http://www.moneysupermarket.com/c/videos/icici-reassures-savers/0003827/

Transcript

Clare Francis: Savings rates have been in the spotlight, and continue to be with interest rates falling and further rate cuts expected in the coming months. Obviously this is making life harder for savers trying to earn a decent return on their money, but some providers are paying rates that are significantly higher than the current bank rate of 2%.

One of those banks is ICICI Bank UK, and I am here today with Deepak Varghese from the bank, just to ask about the current state of the savings market and what he thinks the future holds.

Q1: Deepak, thanks for spending some time with us. Obviously life is getting harder for savers because interest rates are falling, and the savings market generally has been in the spotlight over the last few months as a result of the financial crisis. At moneysupermarket.com we recently conducted a survey about attitudes to savings and it seems that there has been a shift in sentiment recently because of the financial crisis and the collapse of the Icelandic banks, with many savers now - rather than the chasing the best returns - more concerned about how safe their money is.

ICICI bank, obviously you have been a player in the UK market for a couple of years now but your parent company is Indian-owned and we have had people on our forums concerned about whether or not their money is safe with you. Can you just explain? Is it safe? Should people be worried?

Deepak Varghese: No, absolutely - given the times, safety is the largest thing on peoples minds, and rightfully so, and for ICICI bank safety has been priority. And the key is that we look at safety and the way safety should be looked at. The first one is capital adequacy, we all know that it is a crisis of liquidity - do people have money or not? How much money do you have as a bank before you go and take money from the common people. From a capital adequacy perspective ICICI bank UK plc has a capital adequacy of 18%. If you look at the general British banks - and we too are a British bank, we are registered and governed in the UK - if you look at any of the local British banks you will see capital adequacy in the region of 10 to 12%. So competitively we are very high on the capital adequacy.

Q2: And you mentioned that you are fully regulated here in the UK and you signed up to the Financial Services Compensation Scheme, which means that savers - your customers - get exactly the same cover that they would with any other institution?

DV: For all practical purposes we are a British bank. Yes, the parentage is that of an Indian bank and that is part of the group heritage that you bring in.

Q3: I think despite that some people will probably still be slightly nervous because we have seen people moving money into National Savings and Investments, Northern Rock, Abbey has benefited, Nationwide because of ownership and because of perception of security and safety. Have you seen savers pull money out of your accounts as they seek what they perhaps regard as a safer haven or home for their money or are you still seeing a lot of money coming in?

DV: In the initial days of mid-September, yes, we saw some customers who had sums way in excess of £50,000, take some of their money out but that was just an initial stage, but right through the period, right from the beginning and right up-to-date we have got a lot of British customers signing up, in fact the sign- ups that we are getting is far in excess of anything that we ever had, and the reason being is that a lot of people have come to understand that we are a British bank, we are covered by the FSCS so therefore what they get is equal to what they get in any other bank. So those safety concerns are to a large extent in their mind, and we are getting those £50,000 plus deposits.

Q4: Obviously, one of the reasons for that is probably because of the rates that you are offering, we have obviously got the bank rate at the moment at 2% but your easy access account is paying 4.5%, and your one year bond is paying 4.75%*, how are you able to offer rates that are so much higher then the bank rate?

***(Since filming, the rate of the one year bond has increased to 5.1% AER)**

DV: You see the key is we always have safety in mind so therefore this is without compromising the safety and looking at the same instruments, how do you bring the best value of the instruments, you will still get a) rate, but b) what do you do to your costs, how heavy are your cost base. So given the fact that we have a huge scrutiny on what do you do to your costs, how much of it could be straight through, yes we also do out-source some of our operations to India, to the parent because we have got volume, we have got 24 million customers in India so the ability to leverage those volumes to give you local market service quality is what helps us save money. The money that we save is the money that we pass onto the customer and that is our value to every proposition.

Q5: Can savers expect your rates to continue paying significantly more then bank rate going forward or are they likely to fall back?

DV: Let me answer that a little differently for you. If you see about two or three months ago, the rates above the base rate had shot up as much as 2% in the overnight saver or the easy access saver accounts, and at that point of time let's be conscious, we also did lag behind the top. Our motto is to be consistent in what you give, to be transparent, fair and sustainable, so it's not to spike you up so that when you turn your back we drop the rate on you. But the key there was that there was a change that some of the players had possibly made from safety to instruments which were not so liquid or possibly you went and changed your risk parameter on what securities you were buying.

As a bank we have been extremely consistent in ensuring that there is no compromise to safety. So given that we will follow the trend of safety - we promise to be consistent but it need not necessarily be number one, because being number one at could be at the price of safety or liquidity which we are unwilling to compromise.

Q6: Given what I said earlier about our survey, and peoples sentiments having shifted in that perhaps some people might have been prepared to sacrifice return in order to get perhaps a higher level of safety. Are we seeing the tide turn again because interest rates are coming down so much and its harder for savers to get a return and an income on their money - do you think we are seeing a shift back to those seeking maximum returns?

DV: One thing that you know, what we see and what we hear from our customers is there is going to be no compromise on safety, you cannot say that we are going to give you high returns at the cost of your safety - you will have to give your returns along with safety. But given the fact that people have, and we see a lot of people are complacent with their money, they leave their money and they forget about their money, they don't go back to the bank and then suddenly start seeing the deal come off. You are going to see a lot more savers go around shopping to see what other avenues that they have got to spread money to increase their rate, so that is going to happen but we don't believe that people at least in the near-future are going to compromise safety of their money.

Q7: There is quite a lot of talk at the moment that interest rates here in the UK could fall to zero; do you have any opinion on that, do you think that might happen?

DV: Well I guess only the chancellor can answer that well enough...

CF: Or Bank of England...

DV: Or the Bank of England for that matter. But our view is yes we could see an era of low rates. It may be possible because there are talks in the market place of zero, but this economy has not seen that so we are not sure about it.

Q8: Do you think that will affect the incentives and peoples desire to save, in that if rates are so much lower are they going to use their money for something else rather then saving it. Whether it's spending it, which is obviously what the government wants us to do because that will help kick start the economy, or paying down debts, or do you think demand for savings will remain strong?

DV: See people's nervousness. Savings is your umbrella for a rainy day. Running a risk without any savings could get you exposed completely, whether it's your child's education or any of those emergencies or exigencies that you may have. So savings is never going to go out of fashion - we always believe savings is going to be around but the key is going to be people will have to extract value for the savings. While the government does say its good to spend, the key is you'll have to spend what you can afford to spend for which you will have to ensure that you get the best value for your savings.

CF: Thank you Deepak.

DV: Thank you.