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Bring your money home! Eurozone crisis raises fears over cash held outside UK safety net

By Richard Dyson

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The safety of their money is once more weighing heavily on the minds of savers as the world’s banking system struggles to accommodate the write-offs announced in last week’s do-or-die eurozone deal.

Europe’s banks were forced to swallow £100billion of Greek losses as part of the fraught negotiations in Brussels. Many must now raise new capital.

No one predicts the domino-style banking collapses that followed the failure of US bank Lehman Brothers in 2008, but private savers in Britain are being warned to check their money is adequately spread to benefit from depositor protection schemes.

Since 2008’s financial crisis, British protection arrangements have been substantially improved. Depositors with banks or building societies licensed here, including divisions of a foreign bank such as Spanish-owned Santander, are now protected up to £85,000 per person per licensed institution.

This is simpler than the previous regime, although confusion still arises where, for example, an institution with a single licence operates several saving brands (see bottom of page). However, other risks exist.

Some savings institutions popular with British savers, including ING and Bank of Cyprus, fall outside Britain’s safety net and instead rely on the Dutch and Cypriot schemes respectively. Both the Netherlands and Cyprus are in the eurozone.

The government of Cyprus, where banks have substantial exposure to Greek debt, last week said it would step in if necessary to support the country’s banking system.

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There are also dangers closer to home. ‘Offshore’ savings providers, typically divisions of mainstream UK firms based in the Channel Islands or the Isle of Man, are not covered by Britain’s Financial Services Compensation Scheme. Instead they must rely on local schemes that tend to be more complex, less generous and, possibly, less reliable.

Looking shaky: Savers are being told to play it safe and stick to banks covered by the UK compensation scheme as Greece, Italy and others totter

The Jersey and Guernsey schemes, for example, cover deposits up to £50,000. But a complex overall ‘cap’ of £100 million, which cannot be exceeded in any five-year period, applies on top of a saver’s £50,000 limit. The Isle of Man applies a higher, £200 million cap. Theoretically, these caps could reduce savers’ compensation to nothing.

On the £50,000 limit, a spokesman for the Jersey scheme says: ‘We will move to a higher limit if Guernsey and the Isle of Man move, but we do not believe in differing standards between finance centres.’

Many savers based in Britain opened offshore accounts in the Nineties when rates offered were higher and there were perceived tax benefits. These benefits no longer exist, experts say.

‘Why any UK resident would have money in an offshore savings account is a good question,’ says financial planner Yvonne Goodwin, who runs her own wealth management firm in Leeds.

‘I haven’t seen any offshore accounts paying more than UK-based ones. With any non-UK regulation, you have no idea how the compensation scheme will work. I would advise clients to bring their money back into UK jurisdiction.’

Heather Taylor of national accountant Grant Thornton agrees. ‘There remains a perception that offshore saving is private, and perhaps prestigious,’ she says. ‘And sometimes the service offered by offshore institutions is good. But logically, the UK’s arrangements mean savings onshore are probably safer than elsewhere.’

An offshore disaster befell many savers with Derbyshire Building Society's Isle of Man division, which was quietly taken over by Icelandic bank Kaupthing in 2007.

When Kaupthing failed in 2008, savers were left to the mercy of the Isle of Man scheme with its £50,000 limit. As Taylor says: 'Savers thought they were with a teddy bear, but it turned into a Viking.'

Goodwin says savers' anxiety levels have fallen away somewhat since the peak of the crisis. 'Our clients are more relaxed now than in 2008 and 2009, but I always warn against complacency,' she says. 'That's when things go wrong.'

Retired training consultant Brian Glickman, 59, is among the millions of savers who, while far from panicking, is alert to the 'risk of the nigh-impossible'. 'When Northern Rock collapsed in 2007, I remember watching TV and was sceptical about the need for people to queue up to withdraw their cash,' he says.

'But then I heard one man say that he had lost his pension with Equitable Life and he couldn't afford to lose anything else. It brought home to me that large financial institutions do fail. And the consequences can be terrible.' Brian was selling his home in London and moving to Worthing, West Sussex, where he now lives, at the peak of the crisis. 'I was extremely careful,' he recalls. 'I had the sale proceeds invested all over the place.'

In particular, he turned to Government-owned National Savings & Investments, where he still has index-linked certificates, income bonds, Isas and a savings account. All NS&I deposits are 100 per cent underwritten by the Government.

Brian says: 'The rates may not be excellent on some of these accounts, but it's as safe as you can get.

'If a bank goes down, that's one thing. For NS&I to go down, it would take a full-blown collapse in British social order, something like a deadly pandemic or enemy invasion.'

How well are your savings protected?

Except for those institutions listed here, ALL British-based or British-owned banks and building societies currently taking deposits from savers are covered under the Financial Services Compensation Scheme.

The FSCS gives protection of up to £85,000 per person per institution. This includes major European-owned banks such as Santander, whose parent group is Spanish.

REMEMBER: Some institutions have several brands under one banking licence, in which case the cover may be limited to £85,000 across all those brands.

For a comprehensive list of cases where several brands fall under a single licence, click the link above.

The following are the larger of those institutions NOT covered by the British scheme:

COVERED BY THE SCHEMES OF JERSEY, GUERNSEY AND THE ISLE OF MAN (up to £50,000 per person): A&L International, AIB International, Bank of Ireland (Isle of Man), Barclays Wealth Offshore, Britannia International, Close Offshore, Clydesdale International, Fairburn Private Bank, Halifax International, HSBC International, Investec Channel Islands, Lloyds TSB Offshore, Nationwide International, NatWest Offshore.

COVERED BY DUTCH SCHEME (up to 100,000 euros, £87,500) :Triodos Bank, ING.

COVERED BY CYPRIOT SCHEME (up to 100,000 euros): Marfin Laiki Bank, Bank of Cyprus UK.