Gold Storage in Banks? Think Again.

written by Matthew Piepenburg | July 12, 2021

For informed *investors* who have successfully traversed the **tired Bitcoin vs. Gold debate** and recognized the critical importance of owning *physical* (as opposed to paper/ETF) gold as an obvious antidote to globally debased currencies and openly systemic financial and banking risk, you have, thankfully, recognized precious metals as historically unmatched safe-haven assets. **Gold storage**, however, presents more questions that must be addressed by investors.

For years, we have **bluntly explained** why precious metal ownership is so essential to the far-sighted wealth preservation objectives of sophisticated investors, both individual and **institutional**. But on the wise and hence contrarian road to precious metal ownership, what good is the journey if the destination itself is unsound?

That is, does it make any sense if your safe-haven assets are then stored/held in un-safe institutions (i.e., commercial bullion banks and/or other precious metal dealers) who are themselves integral parties to the very broken system (and systemic risk) you originally set out to avoid?

Below, we therefore look at the many and all-too real (yet all-too carefully hidden) risks of **storing gold within a fractured banking system**, and underscore the need to select only the safest private vault options for serious gold storage and liquidity.

Bullion Storage in Big Banks—Anything but Safe

As our recent report on the **Basel III regulations** suggested, the world's major commercial banks are virtue-signaling the need to avoid (or more likely, *prepare for*) another banking crisis.

Imagine that?

Specifically, the latest regulations require (among other things) that banks hold greater percentages of safe, "allocated" tier 1 gold (i.e., *physical* gold) on their balance sheets and reduce their levels of unsafe (i.e., fake) "unallocated" tier 3 *paper* gold.

Imagine that?

But if you think the recent regulatory lipstick on the pig of big-bank balance sheets makes such name-brand institutions safer in general (and for gold in particular), we'd humbly suggest you think again.

Decades ago, we created **Matterhorn Asset Management** to protect our own (and partners) wealth preservation assets, developing the safest system in the world for precious metal acquisition, handling and storage.

Only a few years later, we extended our services to outside investors. The evolution of Matterhorn came not from being gold bugs, natural pessimists nor even anti-bankers.

Instead, we were simply clear-eyed *witnesses* to real events in global **debt**, **currency, risk-asset** and **banking** markets; for this reason alone, private metal vaulting, done correctly, is not a niche opportunity, but an absolute necessity. Period.

We further understood and accepted the powers of collective thinking, even **collective madness**.

Toward this end, there is an understandable sense of safety in numbers as well as faith in the familiar, which includes the leading commercial banks and their highly-credentialed big brothers—from the Bank of International Settlements and the IMF to national central banks.

But it's also worth noting that those very same banks have been disappointing and mismanaging their clients (and global financial systems) with tragic consistency for years, as the Great Financial Crisis (GFC) of 2008 is only one of **so many recent reminders**.

In short, for those trusting familiar banking names (rather than blunt banking facts) for storing their precious metals, we feel they are doing so at great and quantifiable risk.

Here's why.

The Allocated vs. Unallocated Shell Game

Many well-meaning and high-ticket private bank clients will be warmly welcomed to open bullion accounts at Bank A or Bank B, C, or D etc.

In fact, the private bankers will often sweeten the deal by charging only a “general fee,” yet foregoing any gold storage fees, because, hey, you’re such an important client, right?

Well, not really.

First, it’s important to understand that modern banks are not in the silver and gold storage business—they are in the credit and fee-churn business; they make their margins executing paper transactions.

Gold storage, however, is a lower margin business, which means hardly any big banks manage their own vaults; instead, they sub-contract out the work, smile and then lever client assets.

The reason there’s no storage fees for such “bullion accounts” is largely because there’s no actual gold or silver to store within that glossy-brochured and well-known bank account.

—The Unallocated Bullion

This is because the banks are placing your precious metals in “unallocated” paper/transactional (i.e., levered accounts), which despite Basel III, are still very much in vogue.

Within the fine-print of the offering documents to these “unallocated” bullion accounts is the buried reality that the precious metals are not in fact individually owned by the client, but by the bank first.

Stated otherwise, there are no gold bars or coins with your names assigned to them waiting for delivery when needed.

This makes the client an un-secured creditor to the bank, not a direct owner of the gold that bank is allegedly “storing” for him/her.

Thus, should another banking crisis, bank holiday or depositor-freeze occur for any number of likely reasons/scenarios, bullion clients will be standing in line behind other bank creditors rather than taking immediate delivery of their gold and silver.

And if the bank tanks, well, they’re really out of luck, aren’t they?

If this seems unimaginable, then just imagine Morgan Stanley’s “silver program,” which had no silver precisely when clients needed it the most.

It took clients a lot of lawyers and a lot of months to finally get the very metals they “owned.”

Or imagine HSBC.

In 2008, clients suddenly asked for delivery of the metals they'd hitherto thought they'd never need, until, of course, an actual banking (i.e., liquidity) crisis reared its inevitable yet ignored head.

During the GFC of 2008, HSBC closed its retail vaults, requiring gold clients to wait months for actual delivery.

Imagine that?

—The Allocated Bullion

For those aware of such *unallocated* account risks, the same banks will admire your sophistication and offer a better option, namely "allocated" bullion accounts in which clients are promised specific ownership of specific physical metals.

Good stuff, right?

Well, not so fast…

Even these *allocated* bullion accounts are riddled with risk.

That is, the bankers will likely overlook mentioning the various 3rd-party custodial vault contracts and intermediary middleman agreements they are often tied to in the long daisy-chain between your precious metal master account documents and the final resting place of your actual gold and silver.

The ubiquitous use of such middlemen and third-party custodian/vault services in even allocated bullion accounts creates a number of problems.

First, there is the inherent counterparty and operational risks associated with the potential failure, insolvency or mismanagement of any of the intervening middlemen, custodians and sub-custodians—from outright fraud to inadequate (i.e., loophole-heavy) insurance coverage.

By the way, if 2008 taught us anything, it's that the big banks are loaded with middlemen, counterparty and operational risks…

Secondly, the number of intervening parties between your account name and the final vault (which can change without your knowledge) means as a bank client, you cannot speak to (or access) your vault (i.e., your stored gold and silver) directly; only your bank or its contractual middleman can do so.

But what if that banker or middleman is not picking up the phone in the midst of the next banking crisis, assuming you recognize that such crises are anything but extinct?

Thirdly, even in an "allocated bullion account" wherein you are promised direct ownership of say 100 ounces of gold, your 100 ounces are likely part of (i.e., *comingled* with) a 400-ounce bar of which you only own a ¼ interest/claim.

How long do you think it will take to get that shared, 400-ounce bar refined to ensure your immediate delivery/liquidity of the 100 ounces you own and need?

In short, if you are concerned about unallocated and even allocated bullion accounts in a big bank near you, what better options are available?

Fair question. Here's a fair answer.

Segregated Bullion Accounts—The Superior Option

For sophisticated (i.e., serious) precious metal investors seeking direct ownership of the highest-grade precious metal assets in specified sizes, owned entirely in their names (and with direct access to the private vaults that store their silver and gold), segregated accounts held *outside* of this openly fractured and highly risk-heavy banking system are the superior option.

That said, not every private and segregated bullion account service or vault is the same, and a number of critical due diligence concerns need to be addressed and confirmed.

First, most bullion banks, especially in the EU, don't even offer segregated bullion accounts.

Again, their primary goals are high fees and high margins, for which gold storage is not compelling enough to their bottom-line.

When selecting segregated bullion accounts in private vaults, the key and primary considerations to tackle first are jurisdiction and vault reputation.

1. Jurisdiction

Precious metal owners understand that such wealth preservation assets shine brightest in times of crisis.

They also understand that in times of crisis, banks (and the governments with which they collude) will throw out the old rule books and create new rules mid-game—typically at the expense of their clients.

In times of crisis, money and metals "on deposit" at traditional banks will be the most at risk.

Even if the bank stores your bullion in their own vaults, we have seen many examples of the gold not being there when the client wanted to transfer the same to a private vault.

So far, the banks have always replaced the missing bars with other bars but in the event of bank insolvency or other "shocks," that would obviously not happen, meaning delivery, at best, would be blocked for months, and at worst, totally lost.

Thus, when selecting a jurisdiction for *private* gold vaulting *outside* of the banking system, one must select a jurisdiction with the best available laws and historical reputation for investor protection, be they foreign or domestic.

Given that many precious metal realists hope for the best yet prepare for the worst, they further recognize the admittedly real possibility of confiscation risk in the otherwise unwanted yet real event of a shock to the global monetary system.

In the event of such confiscation, be it physical or via tax methods, holding actual precious metals *outside* of government-controlled banking systems provides added time and protection to segregated bullion account holders.

Toward this end, client privacy is an equally important component of the jurisdictional choice.

In superior bullion jurisdictions like Switzerland, for example, physical gold storage in *Swiss-owned* vaults represented by *Swiss-originated* wealth managers is not considered a "financial account" subject to tax reporting under IRS rules or the Common Reporting Standards of the OECD.

In short, client privacy is fully and legally preserved in such a jurisdiction.

Such privacy, however, must not be confused as an open-door to (or assistance for) nefarious clientele.

The most credible offshore vault management services strictly adhere to all necessary compliance laws, namely: KYC (Know Your Client), AML (Anti Money Laundering) and full source-of-funds declarations.

In this way, private clients can be confident that their precious metals are held in fully compliant (i.e., "clean company") vaults.

Finally, in times of equally unwanted but equally possible social chaos, one needs a vault jurisdiction which provides reliable access to a major international airport, as well as, ideally, similar access to a private air strip.

2. Private Vault & Service Reputation

As to private vaulting services, no two are alike and informed investors must carefully consider the following factors.

– Security

Once jurisdiction is determined, it's equally critical to select a private vault service which has the most reputable gold storage history as well as military-grade security systems, addressing everything from fully safe-guarded (backed-up) client data, direct 24/7 metals access and IT protocols against malware to protection against natural disasters or even EMP threats.

Investors, moreover, should ascertain that the private vaults and service providers are storing actual metals as opposed to mere “contracts on demand” for the same.

– Focus and Ownership Structure

Unlike banks, the most reputed client managers for segregated private, vaulted gold storage are exclusively engaged in that service, and *that service only*.

In fact, such singular yet professional focus on private vaulting for gold storage and other specified client assets was once the sole domain of the classic banking services of the past, before modern banking became distorted by leverage, derivative desks, fractional reserve banking and other such high-risk, high-profit and high-consequence behavior.

In selecting segregated, private bullion services, investors should also confirm that the wealth advisory service is fully-owned and independent, as opposed to being a subsidiary of some larger, and potentially compromised entity.

Again, the entire aim of segregated bullion ownership is to avoid the very counterparty and operational risks otherwise attendant to commercial bank bullion accounts.

– Liquidity Options

For larger accounts, you will also wish to work with private bullion storage providers who offer instant liquidity options for two-way transfers in all major currencies in the event you chose to liquify all or a portion of your metal assets into actual currencies when and if needed.

-Enterprise Solvency

When selecting the best private bullion vaulting services, it is equally necessary to consider the same insolvency risks which prompted similar concerns for avoiding the traditional banks.

That is, what if the private service itself becomes insolvent?

Toward that end, it is critical to first understand and confirm the service’s own, and hopefully robust, balance sheet. Ask and you shall (or should) receive.

Additionally, any onboarding documentation must be explicit that all segregated bullion is held *in the client’s name*, not the service provider; thus, even in an event of facility insolvency, this would in no way impair the client’s vault access, given that the precious metals are always stored as the client’s asset, not the service provider’s.

-Fully Insured or Just “Insured”?

Fully insured bullion is the only bullion worth holding in private vaults, but look carefully at the fine print. Is the bullion insured against mysterious disappearance? Are you, the client, added as a loss-payee, which means are you (or just the vault or client representative) the ultimate insured party?

What are the coverage exclusions? The coverage maximums? Who are the underwriters? Lloyd’s or someone you’ve never heard of? Is the transporting of the metals to or from your vault fully insured as well, and if so, by whom and how much?

-Metal Quality

Traditional bullion banks may seem like the safest source of authenticated precious metals with clean chains of integrity, but counterfeit gold is an issue that even JP Morgan, for example, is all too familiar…

Sophisticated bullion investors should work only with private vaults and services that acquire client precious metals directly from the most reputed sources and refiners; greater than 70% of all gold bars worldwide are in fact refined out of Switzerland.

Not only must such metals be marked, recorded and warehouse-receipted in the client’s name from inception, but acquired in the bar size selected by the client.

-Transport

Secure delivery of client precious metals is an integral component of any credible private vaulting service, and the premier services will engage only the most reputable and fully-insured carriers (i.e., Brinks, Loomis etc.).

Regardless of one’s domicile nation, your private vault service should also possess the full logistical sophistication to arrange pick-up and delivery (as well as all cross-border protocols covering any applicable duties or Value Added Tax) of your metals to any location in the world upon immediate request.

–Bullion Storage Fees

For the manifold reasons discussed above, superior private vaulting of segregated bullion is typically priced higher than the fees of traditional bullion banks.

Each private bullion service will charge based upon the extent of its services (vault quality, logistical sophistication, transportation services, liquidity capabilities, insurance range, refiner relationships etc.).

Although it’s often true that “you get what you pay for,” the slightly higher fees for higher security and superior service can only be justified if the foregoing service advantages are verified.

Superior vaulting and security are costly; anyone charging nominal fees is either skimping on these two critical areas or subsidizing the cost from a trading activities rather than gold storage.

Given the immense importance of wealth preservation via carefully owned precious metals, higher fees more than justify the higher service and security of the premier vaulting services.

A Summing Up

Despite a long and sordid history of client mismanagement (deposit freezes, illiquidity, non-transparency, counterparty risk, operational failures, "tainted" assets, bank emergencies, changing regulations etc.) and the open systemic distortions in the global financial system, traditional bullion banks remain the go-to choice for many bullion owners for no other reason than they "trust the TBTF names."

Naturally, this perplexes but does not surprise us. Pack-thinking, even among bank clients, is nothing new.

Should the major global banks experience another "emergency," no one can foresee its length or depth with certainty, but what we can say with certainty is that the banks will own these bullion assets ahead of their customers—and will do their best to hold (restrict) them as long as they can, as that… after all, is what banks do.

What will the tomorrow's banking rules be? How long will the next "emergency" last? What liquidity limits will be imposed? Will delivery be partial or full?

For those wishing to avoid such known and unknown risks, the clear path forward is one that leads investors away from commercial bullion banking pitfalls and toward the most transparent and trusted private vault services in the safest jurisdictions.