Following on from last month's article, I've had several people ask me about negative interest rates.

A negative interest rate is when you have to pay the bank to hold onto your money, yes you have to pay them a rate of interest on money you have in your account.

The Bank of England will do this to encourage you to spend your money or invest it. (A bank account is not an investment!) The idea is to stop unemployment increasing when economic times are tough.

If someone loses a job the Government loses the tax they would have paid and has to pay out more in benefits; a double economic downturn.

Negative interest rates make cash less valuable, which then encourages folk to spend their money. Increasing sales keep people employed and thus increases the tax take for the Revenue as profits go up and unemployment benefits do not increase.

Alternatively rather than spending your money, you can invest in shares. This provides companies with the capital they need to grow and expand, creating more jobs (less unemployment) and profits so the government pays out less and collects more tax, a double economic up-turn.

And don't forget that not only can shareholders also benefit from this growth and revenue, but there may be generous tax breaks available to enable them to retain an even greater share of their returns.

And now a warning. If interest rates do fall further it is easy to see people being tempted by the new Innovative Finance ISA accounts, which is peer to peer lending as I explained last month. I saw a headline 8.7% p.a. tax free on offer this morning. Why pay to have your cash in a bank when it could earn £870 on £10,000?

With a plethora of new providers in this market there will be tremendous pressure on them to offer such eye watering rates to attract funds to lend but who exactly are they lending to? What credit checks do they make, what experience of such lending do they have? Are the loans they make secured, how easy is it to get your money out etc?

The providers are regulated by the FCA which helps but you are not protected as yet by the Financial Services Compensation Scheme. There is no recompense in the event of an authorised firm ceasing trading.

If we do get negative rates please don't keep your money under your mattress, it's not insured! How markets would react to the news is uncertain but it may be sensible to see an IFA sooner rather than later so that you do not miss out on any opportunities that would help you avoid having to pay your bank for keeping your money!