

# SURVEY

## SAVINGS & INVESTMENTS

# Stress Tests Halt Deposits Flight

Four hundred years after the Flight of the Earls, last year Ireland's banks reeled from the Flight of the Depositors. Now an increasing number of people are happy to tie up their savings with fixed-term accounts, writes **GRAEME McQUEEN**

If finance minister Michael Noonan is to be believed, the recent stress testing on Ireland's banks has stemmed the tide of deposit withdrawals from the main institutions. Central Bank data shows that Irish individuals and corporates withdrew €20bn from the Irish banking system in the year to

deposits market over the past 18 months. "There are customers who are diversifying their savings within the Irish institutions which are covered by the eligible liability scheme," says Cahill. "Some savers panicked last year due to all the negative media attention about the sovereign debt crisis so they started to move their funds around the various institutions. People are trying to insulate themselves against risk to any one bank by splitting their portfolio across a number of institutions. Whereas they might have previously had €1m on deposit with one institution, that is now split into smaller lots and spread around various banks."

Cahill added that the second major change has seen people start to diversify out of Irish-owned institutions and into foreign-owned banks operating in Ireland, such as Danske, KBC, Investec, HSBC, Rabo and BNP Paribas. "Thirdly, some investors have opted to diversify out of Ireland completely and into other major European banks," says Cahill. "The other trend is for people to diversify out of the euro completely."

According to Cahill, three of the most popular currency destinations for those euro sellers are the US dollar, Swiss franc and Norwegian krone. "That's a very speculative strategy whereby people are opening themselves up to the vagaries of the foreign exchange market, which is extremely volatile."



**Helen Cahill, Finance One**

Niall O'Grady, general manager of business strategy at Permanent TSB, says that while some Irish savers have chosen to get out of the euro entirely, activity of this type has been fairly low. "The deposits flight generates a lot of headlines but generally it has only been commonplace among high-net-worth individuals," says O'Grady. "Savers are now much more conscious of what's happening in the market and their investment approach is likely to remain conservative for the next five to seven years. There are very few

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**'People are trying to insulate themselves against risk by splitting their portfolio across a number of institutions'**

February 2011. In the same period, deposits from personal investors in other European countries fell sharply from €200bn to €148bn, while deposits from investors in the rest of the world plummeted from €320bn to €170bn.

**Helen Cahill** of Finance One, which advises businesses on deposit options, notes four major trends in the Irish