Moneyfacts Group

Savers Friend®

GUIDES YOU

Depositor Protection **Guide**

At one time, banks were considered safe as houses. And then the financial crisis changed everything, destroying the perception of the invincibility of banks. Government bailouts and a spate of bank and building society takeovers hit the confidence of many savers who questioned how safe their money actually was.

Thankfully, the Financial Services Compensation Scheme (FSCS) affords £85,000 of protection to savers should a deposit taking firm in the UK go bust. Anyone with more than £85,000 can make sure all their money is protected by spreading funds between different banks and building societies. It is vital, however, to ensure that no more than £85,000 is deposited within one banking group licence. Even savers with nest eggs in banks overseas and offshore can normally expect considerable protection over their deposits, whether this is through the FSCS or the compensation scheme of the country where the investment is held.

Compensation considerations

The FSCS, which holds the compensation fund, is impartial and independent of the Government and the financial industry. Under the scheme, compensation is paid to customers who lose money if a financial services provider authorised by the Financial Conduct Authority (FCA) goes bust. Making sure a provider has FCA authorisation should be a priority before any deposits are made. This can be done simply by referring to Savers Friend, which contains details of all the financial services providers authorised to do business in the UK.

The next important consideration is the limit that applies to how much compensation the scheme may be able to pay. For deposits, which include current accounts, savings accounts and cash ISAs, protection is limited to £85,000 per person per authorised firm.

Joint accounts

In terms of joint accounts, compensation limits apply to individuals and not accounts. Therefore, for a joint account held by two savers, the maximum amount that could be claimed would be £85,000 each, providing total cover of £170,000. It is assumed the funds held in a joint account are split equally between account holders, unless there is evidence to prove otherwise. As a result, an individual named on a joint account that holds £170,000, but who also perhaps has £20,000 in a separate personal account with that same institution, runs the risk of losing the latter investment should the provider default.

Spreading the risk

The 'per bank' aspect of the compensation limit means that anyone with more than £85,000 who wants full FSCS protection should

continued overleaf

Key Facts

- **If a bank, building society or credit union in the UK goes bust, the first £85,000 of savings under a given banking licence is protected by the FSCS.**
- **Savers with more than £85,000 should spread their money between different banks and building societies.**
- **No more than £85,000 should be held within one banking licence. For instance, Yorkshire BS owns Barnsley BS, Chelsea BS and Norwich & Peterborough BS, all of which operate under Yorkshire's licence.**
- **Money held in a bank within the EEA enjoys a Europe-wide minimum of €100,000 protection per bank.**

Useful Links

See latest Fixed rates

- ◄1 Year
- 1 Year
- 2 Year
- 3 Year
- 4 Year
- 5 Years+

Link to Reviews

Visit the latest Savers Friend

Related Guides

- Who Owns Whom?
- Cash ISAs
- Tax-Free Savings

Full list of Guides

spread their deposits between different banking licences, and hold no more than £85,000 with each. In this instance, it is essential to check which banks are part of the same banking group, a task made simple by our separate guide, Who Owns Whom?

> **"The 'per bank' aspect of the compensation limit means that anyone with more than £85,000 who wants full FSCS protection should spread their deposits between different banking licences, and hold no more than £85,000 with each."**

This is because the FSCS compensation limit for deposits applies per authorised firm rather than by brand. So, where multiple accounts are held with providers that are part of a larger business operation, but each of the banks is separately authorised by the FCA, compensation would be paid up to the limit of £85,000 per person per authorised institution. However, if the individual banking brands are not separately authorised and are only covered by the parent company's authorisation, a payout of £85,000 would be made only once.

A good example of this is Barnsley Building Society, Chelsea Building Society and Norwich & Peterborough Building Society, all of which are trading divisions of Yorkshire Building Society and covered by Yorkshire's authorisation. For someone holding £60,000 in an account with Barnsley Building Society and a further £40,000 in a separate account with Chelsea Building Society, only £85,000 of this money would be protected under the FSCS. As a rule of thumb, all merged building societies now operate under one, overarching authorisation.

Overseas accounts

In terms of savings held with an overseas owned bank, compensation may or may not be the remit of the FSCS. Any bank based outside the European Economic Area (EEA) that offers savings accounts in this country must do so through a UK subsidiary directly authorised by the FCA. This means that they come fully under the FSCS and, as far as savers are concerned, are treated as a UK bank.

However, banks from countries within the EEA, which is made up of the European Union (EU) plus Iceland, Liechtenstein and Norway, can operate in the UK without UK regulation. Under this system of 'passporting', banks are regulated by their home country's regulator and covered by its compensation scheme rather than the FSCS.

Europe

In this respect, an EU directive means there is now a Europe-wide minimum of €100,000 protection per individual per bank; this is the figure from which the FSCS limit is derived. However, fluctuations in exchange rates mean the sterling value of that protection is ever-changing. It's worth bearing in mind that securing compensation from an overseas scheme is unlikely to be as straightforward as approaching the FSCS. Indeed, it is likely the application will have to be made direct to the country from which compensation is to be secured. Language barriers could prove to be a problem with any correspondence relating to the claim, both written and verbal. It should also be considered that the strength of a compensation scheme often depends heavily on the strength of the economy of the country in question.

It is possible that claimants will have to wait longer for their compensation to be paid out, too. The FSCS aims to pay compensation in the majority of cases within seven days of a provider failing. Any remaining claims, which are likely to be more complex in nature, should be paid within 20 working days.

Ireland

Ireland is the only country that still has compensation arrangements in place that exceed the minimum level required under EU law. Under the Eligible Liabilities Guarantee Scheme, to which AIB Group, Bank of Ireland Group and Permanent TSB Group and their subsidiaries signed up, depositors who placed money after January 2010 and before midnight on the 28 March 2013 will have their deposits honoured until their next maturity, up to a maximum of five years. However, as the scheme ended for all new liabilities from midnight on 28 March 2013, monies deposited after this date are not covered by this scheme – instead, the Ireland Deposit Guarantee Scheme now applies to all Irish deposit institutions and provides cover at the minimum €100,000 level.

Offshore

Importantly, it should be remembered that branches of UK and EEA banks in places such as the Channel Islands, Gibraltar and the Isle of Man will not be covered by the FSCS. As Crown dependencies, the amount of protection afforded to money kept offshore in such locations will be governed by their own laws. In Jersey, for instance, individual depositors are protected up to £50,000 per person per Jersey banking group. In Guernsey, up to £50,000 is covered per individual per licensed institution, while the same limit applies in the Isle of Man but in relation to net deposits. This means loans with the failed deposit taker may be netted off against any deposits. In Gibraltar, cover is limited to €100,000.

For anyone concerned about the safety of their savings, it should be noted that Savers Friend only lists banks and building societies that offer some degree of protection, whether this be through the FSCS or the compensation scheme of the country where the investment is held.