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Economic and International Affairs Scrutiny Panel

Bank Depositors Compensation Scheme

Witness: Jersey Resolution Authority

Thursday, 28th August 2025

Panel:
Deputy M. Tadier of St. Brelade (Chair)
Deputy K.M. Wilson of St. Clement (Vice-Chair)
Deputy M.B. Andrews of St. Helier North

Witnesses:
Mr. M. Mitchell, Chair, Jersey Resolution Authority
Mr. M. Edwards, Head of the Jersey Resolution Authority

[12:36]

Deputy M. Tadier of St. Brelade (Chair):
Gentlemen, thank you for coming in today. Just for the record, and because this is a public hearing, so there may be people listening live, watching live, or more likely watching after the event, just to welcome those individuals too. My name is Deputy Montfort Tadier. I am chair of the Economic and International Affairs Scrutiny Panel. We are conducting a review at the moment into the draft Bank Recovery and Resolution Amendment, as put forward by Jersey's Government, which among other things is to do with the limits of compensation that are available, but also the transfer of powers from some of the roles that are currently done by the D.C.S. (Depositors Compensation Scheme) and Board, will be transferring to you. We are looking to just understand a bit more about that and to see if we can add any value in the scrutiny process to that. This has already been debated in the preliminary stages for First Reading, and we are looking at the detail of this now. I will just introduce the rest of the panel, or let them introduce themselves. So, my vice-chair.

Deputy K.M. Wilson of St. Clement (Vice Chair):

Good afternoon, I am Deputy Karen Wilson, vice chair of the panel.

Deputy M.B. Andrews of St. Helier North:

My name is Deputy Max Andrews.

Deputy M. Tadier:

Thank you. If I could just ask you to introduce yourselves for the record, thank you.

Chair, Jersey Resolution Authority:

Of course, thank you, Chair. I am Mike Mitchell, I am the chair of the Jersey Resolution Authority.

Head of the Jersey Resolution Authority:

Martin Edwards, Head of the Jersey Resolution Authority.

Deputy M. Tadier:

Thank you, both. The first thing to say is obviously thank you for coming in and thank you for the submission that you have given to us in response to the questions we have put out there. That is all on the public record and members of the public can of course refer to that. We may refer to that during our questioning today. The first thing I would like to ask you is just to give you the opportunity to explain a bit about what you do. So how you came about, what your current remit is, what the day-to-day activity would look like for you, and the statutory basis that you have, before we talk about maybe the changes that are happening to your powers.

Chair, Jersey Resolution Authority:

Sure. Should I start? I think in general I will try and answer the sort of high level strategic questions, and Martin will give you the detail. But if it is okay with you, we will pick and choose a bit in terms of who answers what. But probably I will ask Martin to carry on from where I start in relation to this. My history is in resolution, so I was in the Bank of England's Special Resolution Unit during the crisis, so that is the reason why I have ended up in this position and I was asked to chair the inaugural authority in late 2021, and we set up the Authority from 2022. It is fair to say that most financial jurisdictions of a reasonable size have established a resolution authority, some have not yet, Guernsey is in the process of establishing one, the Isle of Man has established one now, Bermuda has not got there yet, but most of the developed financial jurisdictions have got one. It was a result of the financial crisis that took place in 2008 to 2012, and the impact of that potentially on taxpayers. So the whole ethos of resolution is to try and avoid having to rely on taxpayers, the Government, to bail out banks as and when they fail. When you look at history, banks do fail from time to time. The legislation for the Resolution Authority was passed, I think, in 2021, and we were inaugurated on 30th January 2022. Since then, we have been implementing a resolution regime in Jersey. We are probably, maybe a half to two-thirds through implementing a series of policies, which we believe will help us deal with a banking crisis on the Island. We do not believe there is one in the near future, but who knows, big frauds can happen overnight virtually, so we have to try and be ready for that even though we are only two-thirds of the way through implementing a regime. But that will give us a number of tools and powers to be able to help deal with a crisis. But as the Ministers said at their hearing, the fact is that most of the depositors in Jersey bank with banks that are part of large groups, that already have resolution plans in place, and those resolution plans are managed, monitored by the big resolution authorities like the Bank of England in the U.K. (United Kingdom), like the single resolution board in Europe, and similar authorities in the U.S. (United States), Canada and South Africa, where we have banks operating in Jersey, parts of those big groups. Those big groups have got resolution plans that are pretty well developed and are all designed to try and avoid having a bank get into a situation where it has to go into insolvency, which might then result in a depositors compensation scheme being implemented. We regard the resolution tools as a really important part of our weapons to deal with a potential crisis. That was one of the reasons why the Government, I think in 2016, 2017, decided to concentrate on establishing an authority, rather than go through a process of enhancing the Depositors Compensation Scheme. Most of the enhancements of that scheme that were designed in 2016 are in this legislation that I think you approved in principle, the Government, a few weeks ago. I will probably stop there. I think that is some of the background, but let Martin perhaps mention some of the things that I have missed, and obviously we are happy to take any questions you have got on those points.

Head of the Jersey Resolution Authority:

I think you have covered most bases there, Mike, thank you. I think what I would add is that what we have been doing alongside implementing those policies, many of which require banks to take further steps to ensure that they would be resolvable, we have been working to consider the banks in Jersey, consider which banks are most important to Jersey's economy. That involves looking at the size and scale of those banks and the different activities they perform on the Island, both for Jersey residents and as part of the wider financial services industry in Jersey. We have also been in dialogue with home resolution authorities about those plans that Mike mentioned, and understanding those both through questioning home resolution authorities, but also banks locally to understand them and to form an initial view on the level of protection they provide to Jersey. That has enabled us to ultimately help refine our policies because, again, we need to ensure that we are asking banks to do enough but we need to be proportionate, and if they have done a lot at a group level they may not need to do as much locally. So that is what I would probably add in relation to what we have been doing since our inception in early 2022.

Deputy M. Tadier:

You mentioned that a lot of Jersey banks will have a parent, if you like, or be part of a bigger company in the U.K. Are there banks over here for whom that is not the case, and what is your duty of care and concern about those perhaps? Is that where you really come into play or is it ...?

Chair, Jersey Resolution Authority:
I think we come into play across the spectrum, and we have been very keen to ensure that all Jersey's banks, whether they be branches of these larger banks elsewhere or subsidiaries of the larger banks elsewhere, they have all been asked to do things that help prepare for a potential failure of their group or of their own entity if they are a subsidiary. But to answer your question directly, yes, there are some banks that do not belong to these large banks that we have alluded to, particularly, for example, the large retail banks that we are all familiar with that emanate from the U.K. It is important to mention that the deposits that they hold, especially deposits of Jersey residents, are pretty small and that the vast majority of depositors do bank with the big retail banks that we are all familiar with.

[12:45]

But there are some smaller banks, and yes, you are right, we do pay attention to them. They do carry some more risk because of their size and nature, and some of those do belong to other groups, but they do not necessarily have as well developed a resolution regime as the U.K., as Europe, as Canada, as the U.S., for example, and therefore they do present risk to us that we ensure that we spend time with those banks, and probably get them to do more than the other banks might be asked to do.

Deputy M. Tadier:
We will touch on this later on because one of the areas we are looking at are the limits of compensation currently and what they might be in the future, and how they compare with elsewhere. But somebody, when we were doing the outreach work in the high street the other day, said that they thought that they were protected to a high level because they are part of a bigger U.K. banking company. They told us that they were protected to £80,000, I think they said, which seems like an arbitrary figure, £80,000 does not ring a bell. But can you clarify that under the Jersey system, even if you are with one of those well-known retail banks, you are protected by the Jersey scheme, not by the U.K. limit?

Chair, Jersey Resolution Authority:
Correct. All the banks that operate in Jersey, and this is common, I was going to say, across the world, but certainly across developed countries with Depositors Compensation Schemes it is common that the Depositors Compensation Schemes are built around the banks that operate in that

domain. So, yes, every bank depositor in Jersey, at any of those Jersey banks, is protected up to £50,000. The £80,000 is probably a reference to the £85,000 that the U.K. bank depositors are currently protected.

Deputy M. Tadier:

Yes, I think so. Of course, we do not know, maybe this person had a U.K. bank account and lived in Jersey. Thanks for that.

Head of the Jersey Resolution Authority:

Yes. Typically it is based on where the account is held. If it is in a Jersey branch of a U.K. company it is covered by the Jersey scheme, not the U.K. scheme.

Deputy K.M. Wilson:

Just before we move on, I just wanted to go back to your beginnings, if you like. Are you able to explain for the benefit of the public the difference between what you are and what the compensation board is or was, and why the change was necessary?

Chair, Jersey Resolution Authority:

Yes. Again, I will ask Martin to jump in. I am sure he will have more to answer when we get to the detail. But, essentially, the Resolution Authority is there to step in. Typically, in a bank failure process, we would find that the Jersey F.S.C. (Financial Services Commission) will be monitoring very closely the way banks are operating their capital levels, their liquidity levels, and other aspects of the organisation. They have a duty to talk to us if they believe a bank is getting close to failure. At that stage, we would work with them and other authorities, including Government and the Depositors Compensation Scheme, in designing and planning what might happen next. We have a number of powers, for example, we can bail in creditors, and we can bail in shareholders. So, in other words, shareholders and creditors of a bank can be bailed in to save depositors in the event of us, for example, bundling then up some assets of that bank and selling it to another bank, probably another bank that is represented on the Island. The other thing that we do, because most of our banks, as we have talked about, are parts of larger groups, is that we would liaise with the Bank of England. We have regular calls already with the Bank of England who would be the Resolution Authority in the event of one of those big U.K. banks getting close to failure. We would work with them, and we already have plans in place for some, not all, aspects of the banks that operate here on the Island. We would work with them in terms of what is happening next in relation to such a resolution. Probably, the Bank of England would bail in those shareholders and/or creditors and refinance the group and potentially sell it to another large bank, or they can create a bridge bank, as we can, for one of our banks here. All those things would avoid the complete failure, i.e. the insolvency of the organisation. The Depositors Compensation Scheme comes in if those things fail, or if perhaps it is a smaller bank where we do not have the necessary tools, or we do not believe it is critical enough to save it. So, we do not necessarily save all banks that fail, neither would any other resolution authority. There will be a group of banks that we say: "This is not critical to the Island. If it was to fail it would not be the end of the world." Because of so-called moral hazard, we would not want banks to be saved all the time. So, they would be allowed to go into insolvency, in which case the depositors would be paid out under the Depositors Compensation Scheme. If you like, the Depositors Compensation Scheme is the backstop to this sort of crisis situation. At that stage, if it were to happen here, then the Depositors Compensation Scheme would initiate a payout process. One of the big benefits of the law that you are in the process of passing is that the Depositors Compensation Scheme has quite a slick payout process provided by an outsourced provider that would enable a payout to happen much quicker than it would do in the previous law. In other words, it will initiate a process that does not require depositors to claim on the Depositors Compensation Scheme. That information is already fed into the Depositors Compensation Scheme by way of a single customer view. The Depositors Compensation Scheme can use that information to pay out depositors. That would still be done by cheque in the current environment. There are some depositors compensation schemes looking at digital processes but they are a lot harder than they sound like they might be if you are paying out depositors, especially when they might be located all across the world, as lots of our depositors are. Does that answer your question?

Deputy K.M. Wilson:

It does. It has been very helpful to just understand that. What we were just trying to establish is, were those functions the same with the Compensation Board or is there anything additional to those functions that you, as the Resolution Authority, are bringing to the table?

Head of the Jersey Resolution Authority:

The key thing is we definitely have significant additional powers compared to the D.C.S. in a number of areas, and that is by design and standard in other jurisdictions. Mike has already explained at the high level the difference. Combining the 2 makes sense in Jersey for a number of reasons. Our small size relative to other jurisdictions, it creates efficiency in relation to the number of agencies that banks and Government have to deal with. It creates efficiency in terms of some of the operational costs of running 2 boards as opposed to having one board, et cetera. But, absolutely, we have quite different powers today than the D.C.S. Board does, but as a result of the amendments that are going through Government at the moment, combining those within ours does bring a number of advantages. One of the other key advantages is, Mike mentioned that we would be more closely working with the J.F.S.C. (Jersey Financial Services Commission) potentially at the moment in a crisis if it were to happen today, and by virtue of that we will be more aware earlier in the process, shall we say, and therefore be able to take additional practical steps in relation to banks where we think the scheme might be used to make sure that it is ready from day one as opposed to maybe ready from day 2 or 3 in the current situation where there needs to be a level of communication.

Deputy K.M. Wilson:

Sure, okay, thank you.

Deputy M. Tadier:

These should be fairly short questions, but could you advise about the input that you have had, the J.R.A. (Jersey Resolution Authority), in the drafting of this amendment?

Head of the Jersey Resolution Authority:

We have been involved throughout the process. I have worked quite closely myself with Government officials in relation to the earlier drafts of the legislation, and ultimately we have been working alongside Government in relation to framing aspects of that, considering ultimately the detail of how the law is worded, to try and achieve the operational efficiencies that it is designed to do, because it does bring a number of enhancements to the scheme that are very beneficial to consumers.

Deputy M. Tadier:

Could you just tell us maybe a couple of what they are?

Head of the Jersey Resolution Authority:

Yes. The main one Mike mentioned briefly earlier was that it removes the requirement for depositors to apply for compensation. So, it brings in a level of automation to the scheme from a legal perspective that allows the existing capabilities that the D.C.S. Board have been developing to be used more quickly. At the moment depositors would have to apply, and that will take a number of days, and then the slick process can start. In the new world, post these amendments, we can effectively start that straight through processing of payments very quickly from effectively day one, as opposed to waiting a number of days or weeks maybe for customers to apply. It brings a few other benefits, notably the existing scheme has a cap on the maximum amount of compensation that can be paid in total. That is there in part as a nod to the historic position in relation to the nature of banks that would be used, or the scheme might be used for, but ultimately removing that cap gives some additional flexibility to the scheme. Again, we and other resolution authorities plan to try and avoid significant disruption caused by a bank failure, but ultimately you can have this scheme as a backstop that could work potentially even in the slightly larger bank failures.

Deputy M.B. Andrews:

Obviously with you guys you work for the Resolution Authority, but when would you usually be notified that there is potentially an issue with a bank that is potentially going to collapse in its entirety, and how do you then co-ordinate things with your colleagues internationally?

Head of the Jersey Resolution Authority:

That will very much depend on the scenario. Historically, the norm would be that a bank might go through a level of stress, either on its own or because there is general economic stress, and the supervisor, the J.F.S.C., will be looking at that bank slightly more intensively than they would under normal B.A.U. (business as usual), and we would be notified by the J.F.S.C. at that point. At that point we may not necessarily take many immediate actions, but we would also, like the J.F.S.C., increase our level of monitoring alongside the J.F.S.C. If the bank's conditions deteriorated further, there are a number of steps that the bank would take to try and recover, and that is recovery, and again we would be monitoring that recovery alongside the J.F.S.C. and other agencies in the home jurisdictions. If the recovery actions failed and the bank's financial condition deteriorated even further, again you just gradually ramp up the level of operation. That is traditionally how it works. What we have seen in 2023 are some examples out of the U.S. of where that can happen in a very condensed time period, and ultimately that is what a number of resolution authorities, ourselves included, are adapting to as a reality of life. Some banks maybe have business models that might expose them to the potential to fail more quickly. We need to develop our processes, as do other resolution authorities, to deal with that.

Deputy M.B. Andrews:

Are you confident that you have enough powers in law, should the case be that a bank is in a position where they are potentially going to collapse, where you can make steps to try and intervene, to try and prevent that from happening?

Head of the Jersey Resolution Authority:

I think so, yes. Our legislation mirrors that of the U.K. and the E.U. (European Union), and we have all the powers that we would expect to have in relation to resolution. Are there some areas where our system is different to the U.K.? Yes. Our resolution fund is capped to £100 million. £100 million is not masses of money in terms of a bank size and, ultimately, we have to work within that, which means our resolution planning is different. In the U.K. they do not have that kind of a cap, they have got the Bank of England and the U.K. Government behind them in some respects, they can potentially plan slightly differently. But fundamentally we have the powers that we would expect to have, absolutely.

Deputy M.B. Andrews:

Yes. Thank you, Chair.

Chair, Jersey Resolution Authority:

Maybe I will just add, Max, on that, that you can never have enough powers. Bank failure is pretty scary. Having gone through the crisis in 2009 to 2012, the prospect of one of those big U.K. banks failing at that time was pretty close to happening, as you will be aware. This is why resolution authorities have been established, and why these powers have been implemented. But even when there have been recent incidents, for example Credit Suisse only 18 months ago, or whenever it was, the Swiss authorities moved pretty quickly, provided significant liquidity, and was able to manage. a process whereby Credit Suisse got dissolved into U.B.S. (Union Bank of Switzerland).

[13:00]

But this is tough stuff, so we believe we have what we need, and certainly we are much more confident having these powers than we would have if we did not have those powers. I was just going to mention on top of that, there are 2 other things to mention. Martin heads up a group, the Bank Resolution Planning Group, which involves government officials, the Depositors Compensation Scheme, the J.F.SC., and ourselves, and we meet on a regular basis talking about crisis situations. We did a walkthrough of a crisis just last year, did we not?

Head of the Jersey Resolution Authority:

At the end of 2023, it was.

Chair, Jersey Resolution Authority:

At the end of 2023. We have got a number of actions that came out of that. So we are all working much more closely together than was the case before. The other thing just to mention is that you are probably aware that Jill Britton is on our board. She is the deputy general of the J.F.S.C. Martin meets regularly with the supervisors. So we have already an existing process whereby if there are any concerns, even at a relatively modest level, we hear about those in those meetings. We are able to have the head's up, if you like, without it being a surprise as in when: "This bank is about to fail", we will have plenty of notice because of those processes we have got in place.

Deputy M.B. Andrews:

Thank you.

Deputy M. Tadier:

You mentioned the £100 million cap being removed already. Is that affordable, do you think, in terms of what would happen if ... it is potentially an unlimited cap now, is it not?

Head of the Jersey Resolution Authority:
For the Depositors Compensation Scheme?

Deputy M. Tadier:
Yes.

Head of the Jersey Resolution Authority:
Yes. That ultimately leads to the funding of the scheme, and in that respect we have performed some modelling linked to the work that we have done from a resolution planning perspective to identify the banks where this scheme may be used. Ultimately, in that regard, there is not fundamental concerns that the £100 million is still reasonable. By the £100 million, we are not talking about a cap here, we are talking about the funding that we get from the States' loan, which is then recovered by way of a combination of bank levies and recoveries from the insolvency. So, it is absolutely reasonable in relation to the banks where it is most likely to be used. The point I made was that by not having it in place it gives you some flexibility on the banks where you would not want to use it necessarily, but you might need to use it as a fallback. But the reality is, in those scenarios, the scheme would need recoveries from the liquidation to help fund the compensation payouts. What we would be doing there as the Authority in charge of administering the scheme is looking at the level of funding we do have versus the funding that we need, and then effectively making a partial payment of compensation and waiting to receive recoveries. The level of recoveries needed would vary depending on the size of the bank but ultimately, by again having the scheme within the Resolution Authority, we can do more work in the lead up to resolution to identify the likelihood of recoveries and work with the relevant authorities before the failure, but also then work with the liquidator of the failed bank to try and get those recoveries quite quickly.

Chair, Jersey Resolution Authority:
The increase of that cap in itself does not lean on the Government's commitment of £100 million; it does not affect that at all. So, there is no consequence as a result of that cap in relation to the reliance on Government.

Deputy K.M. Wilson:
I was just going to ask that question and whether the risk appetite changes on that basis in terms of what calculations you have done around that.

Chair, Jersey Resolution Authority:
Well, we have not done any significant calculations around that. But what it does do, as Martin says, the big thing about removing the cap is that it gives us flexibility that we can step into the shoes of

the depositors and claim from the liquidator in relation to the recoveries that Martin has spoken about, rather than depositors necessarily having to operate individually.

Deputy M. Tadier:

You are talking about money above the cap at this point, or are you just saying to meet the ... if it was above the ... sorry, I am talking about the individual. So, the claimant to ...

Head of the Jersey Resolution Authority:

No. We are talking about the £100 million total cap, which has been removed.

Deputy M. Tadier:

But when you say: "To step in the shoes of the claimant", are you talking about the small person who has maybe got £150,000 of savings with that bank, is it about still protecting the £50,000 they may have, or about making a subsequent claim?

Head of the Jersey Resolution Authority:

No. It is about the £50,000.

Deputy M. Tadier:

Okay. But you would not be involved in any subsequent claims that somebody has against the bank if there is still money that is left over?

Head of the Jersey Resolution Authority:

Not normally. One of the other more complicated enhancements that are being made to the scheme is the concept of excess rights, which is effectively the amount that a depositor has above the £50,000. In certain circumstances, there is the powers in this new legislation, if we feel that the depositor might be prejudiced by overseas law to effectively vest their entire deposit. So, in this example you just gave of someone with £150,000, traditionally today £50,000 is covered and the remaining £100,000 they would have to claim against the liquidator. In a scenario where if we felt there was rationale to do so, we could vest the entire deposit at the point of the bank failure, and that would then mean that we would effectively pursue the liquidator for the full £150,000 and facilitate making payment out to the depositor of the total £150,000. But that is only if there are certain circumstances, and the predominant one is if there was some level of prejudice from overseas law. We need to do some more work around what does that mean, but traditionally what that would mean is if there was something in the insolvency legislation for that bank in their home jurisdiction that meant that Jersey depositors were treated, in our view, unfairly. So, some more work needs to be done on which possible scenarios that might happen in, but typically Depositors Compensation Schemes have a high level of preference in the insolvency of a bank so that you can get the recoveries and you can fund further compensation payments, and ultimately that is the case in the U.K., here in Jersey, and we need to do analysis of all of the home jurisdictions of all of the banks to confirm whether that is in place, or where it is not, when we might then use that extra power.

Deputy K.M. Wilson:
Do you have any intelligence on it at all at this moment in time?

Head of the Jersey Resolution Authority:
A little bit. But, ultimately, where we see that risk lying predominantly is with banks where we would not expect to need to use the scheme.

Deputy M.B. Andrews:
Say if there was a big bank that is headquartered in Jersey, this is where their main office is, how would that differ compared to a bank that might only have, say, a few small branches in Jersey?

Head of the Jersey Resolution Authority:
There are no banks that are headquartered in Jersey today. So, hypothetically it would change things. We would need to do more work in our resolution planning for that bank by virtue of it being headquartered here in Jersey. The scale of that resolution planning would depend significantly on the scale of that bank. If you had a small Jersey headquartered bank that focused predominantly on niche customer groups, i.e. not everyday people on the high street in Jersey, you may need to do very little resolution planning because, to Mike's point, they would not necessarily be seen as being critical to the Island's economy. But if you had a retail bank that was servicing a large portion of our retail customers on the Island, that would be a very different picture. But that is all hypothetical because today all of our banks are headquartered overseas.

Deputy M.B. Andrews:
Overseas, yes. The States Assembly passed a proposition, we increased the number of financial conglomerates from 500 to 1,000. This is the top banks worldwide. So with that probably comes more conversations potentially with overseas resolution authorities, and I just wanted to know whether you are in communication with other resolution authorities and whether that has been component to your engagement with Government officers for this forthcoming law.

Head of the Jersey Resolution Authority:
I am not 100 per cent certain I understand the point there, Deputy Andrews. We have conversations with home resolution authorities in relation to the banks that are on the Island. If a new bank was thinking of setting up in the Island, they would predominantly engage with the J.F.S.C. first, Jersey

Finance and Government, I am sure, as well. But we would be brought into that if that process developed, and we would have a level of involvement in the consideration of whether it was appropriate for that bank to be given a licence in Jersey. Ultimately, that decision would be the J.F.S.C.'s. Then if it were to set up, then absolutely at that point we would get involved and have the dialogue with the home resolution authority, if we had not already, because of a lot of these banks will be headquartered in jurisdictions that we already have a relationship with.

Deputy M.B. Andrews:
Have you looked at international best practice with smaller jurisdictions, for instance, maybe say Singapore or Hong Kong, to see what they have on offer in the case where a bank were to fail, and has that maybe been something for your consideration in terms of this forthcoming law that has been brought before the Assembly?

Chair, Jersey Resolution Authority:
Well, both of us attend conferences mainly virtually, although I have attended one resolution conference just last year where representatives of Singapore and Hong Kong were there as it happened. So, we do try to learn from best practice. I think it would be fair to say, and I may be slightly biased, but I think the Bank of England's approach to resolution is regarded internationally as one of the best in the world, and therefore in the main we have tended to follow their principles. But, nevertheless, we take the point and I think we would also be bold enough to say that we have implemented a regime that is probably as good as, if not better than, most smaller jurisdictions. The 2 you have mentioned, I would not describe necessarily as small. They are much bigger than our jurisdictions. But we do look around. Obviously, we have only got limited resource, but we do what we can to ensure that we are at the right proportional level of international standards. But as I say, in the main we take our lead from the Bank of England rather than from other authorities that we are less familiar with.

Deputy M. Tadier:
Is there a special relationship between the U.K. equivalent of yourselves, so the Prudential Regulation Authority and the Bank of England, do they have any interaction, other than what you would expect?

Chair, Jersey Resolution Authority:
Significant interaction. Having worked for both of those organisations, the P.R.A. (Prudential Regulation Authority) is part of the Bank of England. So, it is a subsidiary of the bank.

Deputy M. Tadier:
Yes, that is what I thought.

Chair, Jersey Resolution Authority:

Yes, they have a very close relationship. The P.R.A. is very similar to the J.F.S.C., although also the J.F.S.C. does what the F.C.A. (Financial Conduct Authority) does as well as what the P.R.A. does. But the P.R.A. manages the prudential regulation of banks, building societies and insurance companies, and works very closely with the Resolution Authority, which sits within the Bank of England itself.

Deputy M. Tadier:

I do not want to dwell on this issue, but one of the things that has arisen from this review and from the amendment is this idea of where the limit should be set, how does Government ultimately, and/or yourselves, how do you decide what the limit should be for a compensation scheme and how that should change, if it ever does?

Chair, Jersey Resolution Authority:

Yes, thank you, Chair. I was going to mention this right at the beginning and I got derailed in relation to thinking about other things. I know that the limit has obviously been a significant issue for the review that you have undertaken, and we have been speaking to Government since their hearing with you about the actions that we would like to take as a result of that, the Government and us. In fact, just in the last 24 hours I have received a letter from Deputy Gorst formally asking us to commence a review of the limit, commencing in quarter 2 of next year. Subject to the law going through at the end of September, then our operational plan is that the Authority will take over the functions of the Depositors Compensation Scheme effectively at the beginning of the year, but it will take 3 months to complete that process operationally[1]. The Depositors Compensation Scheme has some things it needs to do. For example, it needs to complete its report and accounts, and its report to Government. But we have been asked, as I say, to commence a review in quarter 2, 2026. We have not identified what the scope of that review is yet, but we will be working on that with Government in the next few months. Government has asked that we do not take our eye off the ball in relation to the resolution regime because, as I say, we still have got some things that we would like to implement sooner rather than later. But we understand how important this is to you, and to the Island, and also the Isle of Man and Guernsey, who, as you know, have a similar level of limit to what we do. They are also quite keen to undertake a review of the limit, especially bearing in mind, as you know, the U.K. is consulting at the moment on an increase from £85,000 to £110,000.

[13:15]

[1] After the hearing the Panel received the following point of clarification: the Authority will take over the functions relating to the Depositors Compensation Scheme at the end of March 2026, and it will take approximately 3 months for the Board to complete its final operational processes. The Board has some things to do.

So, that has not answered your question directly, Chair, but I thought it would be useful for you to be aware of that. I understand the Minister is going to share that letter or advise you about that letter.

Deputy M. Tadier:

We do not expect the full terms of reference of your review at the moment, but there seems to be an element of chicken and egg in it. If we look at the statement that was made by the P.R.A. in the U.K. back in March - so we know that they are in the middle of their review now - but their Deputy Governor and C.E.O. (chief executive officer) of the P.R.A. said that confidence in the financial system is essential for economic growth. We want to support confidence in our banks and that the amount that people can keep in their account, which is covered by the deposit guarantee scheme, moving it to £110,000 per person would be part of that wider project to ensure that there is confidence in the system. That is very much, if you like, there is a starting point where they are still going to go through their review and their consultation process, but there is a strong lead there that there is a presumption of increasing it because the cost of living has gone up. Do you think it is valid to have that as a starting point in the Jersey context?

Chair, Jersey Resolution Authority:

Well, clearly, it has been a long time since this limit was set, and therefore it is definitely appropriate to review it. One of the reasons why we have said we want to do a proper review is that there are other consequences of increasing the limit, which is important to a jurisdiction of the size of Jersey. One of the consequences is potentially that the £100 million loan that the Government is committed to might not be enough ... probably will not be enough. It is likely if we increase the limit that there will be an increased burden on Government, and that obviously affects the taxpayers of Jersey potentially. So we will certainly want to take that into account. We have also got to take into account the banks who operate on Jersey are obviously very important to the economy here, and they will undoubtedly have their say in relation to whether they think an increase in the limit is necessary, appropriate, useful for them, but also they will have a say as to whether the financial burden, potentially, of increasing this limit might be a step too far for some of them, and obviously the consequence of banks deciding not to operate in Jersey might be one of the consequences of ...

Deputy M. Tadier:

Is there a risk that some will come back and say: “We want as low a limit as possible”? Is that what they might do?

Chair, Jersey Resolution Authority:

Well, the people who run the banks on the Island are typically reasonable people, who acknowledge that the presence of a Depositors Compensation Scheme and a resolution authority are very good things. They are all on board with the merger that we have spoken about, the taking over of the D.C.S. functions. They are certainly on board with that. I think they will be reasonable in consulting and speaking to them about a review of the limit. It may well be that an increase is appropriate and relevant, and clearly consumers with more than £50,000 in a bank account will be keen to see an increase. But we do know that certainly the majority of depositors based in Jersey have balances less than that. We know that from our broad figures, but we need to do more work on understanding exactly how many is it, what impact would it have on those people, where have deposits grown from 2009 to here, and therefore how are we going to fund this scheme?

Deputy M. Tadier:
I suppose the difference here, and to understand at what stage Jersey is at, is that when the U.K. announced their review on 31st March, they started off on the premise that it was proposing to raise it from £85,000 to £110,000 and then that is what they are consulting on, presumably, about how they get to that point and what ...

Chair, Jersey Resolution Authority:
I believe they started a review internally before that consultation. I think they went through a review process in the way that we are proposing to do, i.e. understand the dynamics of the deposit base and the banks, et cetera.

Deputy M. Tadier:
Can you talk us through your milestones that you anticipate how this would work?

Chair, Jersey Resolution Authority:
Well, we have not got to that stage in terms of putting those milestones together. I think we know broadly the areas we would want to look at, but we are very happy to come back to you and outline what we think those milestones are. But because we have been working very hard in trying to get this legislation in place and in good order, and I think Martin and colleagues in Government have done a great job of getting the legislation in good order, we have not really had time to do that. That is one of the reasons why we said: "Please do not ask us to do this review yet." We had a team of 2 people, we have now got a team of 3 people working on the resolution authority and they will work on the D.C.S. as well.

Deputy M. Tadier:
But from your perspective, would it have been helpful? Because I get this is relatively a small part of the bigger picture of what you are doing, but it is something that is politically sensitive and of

public interest. Would it have been helpful from your perspective if the Government gave a clear steer and maybe did their own review and said: "There is evidence that we would like you to increase this to a certain amount", and then hand that over to you to fill in the blanks, if you like?

Chair, Jersey Resolution Authority:
Well, frankly, the Government probably has not got the capacity or the access to data that we have, and therefore we are probably in a better position to do that review. Between ourselves and Government, we have been speaking about doing this review for some time, but I think rightly, in my view, we did not want to do it at the same time as this legislation because frankly this legislation, even though it is only about bringing in the functions of the Depositors Compensation Scheme, enhancing some of the scheme as we have talked about, and also enhancing some of the existing aspects of the resolution regime, it is still quite complicated stuff. We only have got limited capacity, both in terms of Government lawyers and also our own capacity. So, we say, frankly, we have not got time to do this review even if we wanted to. Talking to the other jurisdictions that are particularly important to us, because our banks operate on Guernsey and the Isle of Man, that they were also in the same place: "Yes, we would like to do it too, but we are also doing this or doing that and we would like to leave it probably until 2026 before we kick it off."

Deputy M.B. Andrews:
Obviously it has been a very long time since this discussion has taken place about what the threshold should be, and I was looking at the law and there does not seem to be anything that is stipulated for a review to take place every so often, but moving forward would you be in support of something being brought forward so there is a review maybe every, say, 4 or 5 years to ensure that depositors are protected adequately?

Chair, Jersey Resolution Authority:
Yes. We definitely think regular reviews are important. In fact, the Minister spoke about the core principles of I.A.D.I (International Association of Deposit Insurers) core principles. Among those principles, they recommend that you do a review at least once every 5 years. I think 5 years is about the right level. I do not think you would want to do it much more regularly than that.

Head of the Jersey Resolution Authority:
Sorry to interrupt you, the I.A.D.I. core principles are amending, they are removing the reference to 5 years.

Chair, Jersey Resolution Authority:
Okay. Sorry, they are.

Head of the Jersey Resolution Authority:
They recognise that it does not have to be a prescriptive every 5 years do a review, because that ultimately might not be appropriate depending on what has happened. But periodic reviews should be being performed.

Chair, Jersey Resolution Authority:
But regular reviews. We are absolutely by the fact that we should be doing it. Yes.

Deputy M. Tadier:
I guess in other places, there is external pressure. So, in Jersey, there is this Consumer Council who probably do not necessarily focus on financial issues, but in bigger places there will be pressure groups who are keeping an eye on these things as well presumably.

Chair, Jersey Resolution Authority:
Yes. Although we certainly stay pretty close to what is happening in the U.K., and I did not see a lot of pressure building up from consumer groups, for example, on the limit of the compensation scheme. We have not seen that elsewhere either. We have mentioned in our letter to you that we know the E.U. did a review of their €100,000 limit a couple of years ago and decided not to increase it. Obviously that is bigger comparatively than our limit. But, nevertheless, it is not necessarily a: "Yes, we should be increasing it every time we review it", because at the end of the day, the Depositors Compensation Scheme is there to protect those people who need protection, and there is an amount above which you would say, between £50,000 and £100,000 or £50,000 and £150,000, and then bear in mind, because depositors can spread their risk across a number of banks as well, but above a certain figure is this Depositors Compensation Scheme designed to protect wealthy depositors? Answer, no, it is not. It is designed to protect those people who need protecting. So, there will be a limit above which then you would say going that far is not necessary in terms of what we are trying to achieve. That is what the E.U. concluded: "We are covering with this €100,000 the vast majority of people we believe we need to be protecting." Those people who next week cannot buy their groceries.

Deputy M. Tadier:
But we are still way below the €100,000 are, we not?

Chair, Jersey Resolution Authority:
Yes, we are.

Deputy M. Tadier:

Given the fact that the cost of living in Jersey is probably quite a lot higher. But we will leave that for now because I do not want to get fixated on it. If I can just finally ask before, I bring in Deputy Wilson, but in terms of whether or not the ultimate sum will be, do we have to act in unison with the other Crown dependencies because there are you presence also in the U.K., in Europe, and in Gibraltar presumably, which have different rates?

Chair, Jersey Resolution Authority:
No, we do not. But it is important that we go through a process of consulting with them as we go through this review, because their banking makeup and the analysis might tell us that they are quite different, in which case it is perfectly valid to come up with a different answer. But as long as we work alongside them then I think that is what we would like to do. We are not necessarily wedded to having the same number.

Deputy M. Tadier:
Quarter 2, you think it is manageable in terms of the political requests you have had, and you hope that by that stage you will have done most of this?

Head of the Jersey Resolution Authority:
No, that is when we are going to start the review.

Deputy M. Tadier:
Yes, that is right. That is what I mean: "Start the review".

Head of the Jersey Resolution Authority:
Yes, absolutely.

Deputy M. Tadier:
To report back roughly when, do you think?

Chair, Jersey Resolution Authority:
Well, to do the job properly we will have to take some time. Our first step will be to ask the banks to produce information, and that is the thing that we would aim to do in that quarter Realistically, we would be talking about the first half of 2027 before we have a review completed.

Deputy M. Tadier:
Okay, thank you. You have been very patient, thank you.

Deputy K.M. Wilson:

No, that is all right. I will just bring us back to the questions on the functions, if that is all right. We are just interested to explore what you would do, how you would ensure the long-term interests of depositors under the scheme that you would put in place. If some insolvency processes take years to process and be followed through, what will you do in your resolution framework to safeguard against that?

Head of the Jersey Resolution Authority:
Well, I would start by saying that the core part of the resolution framework is to consider which banks are systemically important, and ultimately take steps to hopefully ensure that those banks do not go into insolvency. They may fail. To use that terminology, they may fail, but to use resolution powers to stabilise them and impose the losses on the shareholders without imposing losses on other creditors/depositors. So in that scenario you are effectively preventing a liquidation of the part that has the depositors. There are complications and nuances where you might let part of the bank go into insolvency, but the idea would be that you protect the depositors and prevent their part of the bank going into insolvency. For those smaller banks where there is not economic rationale of taking all of those steps, ultimately the scheme comes in, and the scheme is predominantly focused about achieving timely payout of up to the £50,000. There is no other element of fundamental safeguarding in relation to any excess elements. We talked earlier a bit about excess rights and where there might be certain circumstances where those come in, but ultimately the scheme's focus will be on paying out £50,000, not on assisting depositors that may have more than £50,000 in dealing with the liquidator.

Deputy K.M. Wilson:
So, the scheme will cover those sort of areas that do not have any guarantees under the scheme? That is what you are saying?

Head of the Jersey Resolution Authority:
Correct.

Deputy K.M. Wilson:
Yes. Okay.

Head of the Jersey Resolution Authority:
But when we go back to the point that we have made in our letter to you around a significant proportion of Jersey eligible depositors are with banks that should not, where resolution would be used.

Deputy K.M. Wilson:

Taking worst-case scenario though, what involvement will you have in protecting those long-term interests if something gets to the point of complete failure, accepting that all of the steps that you are putting in are trying to prevent that from happening, but if it were to happen, do you have any involvement or any ...

Head of the Jersey Resolution Authority:

That would be a scenario where that would be a very bad scenario. It would be a scenario where, say, a large U.K. retail bank where resolution had not worked. In reality, you would potentially be looking at what does the U.K. Government do in that scenario, because they will be in the same position as us. But let us say absolute worst-case scenario and they decide to let that big U.K. bank fail, ultimately, we are in a position where we would then be stepping into the shoes of the depositors up to that £50,000 limit and then we would be pursuing the liquidation effectively on behalf of those depositors. So we would use as much as we can to pay out a partial payment of compensation quickly and then we will be spending a lot of our time and effort pursuing the liquidator of that bank, effectively standing in the shoes of the depositors. That may take time, and ultimately the scheme would run for potentially a number of years once that happened.

[13:30]

Deputy K.M. Wilson:

Yes. I think that is really what the confidence insurance that is being sought is, that it would not be lost in the moment of time. Are there any scenarios where, for example, compensation may not be paid in relation to things like frozen assets or anything like that? What role would you play in that?

Head of the Jersey Resolution Authority:

Yes. So, there are, and that is normal for any depositors compensation scheme. The existing D.C.S. Board have put in place a process, which Mike briefly mentioned earlier, known as the: "Single Customer View". So, that requires banks to produce a data file that shows their customers in a single view, and that is designed to operationalise it for the compensation scheme. As part of that process, banks are required to flag certain customers that are blocked for whatever reason, whether that be probate, anti-money laundering controls, which are quite important to Jersey, sanctions, or other court orders, et cetera. The way that the process then works is that the straight through processing ... well, firstly, with our outsource provider we will conduct a number of checks of that data, and as many as possible of those customers will be passed through into the straight through processing part of the payout. Again, subject to the legal amendments being made which enable that. The customers that you have kind of referred to there will ultimately step out of that straight through process and go into separate processes depending on the exact nature, but ultimately those processes will be a lot more manual and the Resolution Authority and, today, the

Depositors Compensation Board would ultimately interface with liquidators of the failed bank and the customer to attempt to resolve those, and that could be missing information: "So, we cannot send a cheque because we do not have your address. Give us your address. Prove that it is that address. Okay. We will send you a cheque." It could be the Jersey probate needs to be secured before we can make the payment, and it could be a longer term issue, sanctions, as Mike mentioned, that might ultimately mean that we cannot make a payment out because the customer is sanctioned, and we would just work with the relevant authorities through that process.

Deputy K.M. Wilson:
How confident are you in terms of the cybersecurity protocols that exist here to be able to effect that function successfully?

Head of the Jersey Resolution Authority:
We are very alive to the fact that that is very sensitive data and the existing D.C.S. Board, with its outsource provider, are alive to that fact, and ensuring that there is appropriate information security controls. I mean, as far as you can be, we are comfortable and we are in the process of onboarding that effectively for when we take over.

Deputy K.M. Wilson:
Okay. Thank you.

Deputy M. Tadier:
Thank you. I am mindful that we are almost at time, and I think we have covered a fair bit of what we wanted to ask you, if not everything. So, bearing in mind that we can always follow up with written requests if we need to, I will just ask if there are any other questions from my panel members.

Deputy K.M. Wilson:
Just in terms of the £100 million cap, again, I was not quite sure. I just wanted to get your view as to whether that is for the size of the jurisdiction and the number of banks that are involved, that is an acceptable allocation to run a compensation scheme?

Chair, Jersey Resolution Authority:
When you say the £100 million cap, Deputy, do you mean the guarantee, the loan that the Government will provide?

Deputy K.M. Wilson:
Yes.

Head of the Jersey Resolution Authority:
Yes. So, the cap is being removed by these amendments and we see that as a good thing. The £100 million lending facility that has effectively been committed, I mean assuming no other changes to the scheme, our modelling says that that is reasonable. Clearly, as part of the review that we will conduct next year, if we consider any increase to the level of limit, we need to consider the funding of the scheme, and that is both the loan and bank levies. But as of today, that lending is sufficient, based on the modelling that we have done.

Deputy K.M. Wilson:
Okay. Thank you.

Deputy M. Tadier:
I did have one final question, and it is something you said earlier about maybe the smaller banks in Jersey, which are not part of a bigger group. The difficulty in the public hearings, I am not going to mention any names, and I will be speculating as to what those companies might look like, but I suppose, just because there are not a vast number of Jersey investors or savers, depositors with those kind of banks, does not mean that it is not potentially significant for those individuals in this nuclear scenario. So, is it the case that the Resolution Authority would still work closely with those organisations if they were facing difficulties, and would you anticipate having issues flagged up with you directly?

Chair, Jersey Resolution Authority:
Yes and yes.

Deputy M. Tadier:
Because I am thinking you are the only safety net, in a sense, that there is not necessarily in other jurisdictions of a bigger country of that being flagged up earlier before it gets to you?

Chair, Jersey Resolution Authority:
No. We are very conscious of that and, yes, we do spend more time probably than is proportionate on thinking about what might happen in those circumstances, and certainly in the event of a failure of a bank like that, then, yes, absolutely we would regard it as our responsibility to try and ensure that it does not impact on the stability of the Island, and of course ultimately the Depositors Compensation Scheme will be standing by to pay out those depositors to the extent of up to £50,000 depending on the capacity of that £100 million we have just spoken about.

Deputy M. Tadier:

And do you have any figures currently at the moment about maybe what the depositor landscape looks like in Jersey in terms of what the typical amounts are in Jersey and who saves with what kind of banks? Or is that part of what you are looking at ...

Chair, Jersey Resolution Authority:

We have some big aggregate numbers, some of which we shared with you privately attached to the original letter. We have no more detail than that. We have got the powers to get that detail, but we have not asked for it because we have not initiated this review process yet.

Deputy M. Tadier:

Is that the level of detail you think you will need to go into in the review to look at ...

Chair, Jersey Resolution Authority:

Yes. It will be very useful data for us generally in relation to thinking about resolution and also thinking about the Depositors Compensation Scheme, and again we will put that aggregate information together for Government to see, because it will be interesting for Government to understand what that landscape looks like as well.

Head of the Jersey Resolution Authority:

We will look at the individual bank data and then aggregated data provided to Government effectively. I think it is worth noting to emphasise that point about looking at the detail and looking at the data. Another partial reason for ultimately the right timing of this review is that the existing regulations that apply to the D.C.S. Board do not grant it massive information gathering powers, whereas we have more extensive information gathering power. So that creates a complication and it is also part of the reason why we said to Government: "Let us get this amendment through, let us transfer the responsibilities to J.R.A. That gives us the additional statutory remit to go and ask additional questions of the banks and then inform this review."

Deputy M. Tadier:

Is the purpose of having that constant information to effectively be able to perform health checks or just be flagged so that you know what the landscape is that you are ...

Chair, Jersey Resolution Authority:

Yes. We are not in the business of doing health checks. That is something that is in the J.F.S.C.'s remit. We are very conscious that banks have a lot of requests for information from various places, so we would not want to drown them with those requests. But there will be a requirement for us to request some information to help inform this review, so this will be a one-off exercise. If, obviously, we think it is relevant, useful, necessary, then we will build it into some sort of regular process, preferably working with the J.F.S.C., because they obviously ask the banks for information as well, and one of the things we are trying to work towards is that we only ask the banks once for one piece of information rather than twice through the 2 authorities.

Deputy K.M. Wilson:

You mentioned in terms of the way in which the law is written at the moment, are there any areas, based on what you have just said around powers, do you think the law falls short that you think needs to be reflected in the next reading at all in terms of your functions?

Head of the Jersey Resolution Authority:

No. I mean we have been through it in quite a lot of detail a number of times and that is not to say that you might not look at something another time and realise: "Well, that would be useful." But, no, I think Mike mentioned as well, that some of the amendments are to enable parts of our resolution work and so, what we have done there with Government is effectively said: "Look, give additional powers to bring in some additional tweaks in the future on a more efficient basis, i.e. without a primary law change." So, we have taken some steps with Government as part of these amendments to facilitate other amendments to help us with our implementation of the resolution regime, and ultimately that is part of our process, which we have been ongoing with banks, and consulting on various parts of our resolution regime. When we get to a point where we have finished that consultation with banks, we can then speak to Government about saying: "Okay. Well, let us use that power that these amendments have given us to slot in some additional tweaks to ensure that our regime works more effectively."

Deputy K.M. Wilson:

In terms of the accountability, it is the Minister for Treasury and Resources that you take your direction ...

Head of the Jersey Resolution Authority:

The Minister for External Relations.

Deputy K.M. Wilson:

The Minister for External Relations?

Head of the Jersey Resolution Authority:

Yes.

Deputy K.M. Wilson:

Do you have any connection with Treasury at all?

Head of the Jersey Resolution Authority:
We do.

Chair, Jersey Resolution Authority:
There is a Treasury representative on the group that we talked about before, the Bank Resolution Planning Group, so we always have a representative from Treasury on that for obvious reasons.

Deputy M. Tadier:
The reason for that, with the External Relations, is because that is the responsibility of Financial Services, is that right? So, it could move potentially if there was a realignment of that function?

Head of the Jersey Resolution Authority:
Yes, absolutely. I think it has over the last few years changed a little bit and the law has changed and to reflect those changes in the past, but, yes, it is the Minister for External Relations in the legislation.

Deputy M. Tadier:
Thank you.

Deputy K.M. Wilson:
Okay. Thank you.

Deputy M. Tadier:
Gentlemen, if you are happy, we will bring this hearing to a close. But I will ask if you have got any further points or any questions for the Panel?

Head of the Jersey Resolution Authority:
The main point that we would emphasise is that we will conduct a review. The amendments that are currently being made do bring some significant enhancements to the scheme that will give significant practical benefits to customers if the scheme was ever to be invoked. So, we really would encourage States Members when they debate the law at the end of September to let us get these amendments through and then we will pick up any further refinement alongside our review.

Chair, Jersey Resolution Authority:
Thank you for your time. It is a good process, thank you.

Deputy M. Tadier:

Thank you, Mr. Edwards, for coming in, and we will just ask for the record to stop recording. Thank you. We are all good.

[13:42]