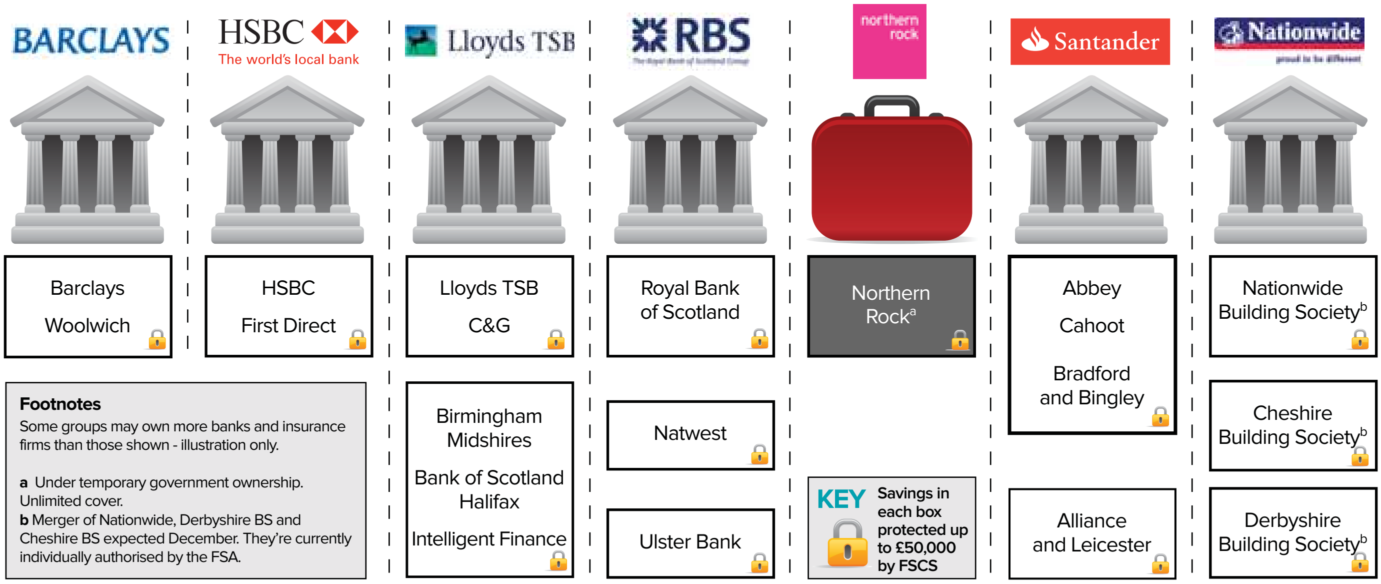
Keep your money safe

How to protect your savings and why it matters which group your bank belongs to



The crisis in the banking system has left many of us wondering how safe our savings really are. The government's £37bn bailout of the banks followed hard on the heels of the problems faced by Bradford & Bingley, Kaupthing Edge and Icesave.

In this article we'll look at what's happening and tell you how to protect your money.

There are a number of schemes that protect savings if a bank goes bust. The most important scheme for UK savers to be aware of is the Financial Services Compensation Scheme (FSCS).

IF YOUR MONEY IS IN A UK BANK

If you have up to £50,000 in a single UK bank you are guaranteed to get it all back. However, there is no guarantee on how long you will have to wait for it.

If you have more than £50,000 in a UK account, spreading it between different banks may not be enough. It's vital to choose banks that are authorised as separate entities.

It's up to the banks to decide whether their customers' accounts are protected up to £50,000 at bank or group level. In other words, if two banks have merged or one is a subsidiary of the other, they may be considered part of the same entity and you may just get the first £50,000 back.

If you have up to £50,000 in a single UK bank you are guaranteed to get it all back

Bank level protection

Many UK banks and building societies have no subsidiaries or partner banks. In these cases, your savings are automatically covered by the FSCS, up to £50,000.

If you have several accounts with the same bank, you are still only guaranteed to get £50,000 back. For example, if you had £40,000 in a Leeds Building Society savings account and another £30,000 in a Leeds cash Isa, you'd be covered only up to £50,000 in total. If you and your partner hold a joint account, up to £100,000 would be protected, as you each have a £50,000 protection allowance.

Group-level protection

UK banks with partner or subsidiary banks can choose to be authorised by the FSA at group level. Our picture, above, shows which of the banks belong to which group.

If, for example, you have savings accounts with HSBC and online bank First Direct which are part of the same banking group only the first £50,000 of your savings across both banks will be covered by the scheme.

Savers with the Royal Bank of Scotland Group plc enjoy greater protection as it's the only one of the four big banking groups in which all its individual banks are separately authorised. If the RBS Group went under, customers of NatWest, Royal Bank of Scotland and Ulster Bank (all part of the group) would be able to claim up to £50,000 of savings held within each individual bank.

IF YOUR MONEY IS IN AN OVERSEAS BANK

If your money is in an overseas bank your money will be protected differently.

The government of any country within the European Economic Area (EEA) has to give you at least €20,000 (around £16,500) compensation if the bank you have your savings with, fails. The EEA includes all EU countries plus Iceland, Liechtenstein and Norway.

Under what's called the Passport Scheme, most major European banks with a UK presence will 'top up' the difference for UK savers up to £50,000. For a full list of participating overseas banks, visit www.fscs.gov.uk and type EEA into the search box.

Banks established outside the EEA, such as India's ICICI and Nigeria's

PHOTOGRAPHY UNP, SUPERSTOCK

FirstSave, must be authorised by the FSA before they can operate in the UK. If these banks failed, your savings would be covered by the FSCS up to £50,000.

Greater protection?

Some governments have promised savers in their country greater protection than this. If you have savings in an Irish bank for example, the Irish government has guaranteed an unlimited sum of money for two years. The banks this applies to include Allied Irish, Anglo-Irish Bank and Bank of Ireland.

German Chancellor, Angela Merkel, appeared to offer a similar promise to depositors in German banks, but this has yet to become law.

Thousands of UK savers have their money with ING Direct. The Dutch government has pledged to compensate for savings up to €100,000.

However, there is no guarantee that the protection that has been offered by the governments in question will be forthcoming. It may be, for example, that the government cannot afford it or decides to exclude overseas savers.

Consumers should not move their savings to any foreign country or bank on the strength of these guarantees.

When the Icelandic banking system collapsed in October, the UK government guaranteed that British savers with cash in an Icesave account wouldn't lose money. There is no guarantee this will be repeated for other overseas banks. The safest options for UK savers are NS&I and Northern Rock, as they are state owned, although they are unlikely to offer the highest interest rates.

Which? says

Martyn Hocking, Which? Money Editor, said: 'We'd like to see a change in EU regulation that would require passporting EEA banks to seek full membership of the host country's compensation scheme.

'In the meantime, the government should make the top-up arrangements for EEA-authorised banks mandatory.

'For savers worried about the security of their deposits, we'll continue to keep you informed and to lobby for greater consumer protection.'

See also '*How we pick Which? Best Buys*', p31 to find out how we select the savings accounts that we recommend.

ONLINE

Which? Best Buy savings accounts earn 50 times more interest than the worst savings accounts on the market

www.which.co.uk/reviews/savings-accounts

Action points

Here is a checklist of measures to take to ensure that your savings are as safe as they can be

- If you have more than £50,000 in savings, spread them between banks that are separately authorised by the FSCS.
- To check if your bank is separately authorised, visit www.fsa.gov.uk/register or phone 0845 606 1234.

  If you have savings with a bank that has gone bust, the FSCS will write to you to tell you how to make a claim. Call **20 7892 7300** or visit **www.fscs.org.uk/consumer** for details.
- If you are concerned that your cash Isa provider may fail and you want to withdraw your savings, ensure that you transfer your Isa using the bank's formal transfer process. If you withdraw cash yourself you will lose your Isa's tax-exempt status.
- Visit www.which.co.uk/safesavings for more ideas on keeping your money safe.

SAFER SAVING

Aidan Roe, *64, IT consultant*

Aidan and Peta Roe were content to have their savings in a single high-interest savings account – until they became alarmed by headlines over the state of the world economy.

They split it into a series of different accounts, so that if anything did go wrong they would be sure to get their money back.

It was shortly after this, the banks started to experience severe problems.

The couple have now placed their savings with Manchester Building Society, National Savings & Investments and Smile accounts to reduce the risk.

Aidan said: 'We allocated our cash to the safer mutuals. Okay, the interest is a bit less, but we sleep better at night.'