

Factsheet

What is Cash?

Most people associate cash with bank or building society deposit accounts, but there are other cash based investment products available that do not involve taking extra risk. The main characteristic of a cash product is that your capital is guaranteed and you can withdraw your money at any time without penalty. There are fixed rate products that usually offer higher rates but with restrictions or penalties on accessing your money before the end of the agreed term.

This means that in choosing a cash product the only real risk should be that the product provider offering the product may default on its obligations and this is the only situation in which the value of the investment may fall.

Therefore in selecting a cash provider the most important consideration is whether the product provider is going to be around to repay your money when you need it. A secondary consideration is the existence of a compensation scheme that may operate should a product provider fail to meet its obligations. In the UK the Financial Services Compensation Scheme (FSCS) provides compensation in some circumstances.

Deposits

Banks and Building Societies offer a variety of different deposit accounts. No-notice accounts offer a variable rate of interest and allow you to have your money repaid without giving any notice of withdrawal. Fixed rate accounts lock in a fixed rate for a fixed term and usually pay higher rates than no-notice accounts in return for tying up money for the term.

National Savings

National savings is backed by the UK government and is therefore considered risk free. They offer a variety of different accounts.

Life Bonds

Guaranteed Bonds offer a fixed rate of return for a fixed term and both income and capital are guaranteed by the insurance company offering them. Some companies also offer unit linked bonds linked to cash funds and in this case it is the investments held within the fund that are the most important factor.

Money Market Funds

These unit trusts offer investment in the money market and may include non cash investments as well as cash, so it is very important to know what the fund is invested in before you invest. If the investments include Floating Rate Notes, Commercial Paper or Asset Backed Securities then it is not a pure cash fund. In November 2009, the Association of British Insurers (ABI) created a new sub sector of money market funds to identify those that have capital stability as a primary aim. The new sector is called the ABI Deposit & Treasury sector and contains money market funds that have stricter limits on the type of assets that they can invest than the existing ABI Money Market sector. See the ABI Consumer Guide at <http://www.abi.org.uk/Media/Releases/2009/11/45211.pdf>