

#### **4.18 Deputy M.J. Higgins of the Minister for Treasury and Resources regarding risks to the Jersey finance industry:**

Will the Minister advise Members which of the proposed changes to British and/or European financial regulations he considers to be of the greatest risk or threat to the Jersey finance industry and why?

#### **Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

This is an important question, one probably which deserves more than just an oral answer in terms of its explanation to Members. In the aftermath of the global financial crisis, the Deputy will be aware that regulators across the world have been reviewing and amending the way that their financial services are regulated in an attempt to prevent a repetition of the similar crisis that we have seen across the world and also attempts to reduce the systemic risk from banking failures. Ministers are in regular contact with the Jersey Financial Services Commission, the Channel Islands Brussels office and Jersey Finance, who are monitoring and assessing the regulatory changes that are emerging, and the risks to the Jersey economy and the Guernsey economy of such changes. It is at this stage unclear as to how many of the proposed changes in the regulatory sphere, both at European and at U.K. level will be implemented, let alone what the implications to our own finance industry are. What I will do is undertake with Ministerial colleagues to keep Members informed of changes in the regulatory world. It is probably appropriate for us to respond in a written answer to these issues and I will attempt to do so in the early part of next year. I should also finally say that in the meantime, while there are risks and uncertainties in the regulatory sphere, this should not detract us from our objective of returning our finances to a sound footing and at the same time while continuing to support the economy through what is going to be obviously a difficult 3 or 4-year period.

#### **4.18.1 Deputy M.J. Higgins:**

I would like to welcome the fact the Minister will keep us informed of these changes. Can I ask him in particular about the Vickers inquiry, which is to the independent report on banking, which has implications for the banking model that Jersey adopts, in particular, and can he make any comment on that?

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

It is unclear as yet where the ring fence will be drawn between the retail and more risky activities of the U.K. banking industry, whether or not the curtain will be drawn on a bank-by-bank basis and where the geographical boundaries will be in terms of E.F.A. (European Finance Association), *et cetera*.

[11:30]

It is not, at this stage, possible to determine exactly what the implications of Vickers will be, but it is something which both the J.F.S.C. (Jersey Financial Services Commissions), Jersey Finance and our local banking groups are keeping under review, and I will include a more detailed comprehensive answer should there be details arising in terms of Vickers in the answer that I will provide hopefully in January next year.

#### **4.18.2 The Connétable of St. John:**

In the event of a collapse of major European currencies, what is in place by Jersey Finance to protect the Island given we have noticed recently the U.K. Bank of England have passed comment on banking issues within the United Kingdom? Has Jersey done similar?

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

It is the Jersey Financial Services Commission who has done substantial work in relation to risks of a bank failure within the eurozone and let this Assembly, while small that we are, express the

opinion that hopefully the eurozone countries will find a solution to their debt crisis over the next few days. It is really important for both the U.K. economy and, by extension, in certain regards to our banking industry, to the Jersey economy that a solution to the eurozone crisis is found. I can assure the Connétable that there has been substantial work done in order to understand exactly the nature of the risks of our local banking institutions and, of course, our banking institutions, unlike some of the other banking markets within Europe, are largely deposit-based banks which are upstreaming their deposits to the City of London. We continue to keep under review all of those activities and have confidence in the J.F.S.C. in terms of monitoring all of the risks associated with our banking industry and we hope a solution is found to the eurozone crisis this week.

**The Bailiff:**

Deputy Higgins, do you wish the final question?

**4.18.3 Deputy M.R. Higgins:**

I was not originally... but just in response to the last question. Obviously, one of the dangers associated with the Jersey banking model is the upstreaming of the deposits that the Senator talks about to the London money market and, of course, in a situation when credit has been drying-up and everything else, the question is what happens if, for some reason, one of the banks that has been upstreamed to, do not return the money? What contingency plans are there to ensure the survival of the banks here in Jersey, those banks?

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

I can advise that in partnership with the Minister for Economic Development and under the auspices of F.S.A.B. (Financial Services Advisory Board), which is our body which we sit together with Government, the regulator in Jersey Finance, some work has been commissioned on indeed dealing with various different stress tests in various different scenarios of various different activities of European banks. In the start of the crisis 2 or 3 years ago, there was a consultant that was brought in to exactly understand what the risks were associated with a banking collapse and, indeed, the Jersey experience has been one of significant strength. There was prudence in the overall regulatory approach of Jersey banks, as the Deputy would know, and it is something which the J.F.S.C. keeps continually under review. But let us hope there are not going to be any failures in relation to the Deputy's question and that there is not a banking failure of an upstream deposit in terms of a Jersey bank.