

## **2.1 Deputy I.J. Gorst of St. Clement of the Minister for Economic Development regarding the creation of a Jersey Bank Depositors' Compensation Scheme:**

Has the Minister any plans to create a Jersey Bank Depositors' Compensation Scheme, and if not does he have any proposals to both protect depositors and maintain competitive advantage?

### **Senator P.F.C. Ozouf (The Minister for Economic Development):**

Fortunately, Sir, bank failures are extremely rare events. In fact there has never been a bank failure in Jersey since the introduction of the Top 500 rules. All banks in Jersey are well-regulated and each is a subsidiary or branch of a larger banking group which ranks in the top 500 banks worldwide and therefore each Jersey bank has a larger parent company in the U.K. (United Kingdom) or elsewhere. The recent failure of Northern Rock has emphasised the advantages or perhaps disadvantages of having a Depositors' Compensation Scheme. The E.U. (European Union) is currently exploring the need for an E.U.-wide scheme under the heading of the reviewing of their response to potential future cross-border banking collapses and we are monitoring this closely to see whether there is a need for action in Jersey. There is no evidence to suggest that the lack of a Bank Depositors' Compensation Scheme reduces Jersey's competitive positioning. Indeed, there is a distinct possibility that the very significant costs of introducing such a scheme would act as a disincentive to Jersey. In fact, banks may consider not establishing in Jersey because of the costs. My view is, is that we should continue to rely on tough regulation and not deal with issues or regulation of dealing with the stable door after the horse has bolted.

### **2.1.1 Deputy I.J. Gorst:**

I am sure the Minister is well aware of the Isle of Man Depositors' Compensation Scheme which, to me, appears to be a common sense and cost effective approach. Bearing in mind his answer some moments ago that European Communities will be addressing this subject potentially with a Europe-wide solution, I wonder if he could look at that and the feasibility of introducing a similar scheme to the Isle of Man Depositors' Scheme which is cost effective and a common sense approach to this issue.

### **Senator P.F.C. Ozouf:**

I will say that we will keep the matter under review, however the advice that has been received is, is that because of our tough regulatory arrangements and only introducing or allowing the establishment in Jersey of banks in the top 500 that it would be... that it is effectively not necessary. But I am happy to keep the matter under review. I am aware of the Isle of Man scheme: of course the Isle of Man financial services industry is somewhat different from Jersey's.

### **2.1.2 Deputy R.G. Le Hérissier of St. Saviour:**

Is the Minister saying it is not necessary because if a bank fails, and despite his optimistic thinking banks have failed, like Northern Rock, and others are possibly teetering, is he saying people's money will be safe? Can he give a categorical assurance to the people of the Island that people's deposits are absolutely iron clad in these top 500 banks?

### **Senator P.F.C. Ozouf:**

The key to ensuring confidence in the banking system is effectively good banking regulation, and that is what we do have in Jersey. The issue of the Northern Rock collapse; there is a U.K. depositors' scheme, it is a limited scheme but the existence of that scheme did not stop the queues of people attempting to withdraw their money from Northern Rock, which effectively meant that the Government had to step in and act as a guarantor beyond all guarantors. So the very existence of a banking deposit compensation scheme does not necessarily solve the problem. The depositors' scheme, I am advised, in the U.K., payments have been made to savers but not for banking collapses but as a result of failed Credit Unions.

### **2.1.3 Deputy R.G. Le Hérissier:**

Can I press that, Sir? We can therefore take the Minister's assurance that all deposits by Islanders are absolutely safe?

### **Senator P.F.C. Ozouf:**

Depositors in the Island can rely upon the strength of the banking system in Jersey and can rely on the fact that there is a tough regulation in terms of 500 banks, the quality of banks that exist in Jersey, and they should take considerable comfort from that. I would also point out that we are not, in fact, alone in dealing with a depositors' scheme. Northern Rock was active in Guernsey and effectively the U.K. Government underwrote the depositors in Guernsey too.

### **2.1.4 Deputy A. Breckon of St. Saviour:**

The Minister referred to tough regulation. Can he say which part of the regulation would apply to banks so that people could get their money bank?

### **Senator P.F.C. Ozouf:**

I explained that the tough regulation is that we only allow in the Island the setting-up of banks that fall within the Top 500 rule. That is a tough regulation. Many people have questioned that policy over a period of years, but I think that policy has stood the Island in good stead, has ensured that we have not seen... and I would remind the Deputy, we have not seen a bank collapse in Jersey since the introduction of that rule. That is the confidence that Jersey depositors can take.

### **2.1.5 Deputy I.J. Gorst:**

While I appreciate the Minister's responses and the tough regime that the J.F.S.C. (Jersey Financial Services Commission) put on allowing banks in the Island, and Deputy Le Hérissier's contention that we should be able to say that depositors are 100 per cent guaranteed, I appreciate that that is not within the remit or the ability of the Minister to grant that. However, does he not agree that in these much changed circumstances, and much changed economic climate, it is incumbent upon us as a jurisdiction to ensure that we do have every piece of armoury at our disposal to encourage depositors within the Island and, not least, encourage local savers to deposit their money with their Island banks?

### **Senator P.F.C. Ozouf:**

The fact is that the nature of the financial services industry in Jersey is that most of the deposits that are made by Jersey depositors are effectively lent back to the corporate centres of what are some of the world's leading international banks. I am happy to review again the Isle of Man scheme but it does come with a cost, and there is obviously a trade-off of cost versus, I think, the better situation of ensuring tough regulations so the banks... effectively the Northern Rock situation, notwithstanding Northern Rock was a particularly difficult issue because they effectively were not insolvent but they had difficulties in meeting their short term liabilities with their lending structures. Those kind of deposit taking banks do not exist in Jersey and so therefore there can be confidence taken from that, but I will review again the issue of the Isle of Man depositors' scheme, and if there is something that is appropriate, that is balanced, then I will look at it and bring forward proposals to the Assembly.

### **2.1.6 Deputy A. Breckon:**

Can the Minister confirm that there is no basic guarantee for depositors, even up to £30,000, which is about the U.K. level? There is no guarantee in Jersey?

### **Senator P.F.C. Ozouf:**

No, there is not, and there is not in Guernsey either, and such a deposit scheme does exist in the United Kingdom but it was of little apparent use to those people concerned with deposits in Northern Rock. So, one does need to put, I think, the whole spectre of the Northern Rock banking

collapse... it has effectively provided some important lessons to governments; and also the use of a depositors' scheme, while it appears that such a scheme was in place it did not appear to have any confidence building with the depositors of Northern Rock. So I think there are lessons there and there are obviously lessons in the whole regulatory environment in the banking sector which is, of course, under review both in the United Kingdom, and I keep in close contact with the Financial Services Commission here. But there are no issues in Jersey at this present time and Members should draw comfort from that.

**2.1.7 Deputy I.J. Gorst:**

Again, I thank the Minister for his responses to the question there. He did touch upon one subject, and that is that Guernsey does not have a Depositors' Compensation Scheme either. Can he at least undertake to raise this issue with his new counterpart in Guernsey because I believe that this is another issue that could have a pan-Channel Islands solution?

**Senator P.F.C. Ozouf:**

I warmly agree with that comment. I am looking forward to working with Deputy Carla McNulty Bauer. I am going to be meeting her in the next few days, I hope, and putting forward a Channel Islands agenda for economic matters. It is certainly an excellent idea to work together, and if we could find a solution - a pan-Channel Islands solution - that is a good thing and I will certainly promise to put that on the agenda with my discussions with her.