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# CASH DEPOSITS:

## MAXIMISING THE RETURNS

THE HIDDEN “COST” OF ACCEPTING LOW RATES OF INTEREST ON CASH DEPOSITS HAS BEEN A CONSEQUENCE OF THE FALLOUT FROM THE CREDIT CRUNCH FOR THOSE WITH SIGNIFICANT WEALTH.



## AS BANKS SEEK TO REPAIR THEIR BALANCE SHEETS, THE RATES OF INTEREST PAID TO DEPOSITORS HAVE FALLEN SIGNIFICANTLY.

As banks seek to repair their balance sheets, the rates of interest paid to depositors have fallen significantly. Perhaps surprisingly, some of the lowest cash deposit rates are paid by banks which aim to serve a high net worth clientele. With the rates on instant access accounts from even the most well heeled of banks often well below 1% pa gross, depositors are having to accept a gradual erosion of the real value of their capital.

Having provided a cash management service for our Family Office clients over the past few years, we decided earlier this year to make the service more widely available to investors depositing a minimum of £250,000.

The Dynamic Cash Management (DCM) service, was launched in March 2010 and is aimed at investors looking to improve the returns on their cash deposits. *The Sunday Times* recently featured DCM as a "best buy" for cash deposits, which reflects the relatively competitive rates of return we are able to achieve for clients.

Our database covers the whole of the UK savings market; we assess and monitor both the rates available and the financial strength ratings of institutions on an ongoing basis. We review each institution and allocate a single Combined Numerical Rating (CNR) which summarises all the data we have analysed. We use our CNR, which is between 0 and 60, to decide on whether an institution is sufficiently safe for the client. The highest rating, 60, is reserved for investments specifically guaranteed in sterling by a government with an Aaa rating (ie: the UK Government). Zero is the lowest rating for an institution where, for example, we have been able to collect data on their financial strength.

The data we use comes from a variety of sources including industry standard ratings agencies such as Moody's, Fitch and S&P. We also consider other factors including where the institution is domiciled, where the parent

is domiciled, the nature of authorisation, the outlook for the firm and the nature of the compensation scheme covering UK deposits.

In practice, even using the ratings agencies doesn't cover even facet of information needed. Sometimes the only way to pick up an impending problem is to listen to the financial media. If we have reason to believe an institution may have problems, we will downgrade it and possibly remove money from it even if the ratings agencies have not yet reviewed it or disagree.

To determine which institutions we should use for individual clients, we ask a number of questions concerning financial risk, including questions related to specific institutions and whether or not they feel comfortable using them. Depending on the answers to these questions, we set a minimum financial strength rating for each client and do not place money with any institutions below this rating. Also, on the regular review of our clients' holdings in DCM, we move money from an institution if its rating has fallen below their minimum level.

That's not to say institutions with low ratings will never be used, but it is done on a cautious basis. We will for example try to use only instant access or short notice period accounts for an institution close to the cut-off CNR score whereas we would be prepared to use a longer notice period for accounts with higher rated institutions.

All individual DCM accounts are opened in the client's own name, and benefit from Financial Services Compensation protection on the first £50,000, or £100,000 for a joint account. However, we take the view that seeking full protection by way of the UK Government's Financial Services Compensation Scheme is not always in the best interest of our clients. While this additional level of protection can provide some comfort, opening more and more accounts with no more than £50,000 each will

simply lead to an erosion of the overall rate of return for the client and restrict their flexibility

We have aimed this service at higher net worth investors and are currently able to assist them to secure rates of between 2.65% and 4% gross, depending upon the notice period. DCM is flexible enough to allow clients to opt for a basket of accounts with varying duration, so a client investing £3m, may have £1m on instant access, with the balance spread between accounts with terms of up to 12 or 24 months.

Each client is provided with a Dynamic Cash Management "illustration," which compares the rates achievable via DCM with a National Savings Direct Saver Account and the average of five high street savings bank rates. Clients are also able to view their DCM accounts in a single, convenient location, via our online client reporting tool Omniview.

Some of the features of DCM:

- It is a service using retail accounts – it is not a money market fund or investment product. The most competitive rates of interest are typically offered to individual investors rather than on an institutional basis.
- It is whole of market – although we exclude institutions where we may have concerns regarding financial strength and keep this continuously under review
- It is bespoke - we tailor the structure of how the underlying monies are deposited on an individual basis.
- It allows clients to determine the minimum financial strength ratings they are willing to accept - we specifically ask clients about whether they want to exclude foreign domiciled institutions or those where size or financial integrity might be a concern.