbank exchange rate.

Turnover – in business terms, total income for the tax year.

U

Unearned income – income from savings, investments, etc, that is not received for doing work.

Unexpected spending – when a need to spend arises that was not expected; not emergencies, but times when there is a need to buy or pay for something that wasn't planned for in advance.

Unit trust – the UK's most common form of collective investment fund, allowing many investors to pool their money together.

Unsecured lending – lending where the lender doesn't have rights over anything and could be at risk of losing money if the borrower doesn't pay.

V

Value added tax – a government tax levied on sales of most goods and services.

Value for money – getting the best goods for the money available.

Variable rate – the interest rate changes each time the provider changes its interest rate.

Volatility – a measure of the extent to which a value goes up or down over a period of time. High volatility means higher risk.

W

Want – see 'Aspiration'.

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