Economic and International Affairs Scrutiny Panel
By email
4th August 2025

Dear chair,

Draft Bank (Recovery and Resolution) (Jersey) Amendment Law 202-

I write in response to your letter dated 28th July regarding the review initiated by your panel of the Draft Bank (Recovery and Resolution) (Jersey) Amendment Law 202- [P.42/2025] (the Draft Law).

Before addressing the specific matters raised, I would like to inform the panel that, following the referral of the Draft Law, it has been necessary to revise the timeline for transferring the Depositors Compensation Scheme (the Scheme) to the Jersey Resolution Authority. This transfer, along with associated improvements to the Scheme, will now take place on 31 March 2026 rather than 31 December 2025.

As highlighted in previous engagements with the panel, a significant amount of preparatory work has been performed by officials, the Jersey Resolution Authority and the current Jersey Bank Depositors Compensation Scheme Board (the DCS Board) to prepare for transfer at an operational level – this includes the negotiation of existing contracts to ensure their continuance. Any delay to the timetable necessitates recalibration of this work, incurs additional costs for the banking industry due to the extended operation of the DCS Board, and impacts the broader programme of work, including the development of key policies within the Resolution framework.

The Scheme operates as one of several measures to protect islanders and customers of Jersey banks in the unlikely event of a bank failure. The Scheme is triggered when a bank is entering insolvency proceedings and aims to prevent a liquidity crisis as a result of a run on deposits, as was seen elsewhere during the 2008 financial crisis. While the Scheme remains an important part of Jersey's financial safety net, it is worth noting that the majority of islanders bank with retail institutions subject to resolution strategies that are designed to avoid insolvency altogether. Consequently, the Scheme is more likely to be relevant in the context of smaller private banks serving international and high-net-worth clients.

In your letter you query the implications of the Scheme's coverage for Jersey's international competitiveness. Whilst it is good to have a depositor compensation scheme maintaining alignment with international standards, increasing the compensation limit may have negligible impact in this regard. Compensation schemes typically feature in the small print of a bank's marketing, rather than a primary driver of client decision-making. Corporates and high-net-worth individuals will be more sophisticated in their approach, managing counterparty risk by assessing bank credit ratings, diversification strategies and the broader regulatory environment of the jurisdiction, in particular the resolution planning.

Furthermore, overextending the Scheme could have unintended consequences. Increasing coverage or introducing automatic uprating mechanisms (e.g., via RPI) could complicate the Scheme's operation, increase disclosure costs for banks, reduce transparency for depositors and institutions, and potentially deter new entrants or existing service providers due to increased funding burdens. A careful, evidence-based review is therefore essential to ensure any changes are proportionate and of benefit to the public in general.

The Scheme is funded through a capped bank levy, a States loan facility up to £100million, and thereafter recoveries from the liquidator of the bank in default. Inevitably, increases to the compensation limit will increase the reliance on public funds as well as monies recovered from the liquidator. A change to the maximum amount of compensation would not automatically impact the provisions within the Draft Law for the States loan and bank levies, such that consideration of the funding is an important aspect of considering an increase to maximum compensation amount. It is noted that in your letter you ask whether this would be proportional to the increase of the compensation limit – the extent of any adjustment to the funding mechanisms can only be considered through detailed analysis and stakeholder engagement.

Regarding your query on the definition of "covered deposits" as provided in the Resolution Law, we reiterate that this definition pertains to the operation of the Resolution Law (e.g., bail-in provisions) and does not affect the Scheme's compensation limit. Therefore, the UK's proposed changes in this area do not directly impact the Draft Law or compensation limits. Government acknowledges the panel's interest in a review of the compensation limits and remains committed to undertaking this work. As previously indicated, such a review is complex and will require new data collection and comprehensive engagement with industry and stakeholders. We recognise the panel's desire for a firmer commitment and can confirm that a review will be initiated in the second half of 2026, with recommendations and decisions targeted for the first half of 2027.

Separately we note you ask for data on current exposures. Government does not itself maintain this information. As noted above, targeted data collection from the banking industry will be necessary to inform a review.

We trust this response is useful in the performance of your review and remain available to engage with you at a suitable time as is necessary.

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