

# SAFETY OF DEPOSITS

## IS THE CURRENT BANK CRISIS GIVING YOU CAUSE FOR CONCERN OVER THE SAFETY OF YOUR CASH DEPOSITS?

It is estimated that over £834 Billion was placed on deposit in UK banks last year. This represents almost 50% of all the UK's total pension, savings and investment assets! Source for this is Data Monitor 9.1.2008. Until the Northern Rock fiasco no one with sizeable assets in a bank even questioned the safety of their deposits.

This is sadly no longer the case as the banks' balance sheets have been savaged by the crisis. Northern Rock's 71% share price fall has been widely publicised. Source for this is Videssa 9.1.2008. The fact that on average all of our major banks have seen a 24.44% drop year on to 8th January 2007 and in the last 3 months a drop of 13.88%. Source for these are Excel Connect 9.1.2008.

### What does it all mean for your cash deposits?

For a start no one (yet) is forecasting the collapse of a major high street bank but in the last 150 years we have never been closer than we were with Northern Rock. Their perilous position served to highlight the current weaknesses of the bank protection scheme in the event of such a collapse. And it is certainly true that if the Government guarantee was not put in place then they would have folded. Under the current legislation only £35,000 of your deposit held in banks other than Northern Rock is fully protected this is of no great reassurance when invariably you may have substantial assets in cash well in excess of this figure. (Although the current protection legislation for deposit held investments could change.)

This is especially true when you

include your pension fund. However, there is slightly greater protection afforded by the Investor Compensation Scheme as pensions are regulated by the Financial Services Authority. The maximum compensation under this scheme is £48,000. Indeed in recent weeks, as many private investors have fled from the current volatility of today's stock markets into cash, some pension trustees have even blocked the choice of bank on credit grounds for the first time. This is quite concerning as no current UK bank meets the strict rating agency criteria for credit risk that would merit them the maximum security rating of AAA.

### IN OTHER WORDS SOME PENSION TRUSTEES NOW BELIEVE IT IS TOO RISKY TO PLACE ALL YOUR PENSION FUND IN ONE DEPOSIT ACCOUNT!

Are there any other alternatives to traditional bank deposits, especially as the volatility in the stock markets now appears to be spreading to both commercial and domestic property?

One alternative we have sourced for our clients is a money market fund. This is simply a collective fund alternative to a bank deposit which provides investors with as high a level of security and yield as possible. In short these funds manage the credit risk of the banks on your behalf and diversify your normal "cash" investments across 30 or more different assets. The good news is that the one we have chosen (which is called AIM Global) is not only AAA rated by Standard & Poors. (Standard & Poor's is a leading provider of financial market intelligence. The world's foremost source of credit ratings, indices, investment research,

risk evaluation and data, Standard & Poor's provides financial decision-makers with the intelligence they need to feel confident about their decisions.) The maximum security rating has been given by two other major agencies who monitor this data.

To add a further "belt and braces" to this unrivalled financial security we also suggest you consider holding this asset, when appropriate, under the protection umbrella of a Luxembourg investment bond. The reason for this is that, unlike the UK, Luxembourg offers 100% policyholder protection with no upper limit. When allied to the security rating of the asset itself we don't believe you will find a safer home for your longer term cash deposits in the current climate. You can even structure your pension cash assets to be held in this way.

It is a little known fact that UK investors have actually been able to take full advantage of the excellent investor protection offered by Luxembourg under EU legislation dating as far back as 1994. Investing in Luxembourg also ensures that your money rolls up tax free until you cash it in.

Kellands (Northern Ireland) Ltd are one of just two Independent Financial Advisers in the province who have the opportunity to market and advise on these highly secure and tax efficient structures.

Fact sheets are available on request either by [robert.forster@kelland.co.uk](mailto:robert.forster@kelland.co.uk) or by telephoning our offices on 02890 293131.

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