FSCS Podcast – Episode 47: Savings, investments and FSCS protection with Iona Bain

Martyn Beauchamp 00:01
Welcome to Protect your money with FSCS, the podcast from the Financial Services Compensation Scheme. I'm Martin Beauchamp, CEO at FSCS, and in this series, the fantastic FSCS team will help you understand how we can help protect your money so you can feel confident that your money's safe. I hope you enjoy the podcast.

Emma Barrow 00:21
Hi everyone, and welcome to the Protect your money podcast. I'm Emma Barrow, Head of Communications here at FSCS. FSCS, that's the Financial Services Compensation Scheme exists to protect customers of authorized financial services firms that have gone out of business by paying eligible people compensation. We protect lots of financial products, but not all of them, so this podcast is designed to help you understand our protection and why it's so important. It's been a little while since I had the pleasure of hosting an episode, so I'm delighted to be here to talk about two of the most common day-to-day financial topics: savings and investments. I'm joined today by Iona Bain, an award-winning financial journalist and author who helps millions of people every year with her money expertise, making finance simple and more accessible. Thank you so much for joining us, Iona.

Iona Bain 01:10
Thank you for having me, Emma.

Emma Barrow 01:12
Yeah, no worries. It is really great to have you. And of course, a little teaser of the question we'll ask Iona at the end of the episode. So we're all about keeping your money safe, but what was the toy that got you breaking open your piggy bank as a child? So you can have a little think about that, and we'll come back to that at the end. So let's start with savings. So savings is the area of FSCS protection that's typically best understood as we cover the money that you have in your bank, building society or credit union, either as a current account or as cash savings. So, Iona when it comes to savings, what are the sorts of questions you're asked, like, what are people concerned about day to day when it comes to their savings?

Iona Bain 01:51
The main concern that people have is that they're not saving enough, which is very understandable in this ongoing cost of living crisis. People are aware that they should ideally have a safety net just in case something happens in their life, and they're aware that borrowing for emergencies isn't as good as just being able to access their savings quickly. And yet, for so many people, saving anything is a challenge, so one of my jobs is to help people think about what they can save, to encourage people to focus on little and often rather than saving big chunks, and for those people to be reassured as well that their savings are safe, because there is still that lingering misperception that if you put your money in the bank, it's not as safe as putting it under your mattress, and that you might have a chance of not being able to get your savings back out. And that is also very understandable, given what happened in 2008; however, my job as well is to encourage people to understand that when they put their money in an FSCS-backed bank or institution, that that money is safe. And I think that does help people then make that step and do what they know is right, which is to have that rainy day savings fund.

Emma Barrow 03:07
We know from research that we do that the existence of FSCS protection is really important as people are starting to build that safety net, so that when they reach that 500 pounds milestone, 1000 pounds milestone, whatever it is, they know that they've got that protection there. And when I was preparing to do this today, I realised it's about two years since I last hosted our podcast. I'm not normally the

host. People do enjoy hearing my northern tones, but it's not every month. But way back episode 21 I did an episode that we went into detail around FSCS, protection for deposits, for savings. And you can listen to that episode for more information or visit our website, www.fscs.org.uk/check, to check, what protection people's accounts do have as a useful tool that we've got, but things have moved on so much since then, and in generally over the past few years.

So I remember getting my first chip and pin card and thinking how futuristic that was. That I didn't have to take cash out, I didn't have to swipe it on that little thing that you used to have to that like rubbed to the numbers on the front. I mean, this is making me sound really old. That was about 20 years ago now, and there was no banking apps back then. We didn't have smartphones, and I know that we get a lot of calls from people who are using those newer banking brands and newer apps to help them save, to help them start that journey, and they want to check that they're protected if something goes wrong. So what do you make of those latest kind of innovations? What are the best things you've seen, and do you think they are really helping people get into the habit of saving?

Iona Bain 04:33
Technology is a double-edged sword, and there is always that danger that if you have digital wallets and contactless cards that you can spend at all hours in the day and night, and then you end up overspending, but at the same time, it's actually also never been easier to save money. So, in the olden days, the thought of going down to your local bank branch to deposit maybe 10 or 20 pounds might not have seemed worthwhile. But today, if you decide, even on a whim, that you can afford to put 10 or 20 pounds into a savings account, you can do that instantly at the tap of a screen. And I think that's a fantastic development, because for a lot of people, saving is about getting over that hurdle and getting over that hump of thinking it's not possible.

But actually, if it is possible instantly and easily, then people realise, well, actually, why not? There's no reason not to save because I do have a little bit left over at the end of the month. And actually, that money would be better off in a savings account, ideally earning interest, but even if it's not just in a savings account there for me in the future when I really need it. So, I'm a big fan of these tools when you can make them work for you, that's the most important thing.

Emma Barrow 05:44
There's a million and one different ways you can do it. And I think what you said about, you know, making it worth your while, you know, you wouldn't have gone down to your bank branch with a 50 pence coin and deposited that in your savings – you wouldn't have done that, but you can do that now and like you say, it's a it's a tap of a button away. What we find interesting is that how FSCS protection works for some of these kind of non-bank brands and apps that exist can be a little bit tricky, and this is something we always say for consumers to kind of learn a little bit more about and do your homework on, because sometimes those apps don't hold your money directly. They deposit it with an underlying bank, and often that underlying bank is one of the familiar high street names that you will know and you will see yourself and you don't necessarily realise that that's where your money is. We always say to consumers that it's best to ask the company that they're dealing with directly if they're worried about where their money's actually been held, because, as you say, it's so easy to move it around, it's understandable that people are going to be worried and want to be reassured that that protection still exists for them and wherever their money is held. So that's a little bit about savings.

Now, I know Iona from seeing you on the telly and reading some of your work that you and I share a bit of a passion about getting people to make the leap from saving to investing. So it does feel like there are a lot of barriers, and like we've just discussed, maybe in the savings world, those barriers have started to reduce, but investing still feels like a big hurdle, and personally, even as someone who prides themselves on being pretty savvy when it comes to money, it took me a long time to start investing myself, to make that jump. So what do you think the main barriers are for people, especially those from our generation, for millennials who maybe are reaching that point where they do have a little bit of cash savings, and they might want to make that leap?

Iona Bain 07:22
So I think there are two main problems. The first problem is people genuinely not having enough money to invest. Because even if you do have that capacity within your budget to save, you want to make sure that money is safe, and if you put it in a bank or a building society or any institution that is protected by the FSCS, you know that your money is safe. And that's because people need to save that money for goals such as buying a house. And so, when that moment comes, they want to be able to access that money quickly. And then the second problem is, even if you perhaps have achieved a goal, such as getting on the housing ladder, or you've decided that's not what you want to do, but you want to maybe build up a bigger nest egg over the long term, and you do have the ability to put money into that nest egg, the second biggest problem is confidence and a lack of understanding about the stock market, because it's extremely complicated. And I think anyone that pretends that investing is easy is not telling the truth.

There is no quick, easy wins with investing, by definition, it is a long-term project, and it's something that you have to commit to. And that's one of the reasons why I wrote my book "Own It" a couple of years ago, because I felt very strongly that, because this was a very complex world, you needed that friend to guide you through the complexities of the investment landscape and do it in a down-to-earth, fair way that was going to be on the consumer side. So that's what I did. And I think that, to be fair, a lot of younger people are becoming more confident. They're seeking out information online. And of course, that comes with its own dangers, but on the whole, it is helping younger people feel more empowered and to decide to make that jump, because it is a jump into the unknown. You're not quite sure how it's going to work out, but there are plenty of things that you can do to make that jump less scary. You don't have to go for really exotic, high risk investment options where the chances of losing your money are really high. In fact, that's not a sensible idea, especially if you are wanting to invest for really big, long-term goals.

Maybe if you started a family and you're thinking about your child's university place, you don't want to risk that on investments that aren't going to work out. So while there are no guarantees with investing, I think you can take sensible steps like diversifying your portfolio. I.e., not putting all your eggs in one basket, making sure you've got your money spread around in a few different places. So if one investment doesn't work out, hopefully you know, you've got a few more coming through for you and saving the day. And actually, one of the things that makes investing much easier for the younger generation now is the ability to drip feed your money into the stock market. And that means you can put, you know, 50 pounds a month into a stocks and shares ISA, and that can be invested, you know, very broadly, right across the world in lots of different types of investments, so you're spreading your risk.

And the good thing with that is that when you drip feed your money, you are really smoothing out the highs and lows of the stock market over time, and you're reducing that risk, essentially, of putting all your money in just when the market may be slipping, and that way, you're watching out for yourself, you're covering your back, you're looking out for future you, and you're giving yourself more choices and options further down the line. So for me, I'm not team saving or team investing, I'm on both teams. I think both are really important for the future. But of course, for those who have shorter-term challenges like lots of debt, perhaps paying that off ought to be a first priority, then saving and building up that rainy day fund and then think about investing for the long term.

Emma Barrow 10:40

Super, yeah. And I think that long-term view is really important when it comes to one particular part of people's financial lives, and that's pensions. And I hate using the word pensions, because I know it immediately makes people just kind of like curl up inside a little bit. You just mentioned how complex investing can be, and I think when we bring up pensions, that complexity seems to become tenfold for people, and they almost just kind of think, oh, it's just too complicated to engage with. But the reality is, for people of our generation, most of us, have not got the luxury of a final salary pension scheme to fall back on from our employer anymore. That's just not something that really exists at the moment, so saving for our futures in terms of retirement, and what we want to do when we get to that point is really, really important. And I think what we do is we try and break that down for people and sort of say, look, exactly the two topics we're talking about today are savings and investments. That's all a pension really is. I mean, if you get into annuities and things like that, you're looking at technically an insurance product. But broadly, it's savings and investments. It's just wrapped up in a nice, tax efficient manner that hopefully will maximise the kind of income that you get when you get to that point of retirement. So, if any people that are kind of listening today are thinking, you know what, I should really be looking at, how I'm preparing financially for that very long term, like when I do eventually hopefully give up work, and maybe I should be investing more, what would be your top tips for them particularly?

Iona Bain 12:07
Well, my big motto when it comes to pensions is focus on the art of the doable - What is possible? Because in an ideal world, we'd be able to save as much as we could for shorter term goals, and we'd be able to put lots of money into our pensions so we could have a really comfortable retirement. We're not living in that ideal world, and we have to make choices. So I think it's about looking for the easy wins. For people who are in a workplace pension, they will have been automatically enrolled, and that means that they are already saving for their retirement through that workplace pension. And in the majority of cases, it is best to just stick with that pension for as long as you possibly can, and then if you can add more, then do so. For instance, maybe your employer offers something called contribution matching, which means if you agree to put more into your pension, then so will your employer. Well, that's a fantastic offer. If it's on the table, definitely take it, because that way you can get more money from your employer, and you'll get more tax relief at the other end too, and then if you get maybe a pay rise further down the line, consider putting that into your pension too. Just look for those little ways that you can boost your pension pot over time.

And also think about the long-term power of the stock market. And if you can stay in your workplace pension for as long as possible, then you're going to benefit from something called compounding, which is when returns earn their own returns. It's a bit like a snowball rolling down a hill that just builds and builds and builds and becomes bigger and bigger and bigger. So if you're in a workplace pension from the age of 22 until retirement, then your money is going to be invested in a pension, and therefore the stock market for longer, which gives it more time to grow and more time for those returns to earn their own returns. However, if you're only starting now, say, in your late 20s, your 30s, or even your 40s, it's not too late.

I was only able to start my pension in my 30s because I'd been self-employed for most of my career, and I was concentrating on building my income and saving for a house in that time, but now I'm trying to make up for lost time and putting as much as I can into my pension. So if you haven't been able to do anything before now, don't worry, it's not too late. You can definitely start now, especially if you can contribute more at this stage, that will definitely help. But if you're in your 20s, a really easy decision to make is to just stay in that workplace pension, ride the roller coaster of the stock market over the course of your lifetime, and hopefully at the other side, you will come out with a decent pension pot.

Emma Barrow 14:32
I was similar to you. I mean, I wasn't self-employed in my 20s, but it just wasn't a priority for me back then, and as it got towards the end of my 20s and early 30s, and I thought, oh, gosh, have I left this too late now? But yeah, completely agree that the best time to start might have been yesterday, but the second-best time to start is today. And I think it's worth me mentioning, you know, we talked about FSCS protection for deposits right at the start of this, which is how your money is protected in your cash savings and in your current account. We do protect investments as well. Typically, that's for things like poor investment advice, so if you've dealt with a regulated advisor and you've had advice that hasn't worked out for you, and it turns out that that advice wasn't great, and that advisor has gone out of business, then you may be able to claim with us and I think that's important for people to understand. And also, if you've had investments with a provider, and the provider has gone out of business, and potentially, that provider didn't do its due diligence on those investments again, there may be something you can claim for. So I think it's worth people knowing that, because you said before, confidence is such a big thing, and understanding a little bit about how protection works and how you might be able to fall back on that in the years to come if something does happen, is definitely worth doing.

One thing I think we'd be really remiss to not talk about, is scams and fraud. When you say about confidence and worry, it's one of the big things I think people are concerned about, I've worked hard to get to the point where I feel comfortable saving and investing. Is there a chance I'm going to be scammed out of this money? And I know, personally, I've seen a heck of a lot of this in the media and online people reporting different types of scam. So what do you think people should be watching for when it comes to scams, when they're getting into saving and investing?

Iona Bain 16:02
Being scam vigilant these days is a part-time job. It doesn't matter how old you are, it doesn't matter what you do, it doesn't matter what your personality is. You are always at risk of being scammed. And I don't say that to you know, put the fear of God into anyone here, but it is really important that everybody stays vigilant, everyone stays on their toes, because the moment that you start being complacent and thinking, well, that could never happen to me. You know, a lot of the time, people might think it's about being perhaps gullible and not savvy. It's not about that. It's about the fact that scammers have become so, so sophisticated, they are on the case 24 hours a day trying to part you from your cash, and they are constantly staying one step ahead, so that is why we all have to be vigilant. It's got nothing to do with whether people have got the intelligence or the savviness. It's about you just being aware of what's going on so that you can guard against it.

So I think my first basic tip would be if anyone phones you out of the blue or contacts you out of the blue about something relating to your finances, always be wary. I think my colleague on Morning Live has a great expression, Matt Allwright for this, he says, if it's out of the blue, it's not for you. So if you get a call from your bank, for instance, saying that you've been scammed, the easiest thing you can do is hang up, call 159 and then that number will put you through to the fraud department of your bank. If it's genuine, then you can deal with it through that route. It's one of the easiest things that all of us can do, and 159, is a really easy number to remember, because actually it's diagonal across your keypad. So that's something that we should all just be completely trained to do, almost automatically if we get one of those suspicious calls.

And then, I think just more broadly, when it comes to savings and investments, it's very understandable that people want to look for the best possible opportunities out there. This is what we do as financial journalists and experts – we encourage people to find the best savings rate, to try to get the best return on their money, you know. And that's obviously a very valid aspiration, but that can then tip over into people wanting to believe something that is too good to be true, and therefore it's about understanding what is and isn't possible when it comes to finance. If someone says to you that they can guarantee an investment return, that ought to be a massive red flag, because there is no such thing as a guaranteed investment return, and if you understand that that's really how stocks and shares work, then it's going to make you wary of anyone promising that kind of deal. And that's especially important on social media, where people can present extremely glossy, curated versions of their lives and make it seem that that has been generated by an amazing investment opportunity that you can buy into. And sadly, we've seen this all too often, where younger people are then defrauded because they want a slice of that pie, very understandably. So just understanding what is and isn't possible so you can walk away from offers that seem too good to be true, I think that is also a very, very important piece of advice that people should hold on to.

Emma Barrow 18:56
You have some really interesting stuff there, and I had heard of the 159 number, but to be honest, it'd completely slipped my mind. So I think that's a really helpful reminder for people. It's an amazing service that a lot of people maybe still don't know about, but as you say it's an easy number to remember, and it's a really clever innovation, actually, that. Unfortunately, I think that might be all we've got time for today, but we just about got time for our traditional closing question. So at FSCS, we're all about keeping your money safe, but what was the toy that got you breaking open your piggy bank as a child?

Iona Bain 19:27
Well, I remember on my local high street there was a Woolworths. Anybody of a certain age will remember Woolworths very fondly. And there was a very, very wonderful period that lasted about a month where every Saturday I was allowed to go to Woolworths and pick out a Barbie, and so I was starting to build up my collection of Barbie dolls. And felt very, very happy about that, until one Saturday I put my coat on and I said to my mum, right, we're off to Woolworths to buy a Barbie. And she said, no, no, you've had enough Barbies for now. We're going to just put a pause on the Barbie buying, because what I didn’t realise is that Barbies weren't the cheapest toy available. And I think my mom had just taken one look at the bank account and realised that my Barbie dream was slightly draining her wallet.

So yeah, and it was a very formative memory for me, because I was, of course, disappointed, but it was actually one of the first moments when I realised that money was not infinite and that you had to make choices, and that, yes, there are things in life that you may have your heart set on, but you've actually got to work and save for those things – you can't just expect them to come to you at the click of a finger. And so, I think she taught me a very valuable lesson there, when she put a halt to the Barbie buying.

Emma Barrow 20:44
I was a bit of a tomboy as a child, so I wasn't so much Barbies, I was kind of more Matchbox cars. But yeah, thank you so much again for joining us today, Iona, and hopefully those of you listening have enjoyed this episode. Remember, you can find all our previous episodes on our website at www.fscs.org.uk and also through the usual podcast apps. So thanks for listening.