31 January 2011

Dear Guernsey Deputy
Guernsey Depositor Compensation Scheme is about as clear as mud to the Average Depositor.

Let us first look at the guide lines issued by firstly the Basel Core Principals, and secondly the IMF comments in their latest report on Guernsey on keeping depositors right up to date in simple language.

Basel Core Principal 12, Public awareness:

In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.

The States in their wisdom changed the scheme in November 2010 from a prefunded scheme to a post funded scheme, primarily because not a penny had been paid into the scheme in the preceding two years by the banks, whereas the pot should have stood at around £4 million. Commerce and Employment had failed to carry out the States Resolution of November 2008 and this was the only easy way out.
They also expanded the scope of eligible depositors to include charities
They also expanded the ability of the Deposit Compensation Scheme Board (the DCS Board) and the Guernsey Financial Services Commission to share information.
On top of all that the EU, and that included the UK, increased their DCS coverage up to 100,000 Euros (UK from £50,000 to £85,000) from 31st December 2010, surely something that should also be imparted to retail depositors to keep them fully informed of where their money is safest.
In the current legislation there appears to be only a moral obligation for the banks to pay up should another bank go down under the post funded scheme, no legal liability.

Nothing to date (31st January 2011) in the way of a plain speech update as to the changes has appeared on the DCS Board website except a copy of The Banking Deposit Compensation Scheme (Liability of Participants to Compensation Levy) (Baliwick of Guernsey) Regulations, 2010. *Hardly plain reading for the average depositor.*

A recent collection of their DCS leaflets from a number of banks showed a date of August 2010, a revision of the first April 2009 leaflet, the new glossy leaflet has minor changes but does not reflect the November, 2010 changes, particularly post funding, inclusion of Charities etc., as agreed by the States.

The IMF report, that has just come out (January 2011) on Guernsey was quickly picked up by our Chief Minister for all the positive things it says, but there are also areas where Guernsey does not appear to be doing so well. It states under the paragraphs on the

Guernsey Depositor Compensation Scheme: (We apologise for the extra reading below but have copied it in full).

53. **The establishment of the DCS represents a significant change in the relationship between banks, their depositors, and the authorities.** The scheme covers deposits of individual depositors, wherever located, up to a maximum of £5O,000 per person. It is not funded, though, although it has government-guaranteed liquidity back-up, but aims to pay compensation within three months of a bank failure. The maximum total amount of compensation is capped at £100 million in any five-year period.[20] Payouts would be scaled back were a number of banks, or one of the largest banks (by covered deposits), to fail in this period. Some 180,000 depositors had deposits covered by the scheme as at September 2008. However, analysis of data on the distribution of deposits as at that time (i.e., before the scheme's establishment) suggest that actual coverage level, in case of a single bank failing, is high—nearly 100 percent in the case of subsidiaries, although lower, at 62 percent, for bank branches. It will be paid for by the banks through annual charges and special charges in the event of a bank failure.

54. **The limitations on the scheme need to be made clear to depositors and practical preparations to make actual payouts should be completed**. **The board of the DCS, which is separate from the GFSC, has published details of the scheme, including the limitations. Efforts should continue to prevent misapprehension by depositors of the extent of coverage.** While the scheme has a target payout period of three months, which is longer than in other jurisdictions, steps should be taken to ensure payouts as early as possible to help support confidence. A high priority should therefore be given to work on ensuring that banks have the necessary IT systems to facilitate the early and complete identification of covered deposits in case of a failure. Finally, the Board of the DCS has certain powers to take action

[20] *with GBP 1.2 billion in deposits covered by the scheme—i.e., amounts under GEP 50,000.*

to ensure the lowest cost resolution in case of an actual or threatened failure, including providing financial support to prevent it. Policies need to be developed on the use of these powers and coordination with the comprehensive powers available to the GFSC (CP 23).

55. **While the establishment of the DCS is, in general terms, a welcome development, a wider review of the DCS should be undertaken in the medium term.** Its creation was a necessary response to the crisis pressures in 2008 and should help to support confidence in the banking system in the future, and its design reflects certain limitations dictated by the nature of the Guernsey financial system. **Nonetheless, in due course a wider review of the approach is needed, such as reducing the payout period, a review of the level of the cap on total payouts, the ex ante funding of the scheme, and a risk-based assessment of banks.** The latter two points are already considered by the authorities, but will take time to be implemented, especially ex ante funding. This review could also take account of developing international standards on deposit insurance.

The Landsbanki Guernsey depositors Action Group took a keen interest in the Guernsey Depositor Compensation Scheme, as most will know, because it failed to be introduced prior to Landsbanki Guernsey being placed into Administration on the 7th October 2008. Although it was not retrospective and did not affect the Landsbanki Guernsey Depositors , their group have taken an interest on behalf of all Guernsey's retail depositors, so as they will never find themselves in the same position as the Landsbanki Guernsey depositors, failed by both the GFSC and the Guernsey Government.

Both Commerce and Employment and the DCS Board have an obligation to be totally upfront, open and transparent regarding the operation and workings of the Guernsey DCS as required by the Basel Core principals and the IMF review of Guernsey. To date (31st January 2011) we have found that to be far from the case, and have ,in the past, been told to consult advocates, when legitimate questions have been asked regarding the schemes funding. We now know why, as no funding was actually taking place.

Are Commerce & Employment , who have still to tell us why they and the Chief Minister got the details on the implementation of the new EU DCS 100,000 Euros so wrong in their statement to the States, taking their responsibilities seriously on this issue?
The past two years performance really puts that into question and we hope that the issues raised above are quickly corrected so as Guernsey retail depositors can be kept right up to date in plain speaking language.

As a matter of interest both Gibraltar and Liechtenstein have already raised their DCS to the new European level and their population are only around 29,000 and 33,000 respectively.

What a pity it is that having recently appointed a new Director of European Affairs in his annual £200,000 office in Brussels, Guernsey now feels somewhat insular in its attitude towards retail banking.

Yours Sincerely
Gary Blanchford
Deputy Chairman LGDAG

Copied to: Editor of the Guernsey Press