Debt Management Company Comments on Bank Troubles

Saving is a key part of financial management, says debt management company Gregory Pennington, and consumers should realise how unlikely they are to lose their savings if a bank fails.

October 10, 2008 (FPRC) -- Responding to recent troubles in the banking world, debt management company Gregory Pennington reminds consumers that a bank’s issues do not actually put most people’s savings at risk.

“Some may be tempted to keep a close eye on their bank’s finances, waiting to withdraw all their money at the first sign of trouble,” said a spokesperson for the debt management company. “Of course it’s vital to protect your investments, but it’s also important to understand the extent of the protection offered to normal savers.”

“First of all, troubled banks don’t necessarily ‘go bust’, as some headlines may infer. In the case of Bradford and Bingley, for example, their website informs visitors that ‘Bradford & Bingley’s branches and savings customers are now part of Abbey and Santander. One of the largest banking groups in the world with more branches in the world than any other international bank.’ For their customers, it’s ‘business as usual’.

“Second,” the spokesperson for the debt management company continued, “there’s the Financial Services Compensation Scheme (FSCS), the UK’s statutory fund of last resort for customers of authorised financial services firms. The FSCS means that the first £35,000 of each customer’s savings with a firm are guaranteed – even if the company can no longer repay that money, it would be refunded in full by the FSCS.”

Savers with deposits over £35,000 may still receive some of their remaining money, but that would not be guaranteed, and would depend on how the insolvency process plays out.

Naturally, many people with savings of over £35,000 may wish to keep their money with various different banks. Someone with £70,000, for example, could split it equally between two different banks and have the entire sum guaranteed.

“Note, however, that the FSCS compensates people ‘per authorised institution’ – many banks are in fact subsidiaries of other financial institutions, so someone who split £70,000 between two banks that share the same parent company would be guaranteed only £35,000 of their money if that parent company was declared insolvent.”

As a debt management organisation, Gregory Pennington focuses on helping people manage and clear their debts: “In the vast majority of cases, it makes financial sense for borrowers to get out of debt before they start saving, as debts tend to gather much more interest than savings.”

The company does, however, also provide advice aimed at helping people stay out of debt in future. “While some people face debt problems because they’ve financially over-committed themselves over a period of time, others find themselves pushed into debt by a sudden change in circumstances (sickness, for example, or unemployment). Without some ‘rainy day’ money set aside, it’s all too easy to accumulate small debts which grow into large debts as they struggle to fund debt repayments at the same time as keeping up with their normal financial commitments.

“Whether it’s a few hundred pounds or many thousands, saving for the future is one of the single most important things an individual can do in order to safeguard their financial stability in the future. Since we advise people to start saving as soon as they’ve settled their debts, it’s worrying to think that the last year’s events in the banking industry may have put some people off the idea of saving. Aside from compensating people whose banks run into trouble, the FSCS serves another vital function: giving would-be savers the confidence that comes with knowing their investment is protected.”

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