

# Everyday Life Use of Financial Services

Name: \_\_\_\_\_ ( ) Class: \_\_\_\_\_ Date: \_\_\_\_\_


## Objectives:

1. Understand the personal financial services provided by banks to customers, including deposits, insurance and loans
2. Establish the concept of wealth accumulation and promote the habit of regular savings

## Activity 1

### Financial services institutions in Hong Kong

Banks provide a variety of services. Write down how banks can help in each of the following cases.

Case	How can banks help them? What are the conditions for using the services?
 <p>I will travel to Japan next week, but I don't have any Japanese Yen.</p>	<p>Banks provide foreign currency exchange services. She can exchange Hong Kong dollar to Japanese Yen. Please note that exchange rates fluctuate from time to time and the buying/selling rates are different.</p> <p>To use foreign currency exchange services, you need to open a bank account.</p>
 <p>I hope to buy a flat soon, but I only have savings of about 30% of the property price only.</p>	<p>He can apply for a mortgage loan to buy the property. Applying for mortgage loans means using your purchased property as collateral to borrow money to buy a property.</p> <p>You need to fulfill the relevant income and assets requirements before a mortgage loan can be approved. For details, please refer to the Hong Kong Monetary Authority website.</p>
 <p>I already have some savings but I want my existing wealth to grow steadily.</p>	<p>Banks provide a variety of financial services such as time deposits / wealth management / stock trading etc. You can grow your wealth with interest income, stock dividends, or stock price appreciation.</p> <p>To use the services, you need to open an investment account at the bank.</p>

In addition to banks, what other financial service institutions can provide the above services?

Case 1	Case 2	Case 3
<p>Foreign currency exchange stores</p> <p>Features: Convenient locations, smaller-scale, longer opening hours, better exchange rates for bulk exchange.</p>	<p>Finance companies (Money lenders)</p> <p>Features: Loan interest rates offered by finance companies are generally higher than that of banks, resulting in higher loan interest payments.</p>	<p>Insurance companies</p> <p>Features: greater variety of products.</p>

## Activity 2

Divide students into groups. Each group focuses on one case to discuss and arrange the items in the correct sequence for each of the following situations. Teachers can explain certain important steps at the end.

### Speedy sorting

Discuss in groups and arrange the items in the correct sequence for each of the following situations. Discuss the questions afterwards.

#### Case 1: Steps to make a time deposit (Suitable for less capable students)

Chi Wai would like to earn some interest income. He is considering to put some money into a time deposit at a bank. Write down the correct sequence and discuss the relevant steps in the following table.

1	Decide the amount to deposit	5	Deposit money to the time deposit account
6	Receive principal and interest at maturity	2	Compare time deposit schemes from different banks (interest rates, early redemption penalties, minimum deposit amounts)
3	Decide on the time deposit maturity instruction	4	Fill out a deposit slip



I hope to have a steady return every year. Should I make time deposits? What are the pros and cons of time deposits?

Investing via time deposits will receive returns with fixed interest rates. Due to the lower investment risk, the returns will be relatively lower.

Pros: Under the 'Deposit Protection Scheme', time deposits with a term not more than 5 years can enjoy a protection of HK\$500,000. Returns are guaranteed.

Cons: After making a time deposit, if you withdraw it prior to the maturity date, there may be a fine and handling fees.

The flexibility and returns are lower.

## Case 2: Steps to get a mortgage loan (Suitable for more capable students)

Li Siu Wah and his wife are planning to purchase a property but they do not have enough money to pay for it in full. They plan to apply for a mortgage loan from a bank. Write down the correct sequence and discuss the relevant steps in the following table.

4	The bank provides an interest and repayment schedule for the mortgage	2	Prepare relevant documents to apply for the mortgage loan from the bank
1	Calculate the maximum mortgage loan amount based on the household income and savings	3	The bank approves the application
6	Repay the loan to the bank on time	5	The mortgage loan amount and information will be handed over to the bank's solicitor to complete the property purchase transaction



What will happen if I do not repay the mortgage loan to the bank on time?

The bank has the right to recover the mortgage loan amount. If  
you cannot repay the loan, the bank can confiscate the property

and sell it by public auction to repay the loan. This may affect your credit scores, and the interest rates for future loans  
may be higher (for example, repayment amount increases from \$12,000 to \$15,000 per month). This may increase the  
financial pressure of the household and may even reduce the chances of getting a mortgage loan in future.

### Case 3: Steps to purchase travel insurance (Suitable for more capable students)

Man Wai plans to travel abroad. His parents told him that he should purchase travel insurance. Write down the correct sequence and discuss the relevant steps in the following table.

6	Provide supporting documents when making a claim for a loss (such as stolen cash, damaged baggage or illness)	3	Read the terms and conditions. Pay attention to exclusions (such as losses not covered because they are caused by certain extreme sports or terrorist attacks)
5	Take the travel insurance policy documents with you when travelling	4	Pay the insurance premium
2	Fill in the application form, including the destination and period of travel	1	Compare insurance schemes offered by different companies (coverage, premiums and claim limits)



In addition to travel insurance, what are the other common types of insurance?

Life insurance can provide financial protection for family members or dependents after a person's death. For example, the amount of compensation can be used to repay mortgage loans.

Medical insurance can reduce the financial burden of medical expense, such as outpatient consultation fee at a private clinic and expenses incurred in private hospitals.

Car insurance can protect insured vehicles against losses caused by accidents, fires, thefts and malicious acts.

Home insurance can provide protection against losses or damages to household property due to fires or water leakages.

#### Case 4: Steps to trade stocks through banks (Suitable for more capable students)

Mei Yan has worked for several years after graduation and has some savings. She would like to grow her wealth by investing in the stock market. Write down the correct sequence and discuss the relevant steps in the following table.

4	Purchase the shares of the listed company through the investment account	3	Analyse the information of listed companies and choose the company shares that is suitable for you
1	Compare the services of different banks, as well as the commissions and handling fees	6	Can receive dividends from the shares or sell the shares through the investment account
5	Check the monthly statement to ensure the transaction details and charges are correct	2	Open an investment account with the bank



In addition to shares, what investment products can be bought through banks?

In addition to shares, investors can also purchase bonds through banks (such as Hong Kong

Government's inflation-linked bonds), funds, precious metals (such as 999 Gold, Canadian

maple leaf gold coins) and foreign currency deposits (such as RMB time deposits). However, before investing in various

investment products, banks will ask the customer to fill out an investment risk profiling questionnaire to assess the

customer's Risk Tolerance Profile.

#### Additional information

Shares (also known as stock) is a part ownership of a company. As a shareholder you can get dividends and have voting rights.

Bonds are debt instruments, or agreements to repay capital plus interest on set dates. They are issued by companies or governments (bond issuers) to raise money. As an investor, you are, in effect, lending money to the bond issuer.

Fund is a form of investment tool that gathers money from many investors to make investments. When you invest in funds, your money is pooled with other investors into stocks, bonds, money market instruments and other assets. A fund manager chooses the investments and each investor owns a proportion of the total fund, depending on the investment amount.

## Summary

Understand various services provided by banks

- ◆ Hong Kong dollars can be exchanged into other currencies for travelling and personal investment purpose.
- ◆ You can open savings accounts and time deposit accounts to earn interest income.
- ◆ You can open investment accounts to trade stocks for long-term investment.
- ◆ You can purchase various types of insurance plans, such as travel insurance, life insurance, medical insurance, home insurance and car insurance. Insurance can reduce financial losses in the event of accidents or illnesses.
- ◆ Banks provide a variety of personal credit services such as credit cards, personal loans, tax loans and mortgage loans.

## Extension activity

### Comparison of opening accounts at different banks

Compare the minimum amount required to open a children's savings account and the handling fees with different banks. Students can go to a nearby bank or search for information online.

Bank	Minimum amount required to open a savings account (children's account)	Handling fees

Which bank would you choose and why?

Open-ended answer. Reference answers:

HSBC, because it is a larger bank and has a better reputation.

OCBC Wing Hang Bank, because the children's savings account has a higher interest rate.

Other reasons such as it is close to home, parents are also the clients of the bank and the bank's promotional gifts are attractive, etc.