How safe is your money?

Even the most confident consumers cannot help but worry as the banking crisis deepens. However, before you start stuffing your mattress, we take a look at what deposit protections are currently in place.

AT A **GLANCE**

- Compensation schemes.
- Deposit Protection Scheme.
- Government guarantee.

The landscape of the Irish financial sector has changed utterly from what it was 12 months ago. Anglo Irish Bank has been nationalised, and the country's two largest institutions, Allied Irish and Bank of Ireland, are teetering on the edge. The calamitous events to unfold in 2008 were not predicted by the even the gloomiest of forecasters. So, if your bank gets sucked into the financial abyss, where do you turn to recoup your losses?

Compensation schemes

Many consumers may not have been aware that even prior to the current financial crisis their bank deposits have always had some degree of protection. The EU Deposit Guarantees Scheme Directive obliges all Member States to set up compensation schemes for depositors in the event of a banking failure. It had established a minimum guarantee level of €20,000, whereby if a bank became insolvent, depositors throughout the EU would be guaranteed to receive their money back, up to that amount. Member States have the freedom to introduce higher thresholds if they so wish, which has happened with Ireland's Deposit Protection Scheme.

Deposit Protection Scheme

The Deposit Protection Scheme is designed to provide compensation to depositors if a credit institution is forced to go out of business. It covers deposits held with banks, building societies and credit unions. The Financial Regulator is responsible for administering the scheme.

Up until recently the maximum level of compensation payable for an individual who held a deposit in a bank that had gone out of business was €20,000 (the minimum level required by EU law). The CAI had been calling since January 2008 for this figure to be increased. However, due to unprecedented turmoil in financial markets and a loss of confidence in the Irish banking system, the maximum compensation amount payable was raised to €100,000.

The scheme was also extended to include the deposits held by credit union account holders, while certain foreign banks that operate here under EU rules, and which are regulated in their home countries, are not participants of the Irish scheme. These include online banks Rabodirect and Northern Rock. Deposits with these institutions are protected by their home country's deposit protection arrangements (see our table for details).

Claiming under the scheme is open to personal customers, small companies and businesses (including sole traders), charities, voluntary organisations, and accounts held in trust. There is no requirement for claimants to be resident in Ireland or be an Irish citizen – if the account is held by an institution that is

INVESTMENT COMPENSATION

It is not just depositors who are protected by a compensation scheme in Ireland. Investors too have recourse if the investment company that they have done business with collapses. The Investor's Compensation Scheme (ICS) is administered by the Investors Compensation Company Ltd (ICCL) and covers investment firms, stockbrokers, insurance brokers, banks, building societies, credit unions, and accountants that provide investment and insurance services. If a member of the scheme goes out of business and cannot return your money then under the ICS you can be paid up to 90% of the value of the funds that you have lost subject to a maximum of €20,000 for each investor.

It is important to realise that you cannot claim compensation for losses arising from bad investment decisions, advice or management or for losses caused by a fall in the value of your investment. Neither can you claim if the investment firm you were dealing with is not a member of the ICCL.

You can find out if the firm is a member of the scheme by contacting the ICCL directly. (See *Useful contacts*) The scheme is intended to help private individuals and does not apply to institutions and professional clients. Nor does it cover the deposit taking business of banks, building societies or credit unions – these are covered by the Deposit Protection Scheme or the Government guarantee.

part of the scheme then the account is covered. Joint account holders are each entitled to the maximum amount payable under the scheme. So, for example, a successful claim on a jointly held account containing €200,000 will see each account holder receive €100,000 compensation. Also, the scheme is applied per institution so in the event that two or more banks collapse, an individual with accounts in each is entitled to compensation of up to €100,000 per bank.

Government guarantee

In an effort to stabilise financial markets and prevent a major banking collapse, the Government took the unprecedented step of guaranteeing deposits in the Irish-owned banks as well as Postbank. As it currently stands, the guarantee covers AIB, Anglo Irish Bank (since taken into State ownership), Permanent TSB, Bank of Ireland, EBS Building Society, Irish Nationwide and ICS Buiding Society. Ulster Bank, First Active, KBC, National Irish and Bank of Scotland have stated, that despite being eligible, they do not wish to join the guarantee scheme.

Prior to the move, the only financial institution to be guaranteed by the government was An Post which continues to retain this status. Other banks may be included under the guarantee later with applications being considered by the Minister for Finance on a case by case basis.

Estimated to be worth €400 billion, the state guarantee is currently intended to last for two years until 28 September 2010. It is hoped that in the intervening period confidence will have been restored to the banking system. At the time of writing, the governments of Sweden, Greece and Denmark have followed the Irish move in guaranteeing bank deposits while other countries are considering similar action.

BANK DEPOSIT SAFETY

FINANCIAL INSTITUTION	PROTECTED BY	AMOUNT PROTECTED
AIB	Irish Government Guarantee	100%
Anglo Irish Bank (state owned)	Irish Government Guarantee	100%
PTSB	Irish Government Guarantee	100%
Bank of Ireland	Irish Government Guarantee	100%
EBS Building Society	Irish Government Guarantee	100%
Irish Nationwide	Irish Government Guarantee	100%
ICS Building Society	Irish Government Guarantee	100%
Bank of Scotland	Irish Deposit Protection Scheme [1]	€100k max
First Active	Irish Deposit Protection Scheme [1]	€100k max
KCB Bank (IIB Bank)	Irish Deposit Protection Scheme [1]	€100k max
Postbank Ireland	Irish Government Guarantee	100%
Ulster Bank	Irish Deposit Protection Scheme [1]	€100k max
Pfizer International	Irish Deposit Protection Scheme [1]	€100k max
Credit Unions	Irish Deposit Protection Scheme [1]	€100k max
ACC Bank	Irish Deposit Protection Scheme [1]	€100k max
Danske Bank	Danish Government Guarantee	100%
National Irish Bank	Danish Government Guarantee	100%
Rabodirect	Dutch Deposit Protection Scheme	100% of first €100k
Investec	UK Financial Services Compensation Scheme	100% of first £50k
Leeds Building Society	UK Financial Services Compensation Scheme	100% of first £50k
Northern Rock	HM Treasury & Bank of England	100%

NOTES: Information correct as at 18 February 2009. Information obtained from the Financial Regulator. [1] This institution was made eligible for protection under the government guarantee by the Minister for Finance but has elected not to join.

Useful contacts

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Useful website

www.itsyourmoney.ie

Report by Mark Channing CC

choice comment

It has been reported that bank charges are set to spiral as a result of the state guarantee for the financial institutions with increases to credit card rates, current account charges and overdraft interest rates all expected. The expectation is that banks, in an effort to improve profit margins which have been hit by bad lending practices, will seek to raise overdraft and credit card interest rates as well as current account charges. This is in addition to more than 100 hikes in bank charges over the past two years. The net effect is that consumers, who are tax payers, not only have underwritten the bad debts held by Irish financial institutions but could also be subjected to higher day-to-day banking costs. Furthermore, if there are bank takeovers or mergers, these increased charges will come at a time when there is decreased competition in the market for customers.

While any further protection of depositors is welcome there is both a responsibility and an obligation for financial institutions not to punish the consumer with higher banking charges as a result. The CAI will resist any attempt to increase bank charges – after all, it was not consumers who created the financial crisis in the first place. Given that the ordinary tax-payer has now underwritten the business of the Irish-owned banks, it should not be the same tax-payer or consumer who must bear the costs of financial institutions restructuring their business. Rather, along with the guarantee that the banks received there should also be a guarantee for tax-payers of an appropriate dividend when financial conditions improve - and protection for consumers against increases in the cost of banking.