

10. Statement of the Chief Minister regarding the implications for depositors in the current global financial conditions:

10.1 Senator F.H. Walker (The Chief Minister):

I am sorry, I seem to be hogging the airwaves at the moment but I need to make a short statement concerning a matter which I know will be at the forefront of all our minds at the current time; namely, the current global financial conditions and the implications for our finance industry and, in particular, for our depositors, both domestic and international. These are difficult times and we are not alone in trying to steer a course in uncharted waters. It is a time to ensure that we all work in the long-term interest of our Island and everyone who lives here. So firstly let me say that Jersey can be proud that it has managed to avoid any dislocation in respect of local deposits and that we can be and are increasingly confident about the prospects for our banking system as a result of the growing and concerted action by national governments across the globe. Our success in this regard is no accident. Jersey benefits from a banking system of unparalleled strength with banks only from the world's top 500 and all of the larger deposit taking banks being from the world's top 100, which almost, without exception, benefit from the unqualified support of their national governments. Jersey banks also benefit from some of the highest capital ratios anywhere in the world and are in the strong position of acting as a source of liquidity in the form of deposits that are passed upstream to the parent companies that need them and which are themselves among the strongest banks in the world. It was with the strength of our banking system very much in mind that on 3rd October I was confident in our ability to give assurances to Island residents that their deposits would be fully safeguarded. The confidence that we had that the U.K. Government would not allow its banks to fail has been fully vindicated by subsequent events. We have been in touch with the U.K. authorities and they have confirmed their confidence in and their full support for the continued commercial operations of the U.K. banks that have offices in Jersey. The U.K. Government have delivered on their promise to do whatever it takes to ensure the continued strength of the banking system by pre-emptive action designed to give all their banks the support they need within a framework of continuing commercial freedoms to operate without the need for complete nationalisation and deposit guarantees as in the case of Northern Rock. This model has been and continues to be replicated by other governments in the U.S. (United States), Europe and elsewhere. This strong and positive action by the U.K. and other governments can be of great comfort to both resident and non resident depositors with Jersey banks. Let me be absolutely clear what this means. As the banking operations in Jersey make a significant contribution to the liquidity and profitability of their parent banks we can have every confidence that our banks are healthy and robust. Through the action taken by the U.K. and other governments, the parent banks of the subsidiaries and branches in Jersey will have the capital and liquidity they need to continue to operate, which includes their ability to provide liquidity to their subsidiaries and branches here in Jersey if it is needed. We are not aware of any problems arising from the local operations of any banking branch or subsidiary here in Jersey. As Members would expect, however, in current conditions there has been, and continues to be, intensive monitoring of this by the Island's regulator, the Financial Services Commission. The Commission also maintains regular contact with the regulators of the parent banks in order to ensure our interests. All of this has confirmed once again the primary importance of depositors selecting top flight banks from well regulated jurisdictions rather than relying on the existence of a local compensation scheme. However, the review of a compensation scheme announced recently by the Minister for Economic Development continues and I hope to be able to put proposals before the States in the near future. I hope Members and all who have an interest in this matter will take comfort from my comments here today. We have adopted a measured response in difficult circumstances and that approach appears to be working. I can confirm that I continue to meet with my advisers to monitor developments and agree any necessary actions. I can also confirm that we are doing all

that we can to ensure the continued security of all individuals' deposits, the continued health of the banking industry and the long-term interests of our Island and everyone who lives here.

10.1.1 Deputy J.J. Huet of St. Helier:

I would like to be assured because I am going to talk for the ordinary person outside who is not a banker. A lot of them obviously have their deposits, and I would like to be assured that if the capital and liquidity that we are talking about here is needed - if it is needed - then can we be assured that there will be much stricter regulations in the banks themselves and not the self-regulations that they have been putting up themselves? In other words, it has been very, very lax, that is why we have a credit crunch. It must be a lot stricter. It is because they have been allowed to self-regulate themselves. Can we be assured that if they are bailed out they are not going to do exactly the same thing again? That is what the average person is worried about. It is fine to throw money at something ...

The Deputy Bailiff:

That is your question, is it?

Deputy J.J. Huet:

Sorry. Thank you.

Senator F.H. Walker:

I think I made it clear in my statement that the reason Jersey is in a good and strong position at this time is because of the robustness of our regulation. This is a renowned feature of Jersey throughout the world. I see the Deputy shaking her head; no doubt she will come back with a supplementary question. That is a fact. Now, as to how parent banks will react long term to the present situation, I can give no indication of that because I simply cannot be in a position to have that knowledge. What I can say is that Jersey will, with the support, I hope, of future States Assemblies, continue to regulate our banks very strictly and very robustly, as we have done for many decades now.

Deputy J.J. Huet:

A supplementary. I know that we are regulated; I am talking about the banks. Because I know for a fact that loans are being given to people that do not have the means to repay them. Now, I know that it is the bank, it is not us, and I am asking can we be assured that the banks will be stricter than they have been, because that is why we are where we are now. They have not been strict enough.

Senator F.H. Walker:

I cannot possibly give that assurance because Jersey directly has no control over the commercial policies of the parent banks. Unless the Deputy is suggesting that we should exercise state control or nationalisation or one of the 2 I fail to see how her obvious concern can be addressed.

10.1.2 The Deputy of Grouville:

What implications does the nationalisation of banks, where a local branch is set up in Jersey, what implications does this have with regard to Jersey as (1) an offshore centre; and (2) our Constitution?

Senator F.H. Walker:

First of all, no bank that I am aware of has been fully nationalised. Secondly, I did say in my statement that the Treasury have confirmed at a recent meeting that it is their intention, where the U.K. Government has taken an interest in a bank, it is their intention, their absolute determination that that bank should continue to operate commercially as it has done in the past.

In other words, with I am sure some hopefully due restraint exercise by the banks on matters such as lending and so on in the future, it will be business as usual.

The Deputy of Grouville:

I was not especially talking about lending. I was more interested in the offshore business, tax and company ... trust and company administration, how does that ... what implications does that have if the branch is nationalised or part of it nationalised, what implications does that have to us as an offshore centre?

Senator F.H. Walker:

I should correct what I said. Of course, Northern Rock was fully nationalised but that has no direct bearing on Jersey. I can only repeat I think again what I said in my statement that the Treasury has confirmed that there are no implications, certainly at this juncture, for Jersey as an offshore centre. They do not intend to interfere with the commercial activity of the banks, which includes their activities in Jersey.

10.1.3 Deputy R.G. Le Hérissier:

Would the Chief Minister not confirm that an undercurrent of his statement is that he is not really enthusiastic about compensation schemes and he is riding on the reputation of the top 500 banks, some of whom, of course, have fallen under this partial nationalisation which the Deputy of Grouville has alluded to. So would he on a scale - I have to ask this - of one to 10, 10 being total enthusiasm, would he acknowledge what level of enthusiasm he has for a local compensation scheme?

Senator F.H. Walker:

I have a great deal of enthusiasm for a local compensation scheme. You can put it up as 8 or 9 or even 10. I did say in my statement that I hope to be in a position to bring a proposal to the States in the very near future, although that is complicated by our own rules about meeting in election periods and the fact we only have one meeting left of this current States. So it may be that someone else will have to bring it early in January, but the determination to put one together and bring it forward is complete and discussions with the banks are taking place more or less as we speak.

10.1.4 Deputy C.J. Scott Warren:

Does the Chief Minister consider that Deputy Huet and all depositors can take some comfort from the announcement by President Bush in conjunction with European leaders that there will be much consideration given to the events surrounding this current situation to ensure that this will not ... as much as possible ensure that this will not reoccur in future years?

Senator F.H. Walker:

Yes, we can take comfort from that. It is very evident that governments throughout the world and not just in Europe are determined to ensure that their mainstream banks are maintained and able to function again in the future, perhaps with some changes but nevertheless as they have in the past. It grieves me somewhat that some Members anyway seem to be lightly dismissing the fact that Jersey is only in this position because we have pursued the most robust and rigid regulation policies. Some Members seem to be dismissing that. They should not do so because Jersey people, Jersey residents, Jersey-based depositors in Jersey banks can take great comfort from the work that has been undertaken now over many decades to ensure the robustness of our banking system. I will not do so. We can compare ourselves favourably with just about anywhere else in that respect, and we should be thankful and grateful for the work that has been done in ensuring that we are indeed in such a strong position. We should neither be sneering at it, nor dismissing it lightly.

10.1.5 The Deputy of St. John:

There is a concern among some of the public that money is flowing out of Jersey when, in fact, it is the opposite and it would appear there is evidence of money flowing in. So, could the Minister confirm that should any banks try to repatriate significant liquid funds to their parent companies that they could be in breach of their local licensing obligations? Would this in turn prevent possible outward flow of significant monies?

Senator F.H. Walker:

Yes. All banks in Jersey have to maintain minimum liquidity and capital requirements under the law.

10.1.6 Deputy J.A. Martin:

Just a confirmation. The Minister's statement starts off in the first paragraph: "All our depositors, both domestic and international ..." I have only briefly glanced at the scheme to protect local depositors. In his final paragraph, and emphasised in bold, it says: "All individual depositors." Can he confirm which we are talking about under the new guarantee scheme that we cannot discuss because we will not be meeting? I did not read it as being all individual deposits that were held in Jersey, only local residents. Can he confirm which one it is for me, please?

Senator F.H. Walker:

It is, indeed, both. Though I understand the point to the Deputy's question, the guarantee that has been given only extends to local resident depositors with deposits in local banks, Jersey-regulated banks. The reason, though, we - I - emphasised in the statement all depositors is linked to the compensation scheme that I referred to in answer to an earlier question. I confirm really the answer I gave to Deputy Le Hérissier in that respect. I would, however, point out, though, that the guarantee to local depositors was for all their deposits. The compensation scheme, generally speaking ... and I am not in any way here prejudging what proposals will come to this House for Jersey, but compensation schemes generally speaking around the world cover only up to £50,000. Any depositor with more than £50,000 in, for example, a U.K. bank or many other banks in many other countries around the world is not protected above that figure.

Deputy J.A. Martin:

Sorry, just a supplementary there. Would the Chief Minister not agree that the U.K. Government set a precedent with Northern Rock and absolutely dismissed the £35,000 that was a guarantee then? I wonder if our scheme will be going their way or will it be kept to the £50,000 that the Minister has just alluded to.

Senator F.H. Walker:

Northern Rock was clearly an exception. It was a one-off reaction by the U.K. Government before they put their general policies in place. I do not see much sign of the U.K. Government wishing to fully nationalise any other bank at this stage. In fact, I think they are anxious to keep their involvement, as one would expect, to a minimum. But the point I made to the Deputy's earlier question is still valid: depositors generally in the U.K. are ... the compensation scheme only protects them up to £50,000.