WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY M.R. HIGGINS OF ST. HELIER ANSWER TO BE TABLED ON MONDAY 12th SEPTEMBER 2011

Question

Will the Minister explain to members -

(a) the impact of continued and likely low interest rates on bank deposits up streamed from Jersey banks to their head offices and money markets on local bank profits and therefore States revenues;

(b) whether proposed changes to bank liquidity requirements being put forward by the UK Financial Services Authority will affect the Jersey banking model and, if so, how?

(c) how worries over bank and sovereign debt insolvency are affecting Jersey bank's desire to upstream funds to the money markets and the likely impact on bank profits and future States revenues;

(d) what impact, if any, the requirement for banks to have living wills will have on the Jersey banking model and economy; and

(e) what other risks to the Jersey banking model he can detect either from what is going on in the markets or being discussed by world leaders, the EU, OECD, World Bank and other economic bodies?

Answer

(a) Most Jersey-based banks operate a simple banking model based on collecting deposit liability both locally and from around the world and up-streaming to their parent. This way of generating deposits as part of group funding remains attractive to parent banks and has been repeatedly confirmed as a strategic priority.

Lower interest rates tend to reduce deposits through margin compression and as a result of other investment opportunities (or simply spending) becoming relatively more attractive. Jersey banks are not immune and they, too, have seen a significant reduction in bank profitability as a result of the sustained period of historically low interest rates. Banks have, however, taken great strides to adjust their business models wherever possible in order to maintain profitability. A rise in interest rates, when it comes, is expected to result in a significant rebound in profits.

(b) The FSA has moved ahead of other regulatory bodies in implementing new liquidity standards. There is likely to be some impact on Jersey banks as up-streamed funds with a maturity of fewer than three months could prove less attractive to the receiving bank. This, in turn, might result in banks seeking to find alternative uses for an element of the customer deposits they receive. Exactly what alternatives will be pursued will vary from bank to bank. As a result, each bank's risk profile, resource requirement and financial performance will be affected differently. These developments are being closely monitored by the JFSC.

(c) A Jersey bank's appetite for up-streaming might be adversely affected if it felt that its parent was unduly exposed to credit or other risk (such as that which might arise as a result of its parent carrying high levels of problematic sovereign debt). As noted above, this might result in a bank seeking to find alternative uses for an element of the customer deposits received. The alternative pursued will affect each bank's risk profile, resource requirement and financial performance differently.

(d) 'Recovery and resolution plans' are still being developed by banks and remain the subject of dialogue with home regulators. The Commission has yet to hear of any that have been completed or of any proposed provisions that will directly impact a Jersey entity. As and when such information becomes available, it will be reviewed to assess the potential implications for the Island and its depositors.

(e) There is clear and concerted effort across national and supranational bodies to identify means of reducing both the risk to depositors and the potential cost to the taxpayer. The approach adopted by the UK is likely to be significantly influenced by the Independent Banking Commission's recommendations on the ring fencing or separation of investment banking activities from retail banking activities.