

21 April 2008

#### Financial stability and depositor protection: strengthening the framework

Re your question 5.5 – “What type of large balances should be subject to additional protection and in what circumstances”.

Full protection should be given to individuals who had, (before the Northern Rock crisis hit the headlines and so alerted the public to the potential risks), invested in fixed interest rate bonds with banks or building societies. I refer specifically to bonds which do not allow withdrawals under any circumstances except at maturity or death.

Whilst individuals with deposits in ordinary savings accounts had the opportunity to remain within the FSCS limit by transferring additional sums to accounts with other banks or building societies, this safeguard was obviously not available to such bond holders.

Many of those affected by this will be elderly people, forced to sell their homes to pay for long term residential care. For them the bonds would have appeared to be a sensible option. Others will have put their savings into the bonds, with the intention of eventually repaying interest only mortgages. For some, the investment will have been the result of equity release or down-sizing to fund retirement. For others, the tax free sum from their pension scheme.

These are not fantastically wealthy individuals. For most, if not all, the savings tied up (literally!) in these bonds, will have been hard-earned and be of vital importance.

In the Financial Times of 18 September 2007, it was reported that “.....Alistair Darling announced that the government was stepping in to guarantee all of Northern Rocks deposits. The Treasury said similar assurances would be available to customers of any other lenders that ran into difficulty in the current turmoil”. This

guarantee must surely continue to apply to all those individuals, whose savings where, by that stage completely removed from their control.

A possible alternative to ongoing full balance FSCS protection could be to require all banks and building societies to retrospectively remove these restrictions and allow early withdrawal on all balances over the FSCS limit. Subject of course, to the usual proportionate financial penalties. They could then also be required to advise all existing customers who would be affected by this change.

Until these measures could be implemented, full FSCS protection should be available.

Yours faithfully,