

## **5. Statement by the Minister for Economic Development regarding recent global markets**

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

In the light of recent global markets and the impact on certain major international banks, and to further strengthen public confidence in our banking industry, I have decided, in consultation with others, that it is appropriate to review the arrangements for depositor protection in Jersey. Jersey's policy of only admitting the top 500 banks as licensed deposit-takers has served Jersey well. Since the introduction of this policy there has not been a bank failure in Jersey and no depositor has lost money. Our banks are financially strong but, more importantly, because of their size, other national governments do not allow them to fail as has been seen with Northern Rock and the current action involving HBOS and Lloyds TSB. For these reasons the analysis that we have previously carried out suggested that the Island would not have benefited from a depositor's compensation scheme. However, in the light of the global turmoil I have initiated a further review. I can say the Jersey Bankers Association agrees and, in the light of recent market circumstances, also recognises the benefit of reviewing the current policy position and has confirmed that it will fully participate in the review. I will ensure all stakeholders - the F.S.C. (Financial Services Commission), Jersey Finance and all - are given the opportunity to contribute to the review. There are, potentially, complexities in introducing such a scheme and these should not be underestimated. The U.K. scheme has been under continual review since early 2005 and the process continues in the face of mounting opposition by some U.K. banks. Nevertheless, I have instructed that a review should be undertaken in conjunction with the review of the mortgage market I have already announced and I will revert to the Assembly as soon as possible.

### **Deputy G.P. Southern:**

One is allowed to question?

### **The Bailiff:**

Yes, indeed.

### **5.1.1 Deputy G.P. Southern:**

Will the Minister accept my congratulations on responding to widespread concern and particularly at this time, and will he agree to release the analysis previously carried out which suggested there was no need, so we can examine the details of the analysis that has been carried out already?

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

Sir, I do understand the concern and that is why we are responding. I do want to underline and signal the strength that we believe that our banking industry has and the strength of the banks that we have in Jersey as a licence. Yes, of course, I will agree to publish. It is already, I think, on States Members' websites but I will, of course, publish the most recent report. I have answered numerous questions. The last formal published review, I think, was in 2000.

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

I congratulate the Minister on the action. I wonder, Sir, could he tell us who will carry out this review, what the remit of the review is and when it will report.

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

The review I have already initiated. I have asked, in conjunction with the economics unit and other parties, Oxera to carry out the review of the mortgage market. The terms of reference are in discussions at the moment between myself, officials, the Minister for Treasury and Resources. I am going to be involved in that but the review, effectively, will be to re-review the whole issue

of the circumstances, whether or not there is merit in considering a deposit protection review. Deputy Le Claire has not lodged the proposition. Frankly, the whole credit crunch issue and the global turmoil have been under constant review by myself, the Commission and the industry right the way through. It is, perhaps, in part a reference to that. We will go on to debate when that debate will be. I am hopeful that this review will take a couple of months and I am happy to share with Members and the Deputy any terms of reference of the review.

#### **5.1.3 Deputy A. Breckon:**

Sir, I wonder if I could just combine that with a question. Can the Minister confirm that during questions, probably in the last 3 months, he did say that Jersey did not need a bank depositor's protection scheme because of the quality of the finance houses? Could I couple with that, Sir, is this a reaction to the proposition that Deputy Le Claire has lodged?

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

Sir, I did say that and that has been the conclusion of all the previous reviews. I repeat, again, our top 500 rule has served the Island extremely well and we have no concern of any banks that are operating the retail banks. Members and Deputy Breckon will know the difficulties in some banks, in terms of merchant banks, that are not retail deposit banks. Those are the banks that are operating in Jersey, and I have no concern about that, but I do understand the importance of matching that confidence that we have with actual measures and, certainly, looking again at the depositor compensation review which does have costs. It is, obviously, important that we do everything we can in order to give investors and deposit makers in Jersey absolute confidence and I am sure that we would all wish to do that.

#### **5.1.4 Deputy G.P. Southern:**

Will the Minister share his potential draft terms of reference with the Economic Affairs Scrutiny Panel before he finalises them because it is significant that terms of reference dictate the sort of answers we get?

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

Sir, I mentioned this morning, when we were discussing the legislative process, the importance that we are taking in reviewing the local financial services industry in terms of mortgage market, et cetera. I am happy to give a copy of the terms of reference of the review and there are other stakeholders - the Jersey Financial Services Commission - and certainly I will take the views of the Scrutiny Panel on board.

#### **5.1.5 Deputy A. Breckon:**

Sir, I wonder if the Minister could say whether he believes that, in the circumstances, banks should pay more towards their own regulation and consumer safety. I say that because banks most recently have no compulsion about taking government money.

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

Sir, there are always trade-offs in relation to setting up schemes. The Deputy has also been discussing numerous times in this Assembly the issue of financial ombudsman's schemes, et cetera. At the end of the day regulation costs money and ultimately, it is consumers that pay and it is the overall approach of regulation that we take and that we judge whether or not we need to put additional safeguards in place. The local domestic financial services market is receiving our attention. The mortgage market, financial ombudsman and I am adding on the depositor protection schemes to that.

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

Would the Minister concede that while economists can make a valuable contribution to this study, the issue of whether we do, for example, move to a depositors' protection scheme, and thereby provide comfort, is ultimately a political issue involving political judgment?

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

Sir, that is exactly right. We get the best brains around. Oxera, with the Economics Unit, have an excellent understanding of our financial services industry with a proven track record of giving good advice but, ultimately, as the Deputy quite rightly says, these are matters for political consideration. It is my job in order to put the facts and the costs, the advantages and disadvantages, to Members so a democratically, politically elected Assembly can make a decision.