Press Release

GoldCore

NEW REPORT REVEALS: Risk Of Depositor Bail-Ins as Irish Banks Remain Vulnerable

Bail-ins Now Likely Template For Future Bank Rescues After Ireland Exits Bail-Out Without Precautionary Credit Line

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"Bail-ins" pose a significant risk to savers and investors in the coming years and yet there is a lack of appreciation of this risk as there was a lack of appreciation of the risks posed by the Irish property bubble and the Eurozone and global debt crisis.

This is according to new research conducted by investment specialists at GoldCore. The financial experts, who predicted the property crash, have released findings from a 50 page research document entitled *'From Bail-Outs to Bail-Ins: Risks and Ramifications'* which looks into one of the most significant risks facing investors and savers today - bank and financial institution bail-ins.

Mark O'Byrne, Research Director of GoldCore explains, *"With over €152 billion in deposits in Irish banks and over €80 billion in Irish pension funds, it is important that we now consider how the national savings pool can be protected. The "bail-in" in Cyprus was a financial Rubicon with consumer savings being used to rescue the banks, and since then the investment and savings landscape has fundamentally changed. Preparations have been or are being put in place by the international monetary and financial authorities for bail-ins. The majority of the public are unaware of these developments, the risks to their savings and the ramifications for their long-term financial security".*

The GoldCore report outlines how Cyprus became the defining event since it revealed the preparations and planning of international banking regulators and governments at the highest levels for the coming of a 'Bail-In Regime'. Almost overnight, the sacrosanctity of bank deposits was shattered. This made many market participants and well-informed corporate depositors nervous, especially in vulnerable EU countries. Until that point, there hadn't been a realisation that 'bail-ins' would become the template for future bank rescues.

According to the GoldCore report a bail-in is when regulators or governments have statutory powers to restructure the liabilities of a distressed financial institution and impose losses on both bondholders and depositors. While bail-in generally refers to a bank restructuring where shareholders and various unsecured creditors such as bondholders are forced to share the rescue costs, after Cyprus, the term 'bail-in' became synonymous with possible deposit confiscation, where *uninsured* depositors were seen as unsecured creditors of the bank and liable to share bank restructuring costs.

According to O'Byrne, *"The coming bail-in regime will pose real challenges and risks to investors and of course depositors - both household and corporate. Return of capital, rather than return on capital will assume far greater importance. This is really the crux of the Cyprus template as proposed by international monetary authorities - depositors internationally now have to think of their uninsured deposits as liable to potentially being confiscated and transformed into bank shares".*

How Likely Are Bail-Ins?

The report suggests that there are two very broad 'schools of thought'. The first school believes that the US Federal Reserve, along with partner central banks internationally, has successfully stabilised the global financial system through low interest rates and quantitative easing, while the EU has managed to help recapitalise banks and avoid bank insolvencies in the European Union and the breakup of the European Monetary Union (EMU).

The second school is more sceptical and believes that many banks globally remain vulnerable to insolvency because they are being kept on life-support due to extremely accommodating central bank measures including near zero percent interest rates and quantitative easing.

O'Byrne explains, *"We believe the second school will be proved right in the coming months and years; therefore, depositors with deposits in certain banks, or planning to place deposits, must look at the likelihood of and how likely that bank is to get bailed in. This likelihood would be a function of the strength of the individual bank, which jurisdiction that bank is governed by, which financial systems and economies the bank is exposed to, the extent to which the bank has potentially problematic property or derivatives exposure, and whether deposits are insured by deposit protection schemes, and to what extent are they insured".*

Where Are Bail-Ins Likely To Take Place?

O'Byrne went on to say, *"Bail-ins are likely to happen to banks that are close to failure in countries that have adopted the international bail-in conventions and/or do not have financial resources to bail-out their banks, which would appear to include Ireland. Thus, deposits in failing banks in the Eurozone, UK, U.S. and G20 nations are likely to be subject to bail-ins. European banks have been recapitalised but should the sovereign debt crisis return or a new global systemic crisis happen, a la Lehman Brothers, individual banks may again face capital shortages. Greece, Cyprus, Spain, Italy, Portugal and Ireland all remain vulnerable. However, other countries in the EU also have risks, including the UK, the Netherlands, Switzerland, Denmark and France".*

What Should Depositors Do?

O'Byrne commented, *"Depositors should examine the financial health of their existing bank or banks. Some issues to watch would include institutions with legacy issues such as a high level of* *non-performing loans, a possible need for recapitalisation and low credit ratings. These banks should be avoided, as they have a higher chance of needing restructuring and hence a higher chance of a bail-in.*

Within Europe, deposits are insured for up to €100,000 per person, per account. Although there is no guarantee that certain European governments could fund their deposit insurance scheme, it is uninsured deposits which are more at risk of a bail-in. Therefore, it would be prudent for depositors not to hold bank deposits in excess of €100,000 in any one European financial institution since a) they are not insured, and b) deposits in excess of €100,000 are more likely to be bailed in.

There is an assumption that in the event of bail-ins, only bank deposits of over €100,000 would be vulnerable. However, there is no guarantee that this would be the case. Should a government be under severe financial pressure, it may opt to only protect deposits over a lower amount (e.g. €50,000 to €80,000).

Conservative wealth management, asset diversification and wealth preservation will again become important and gold will again have an important role to play in order to protect, preserve and grow wealth in the coming bail-in era.

Overall, diversification of deposits now has to be considered. However, it is vitally important that those tasked with diversifying deposits do not jump out of the frying pan and into the fire. This means diversification across financial institutions and internationally".

Conclusion

O'Byrne concludes, *"It will take a number of years for the final configuration of the new financial order to become clear. This means that there are difficulties inherent in selecting appropriate investments when the ultimate outcome is unclear. This makes real diversification more important than ever. Apart from that, what we do know at present is that there are straws in the wind that it is important savers consider".*

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About GoldCore

Founded in 2003, GoldCore are respected wealth managers and international gold brokers who are experts in the execution and logistics of the highly specialised precious metals market.

GoldCore's team of experts service all investor classes from private individuals to companies and institutional investors. With offices in Dublin and London, and some 4,000 clients in over 40 countries, GoldCore has forged important relationships and a deep understanding of the global gold market, which leads to a competitive edge in the buying and selling, and shipping and vaulting of gold coins and bars.

GoldCore's daily market updates and research have been covered in media internationally and provide insights into how the precious metals markets operate and how the decisions that investor's make can affect their investment returns over time.

GoldCore Precious Metals Trading Platform

The GoldCore Precious Metals trading platform is purposely designed to provide scalable and secure online trading in the buying, selling and storing of precious metals. The PM platform enables real time trading of precious metals in multi-currency and allocation of purchased metals in a selection of vaulting locations in Zurich, London, Hong Kong and the USA.

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