JERSEY RESOLUTION AUTHORITY

Deputy Montfort Tadier
Chair
Economic and International Affairs Scrutiny Panel
By email

13 August 2025

Dear Deputy Tadier

Bank Depositors Compensation Review

Thank you for the opportunity to contribute to your review of the Draft Bank (Recovery and Resolution) (Jersey) Amendments Law 202- (the Draft Law) as set out in your letter dated 29 July 2025.

Your letter was addressed to me in my capacity as Chair of the Board of the Jersey Resolution Authority (the JRA) and of the Jersey Bank Depositors Compensation Board (the DCS Board). I respond as Chair of the JRA but on behalf of both the JRA and the DCS Board.

We have set out responses to your specific questions in the appendix of this letter. We have structured the appendix in a way that allows for some responses to be retained confidentially by the panel.

We remain of the view that any review of the Bank Depositors Compensation Scheme (the Scheme) needs to be conducted in consultation with all relevant stakeholders, including Jersey banks and representatives of the Guernsey and Isle of Man Depositor Compensation Schemes with which our Scheme is broadly aligned and with which many Jersey banks also have jurisdictional presence. Additionally, it requires proper analysis of the potential impact of any changes on a holistic basis and sufficient time to collect relevant data to inform the review. To make changes to compensation limits without appropriate analysis and consultation may lead to unintended consequences.

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As we have previously stated, the Draft Law makes several enhancements to the Scheme that benefit depositors and help ensure the Scheme remains aligned to international standards. These enhancements include:

- Removing the existing £100m cap on the maximum total compensation that can be paid out by the Scheme in any five-year period (which better enables the Scheme to pay out compensation for medium sized Jersey banks);
- Removing the requirement for eligible depositors to apply for compensation (which allows for straight through processing of compensation on a timelier basis);

We feel it is important that these positive changes are made without further delay.

We anticipate that Government will initiate a review of the Scheme in 2026, and we are taking steps to include a review in our workplans. As explained in more detail in the appendix, the terms of the Scheme are a matter of Government policy, therefore, the output from our review will be recommendations for Government to consider.

We trust that the appended responses and above context assists the Economic and International Affairs Scrutiny Panel in its consideration of the draft Law, and we would be happy to answer any further questions should that be necessary.

Yours sincerely

Mike Mitchell

Chair of the Jersey Resolution Authority

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Appendix: JRA response to specific questions raised by the Economic and International Affairs Scrutiny Panel

Public Responses

The nature of any review of the £50,000 compensation limit

Since the terms of the Scheme are set by Government, we would normally expect a review to be initiated by the relevant Minister. However, we believe it would be in our power to perform our own review and report the outcome to the relevant Minister.

We anticipate the review to commence in H2 2026 with findings and recommendations available in H1 2027.

Implications for the Island's competitiveness if the compensation limit is unchanged or increased

We regard it as important to have a depositors compensation scheme to help maintain financial stability, demonstrate the Island's ongoing commitment to international standards, and ensure the island is competitive internationally.

However, we do not believe an increase to the compensation limit would have a material impact on the Island's competitiveness in terms of attracting deposits to Jersey.

In contrast, amending the Scheme so that it offers disproportionately greater levels of cover and requires a corresponding increased funding commitment from Jersey banks may reduce the Island's competitiveness in terms of attracting new banks or maintaining a diverse spectrum of Jersey banks. This may have adverse effects on consumer choice and Jersey's economy.

For these reasons it is important that any review of any part of the Scheme should involve consultation with all relevant stakeholders.

If the compensation limit is increased, by how much should it be increased

Our view remains that the compensation limit should not be increased at this time but should be subject to a future review including other aspects of the Scheme.

Determining an appropriate level at which to set the compensation limit would require us to obtain additional data from Jersey banks and analyse this as well as consideration of other factors relating to the potential benefits and costs of increasing the compensation limit.

We anticipate that a review of the Scheme will consider the appropriateness of the current compensation limit, and the benefits and disadvantages of increasing the compensation limit in line with the level of cover provided in the UK as well as alternatives in between. We note that the EU reviewed its limit (of €100,000) recently and after a significant amount of analytical work decided to maintain the current level of cover which has been in place since 2014.

If the compensation limit is increased, what is the impact on demand for the £100m States of Jersey loan provision and would this need to be increased proportionally

If the compensation limit is increased, in the event of a bank default, there would likely be increased demand on the States Loan facility. Accordingly, there is a risk that the States of Jersey would need to allocate additional funds to provide the liquidity needed by the Scheme. However, without proper analysis it is not possible to determine with any certainty the additional level of liquidity funding that may be needed.

It is important to note that, whilst the Scheme will ideally be funded by a combination of bank levies and recoveries from the Bank in Default, the liquidity financing provided by the States of Jersey could be 'at risk' in some scenarios and, if the level of funding available from bank levies and recoveries is insufficient to fully repay the loan, it may need to be written off at a cost to Jersey public funds. Any increase to the compensation limit without also reviewing the funding of the Scheme will increase this risk.

We anticipate that the proposed H2 2026 review of the Scheme will include a review of the funding mechanisms, including the level of bank levies and whether the Scheme should be pre-funded. This will require consultation with stakeholders, especially Jersey Banks, and needs to consider the potential advantages and disadvantages of any such changes.

If the compensation limit is increased, what is the impact on the annual and 5-yearly caps on bank levies, and would these need to be increased proportionally

If the compensation limit is increased in isolation, there will be no impact on the annual and 5-yearly caps on bank levies.

However, there would be an increase on the potential funding demand for the Scheme that could require an increase to the caps on bank levies. The level of increased funding demand cannot be determined without obtaining additional data from Jersey banks and performing additional analysis. Therefore, we are unable to determine the extent of any increase in the caps that would be necessary to ensure appropriate funding of the Scheme.

Accordingly, any consideration of increasing the compensation limit needs to also include a review of the funding mechanisms of the Scheme. As noted above, this requires consultation with stakeholders, especially Jersey banks, and we anticipate that the proposed H2 2026 review would include this.

What are the implications if the compensation limit is increased annually by the increase in the Retail Price Index

We do not believe it would be appropriate to increase the compensation limit annually based on the change in the Retail Price Index (RPI). The reasons for this include:

- Depositor awareness is a key factor in maintaining confidence in the Scheme and the financial safety net in Jersey (and hence to financial stability). Frequently amending the compensation limit may give rise to uncertainty or confusion as to the level of compensation available. Furthermore, there is a benefit to using a figure that is easy for depositors to remember.
- RPI is not necessarily an appropriate metric as consumer savings may not increase in line with RPI.
- Any changes to the compensation limit will require changes to be made to relevant documentation describing the Scheme so an annual increase would result in significant additional administrative costs for authorities, the Government of Jersey and Jersey banks.

Accordingly, the compensation limit should only be amended when it is appropriate to do so considering the potential benefits to financial stability and consumer protection as well as any costs to industry.

If the level of cover offered by the UK Financial Services Compensation Scheme is increased to £110,000 as proposed by the Prudential Regulation Authority, what impact will there be upon the Draft Law, both in terms of the compensation limit and the definition of "covered deposits"?

There would be no direct impact on the Draft Law itself. However, the increase would form part of any future consideration of the compensation limit available from the Scheme.

Additionally, there would be a separate need to consider the implications on the definition of covered deposits. This is an existing term within the Resolution Law that is primarily used to limit the JRA's power to bail-in certain liabilities of a failed bank during a Bank Resolution. This is not relevant to the Scheme and would be a separate policy matter for the JRA and Government to consider. If needed the definition of "covered deposit" could be updated to reflect the revised UK limit.

Given the wider Recovery and Resolution Framework, should the Scheme be closed all together?

Despite the existence of the wider Recovery and Resolution Framework in Jersey, the Scheme is an integral part of Jersey's bank crisis management framework, and therefore we support the on-going existence of the Scheme. We believe that all key stakeholders and informed commentators would regard a Depositor Compensation Scheme as a prerequisite of a credible banking jurisdiction.

The Scheme is the primary consumer protection available to eligible depositors in relation to failure of small non-systemic Jersey banks. It plays an important role in financial stability by providing confidence to consumers that their deposits would be protected in the event of a bank failure.

Additionally it helps demonstrate Jersey's on-going commitment to comply with international standards.