VOLUME XV No. 70 W E D N E S D A Y April 17, 2013

HOW SAFE IS YOUR MONEY ?

For most people of the civilised world, until very recently, banks were considered absolutely safe places to keep one's cash.

In addition, banks have, historically, been used as convenient institutions in which customers have the ability to open accounts in order to make deposits and from which they have the ability to pay for goods and services by the issuance of bills of exchange and/or cheques, the amounts of money that are utilised, being debited from their bank accounts.

From most banks' point of view, they see themselves as being in the business of borrowing and lending money, with very heavy reliance on deposits to fund day-to-day operations.

Considering the volume of business, in which banks engage on a daily basis, they use comparatively little of their own money, but instead make good use of depositors' funds.

To guard against losses on loan portfolios and unanticipated material cash withdrawals, banks maintain capital and reserve accounts.

But the recent financial situation in Cyprus where depositors are being forced to see and accept an erosion of their deposits – some depositors have been told to expect to loose up to 60 percent of their deposits –appears to have changed the world's complexion as to the inviolability of banks.

Most banks of the Western World make claims that all deposits are guaranteed by law up to a certain limit, in the US, up to $US100,000 per account, and, in Switzerland, up to €100,000 (about $US107,000) per account.

Not so in Cyprus where it is maintained that the Government of the Republic is on the balls of its proverbial arse.

This situation has come about when, in 2012, the island nation of about 1.10 million people became embroiled in the Eurozone financial and banking crisis. In June of that year, the Government of Cyprus declared that it needed at least €1.80 billion (about $HK18.32 billion) in foreign aid in order to support The Cyprus Popular Bank (known in Cyprus as Laiki Bank).

As it transpired, all three of Cyprus's banks needed cash bailouts – in a hurry. Those banks were Bank of Cyprus and Hellenic Bank in addition to The Cyprus Popular Bank.

To the rescue came The European Central Bank and The International Monetary Fund with €10 billion.

But the lenders of the bailout fund demanded that the Cypriot Government impose draconian penalties on uninsured deposits. Insured deposits of €100,000 or less would, however, not be affected … at least, not yet.

It was well known that a large proportion of the cash deposits, lodged at the three largest banks of Cyprus, belong to wealthy individuals/corporate entities, domiciled in The Russian Federation.

So, in essence, wealthy Russians who, for many years, had been employing the services of Cyprus's banks for one reason or another, are being forced to assist in the bailout of Cyprus along with the two lenders – The International Monetary Fund and The European Central Bank.

Now, *alea iacta est* – the dye has been cast – and questions must be raised as to whether or not the Cyprus model for a cash bailout could spread to other parts of the Eurozone when states, such as Moldova, come cap in hand, begging for money in order to prevent a national calamity or, even, national bankruptcy.

In September of 2010, the European Parliament granted €90 million (about $HK916,200,000) to Moldova, supplementing the $US570 million ($HK4.45 billion) in loans, granted by The International Monetary Fund to the country.

If Moldova becomes a member of the **E**uropean **U**nion (**EU**), it is only too clear that its government will seek to obtain assistance in the form of cash from The European Central Bank.

The Big Question

For banks and other quasi-lending institutions, should the heavy burden of a bailout rest, in part or in whole, with taxpayers of the country of domicile of the bank or with depositors and/or creditors of the bank?

The powers-that-be in the EU, by accident or by design [**TARGET** () assumes the latter to the former], have imposed a penalty on large bank depositors to assume the mantle of being, de facto, *'The Lender of Last Resort'*, like it or lump it.

Is this that which the EU meant to inculcate as part of its original mandate, back in 1957 when six countries – Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany – signed The Treaty of Rome, thus creating The **E**uropean **E**conomic **C**ommunity (**EEC**)?

One would have thought that governments of the free world, if anything, have an onerous obligation to protect its citizens from corporate entities of the importance of massive members of the banking industry, bank members that, due to any number of situations, find themselves in a position that they have the ability to fail, causing widespread financial hardships to their depositors.

It is only too clear, now, in view of the situation in Cyprus, that quite a number of member states of the EU – and those countries that would like to join *'the club'* – do not have the financial ability to provide insurance for qualified bank deposits and so it may fall upon the powers-that-be at the European Central Bank to consider a proposal, leading to the implementation of an EU form of guarantee to bank depositors.

As the situation stands, today, one could hardly blame the very wealthy from withdrawing large amounts of their money, or even all of their funds, from certain banks, fearing that what has taken place in Cyprus could be visited on them, also.

Other smaller depositors could well follow suit.

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