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Boom-time casualties running out of money — and time

COMMENT

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Blame Charlie McCreevy. The former finance minister led us to believe investing was easy when he introduced special savings incentive accounts (SSIAs) in 2001. The state added €25 for every €100 we invested. Asset values soared in the following years. What could go wrong?

The consequences of the complacency that ensued were laid bare in the High Court last week when it emerged what some investors did after their SSIAs paid out in 2006 and 2007. With McCreevy's free money no longer on the table, they turned to borrowing to take its place.

Permanent TSB was willing to oblige, providing fast-track loans to those who put their matured SSIAs into a UK property syndicate put together by its sister company at the time, Irish Life. If your SSIA was worth €15,000 and you earned at least €50,000, you could borrow up to €50,000. Loans of up to twice this amount were available if you earned at least €60,000 and had an SSIA worth €30,000.

Borrowing to invest is always speculative. This investment was off the risk scale, however, because the syndicate was also saddled with debt, having borrowed almost £25m from Permanent TSB. The money was used to buy to a single office block, 23 Austin Friars in London, for £38.1m (€50.7m) in 2007.

The bank got its money back when Irish Life sold the building for less than £28m in 2013 but investors recovered only 30% of their money, leaving big shortfalls for those who had geared-up their SSIAs to join the syndicate.

The High Court must decide whether Irish Life misled investors by claiming to have complete discretion over when the Austin Friars property would be sold. The investors allege that Irish Life was forced to sell into a depressed market in 2013 because Permanent TSB pulled the plug on funding. Irish Life says it was advised by property experts that selling was the best option at the time.

Whoever is right, the case provides a useful glimpse into the irrational exuberance of another era, when investors were prepared to gamble everything in the hope of making a quick killing on a single property using borrowed money.

Austin Friars was only one of many geared property funds on which boom-era investors lost their shirts. It will be one of the last to be aired in court, however, because of the statute of limitation that allows only six years to take action in cases of suspected mis-selling.

As the boom recedes into history, its casualties have run out of time in which to seek redress.

Healthy profits

Who would want to buy a business in a market that is shrinking, where you cannot charge more to the costliest customers, where the ground rules are constantly redrawn and a big chunk of your costs is dictated by bureaucrats rather than the laws of supply and demand?

Plenty of people, judging by the appetite of big international players for a slice of Ireland's health insurance market. The Sunday Times revealed last weekend that American insurance giant AIG is buying the second-largest player, Laya Healthcare, whose previous owners included Quinn Insurance and Bupa, a British health insurer. Another British insurer, Aviva Health, bought into the Irish market in 2008. Irish Life, owned by Canadians since 2013, has a controlling stake in GloHealth.

All grumble about Ireland's dysfunctional health insurance market, blaming it for premium hikes that have forced many to abandon cover as an unaffordable luxury. Their actions belie their words, however, suggesting that somewhere underneath all of the red tape lurks a nice money-making opportunity.

An immediate opportunity to pick up low-risk customers awaits AIG and its competitors with the introduction of lifetime community rating at the end of April. Those over 34 buying health insurance for the first time after this deadline will be penalised with higher premiums. The measure, designed to rebalance a lopsided market with too many older customers, is designed to send younger people rushing into the insurers' arms.

More ready-made customers are on the horizon with news last week that the government's dream of universal health insurance has not died — it's just being reimagined within the Department of Health.

The cost of QE

What will €1 trillion do for you? Nobody seems certain, although European shares were boosted by last week's news that the European Central Bank (ECB) will release its "big bazooka" in a last-ditch effort to halt a slide into economic stagnation.

Previous stimulus measures boosted stock markets in America, Britain and Japan.

The news is not uniformly positive. Holidays in many parts of the globe will be more expensive because the prospect of quantitative the euro crashing against the dollar.

Taxpayers will benefit but at savers' expense. As government bond values surge, the cost of servicing the national debt falls, increasing the scope for tax cuts. State Savings are part of the national debt, though, so returns are under threat, having already tumbled in the past two years.

It would be a small price to pay if QE achieves its target.