



Deposit protection to fall

The compensation for lost deposits is to be cut by £10,000.

On the first Friday in July, a few days before the Budget, the Prudential Regulatory Authority (PRA) announced that the level of Financial Services Compensation Scheme (FSCS) protection for depositors was to be cut with immediate effect from £85,000 to £75,000. The PRA, which is part of the Bank of England, blamed the change on the requirements of the European Deposit Guarantee Schemes Directive. The Directive says that non-Eurozone countries must recalculate their deposit protection limit every five years, setting it at the equivalent in their domestic currency to €100,000, albeit with some judicious rounding permitted.

As sterling has strengthened considerably against the euro since mid-2010, the protection given to deposits has dropped. However, as the Directive only sets a *minimum*, the Treasury did make some concessions:

- If your deposits were previously protected by the FSCS, you will continue to be covered at the old £85,000 level until the end of the year. Thus for most practical purposes the new limit will not bite until 1 January 2016.
- Temporary high balances of up to £1 million will be covered for six months from the date on which the money is transferred into the account, or the date on which the depositor becomes entitled to the amount, whichever is later. This covers money arising from a list of specified events, including property sales or funds received on redundancy, inheritance or divorce.
- The PRA is consulting on a way to allow depositors to withdraw funds between the old and new limits without penalty until 31 December 2015, if they experience a decrease in deposit protection as a result of the limit change. This could be something of a catch-22, as switching out of a fixed-term deposit could well mean accepting a lower interest rate elsewhere.

If the change affects you, now could be a good time to review with us whether you need to hold so much cash on deposit. After all, it is probably earning little more than 1% - and that's before tax.

The value of your investment can go down as well as up and you may not get back the full amount you invested.