

INTERNATIONAL MONETARY FUND
Guernsey
Financial System Stability Assessment Update
Prepared by the Monetary and Capital Markets Departments
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Extract from document on the Guernsey Depositor Protection Scheme.

53. The establishment of the DCS represents a significant change in the relationship between banks, their depositors, and the authorities. The scheme covers deposits of individual depositors, wherever located, up to a maximum of £50,000 per person. It is not funded, though, although it has government-guaranteed liquidity back-up, but aims to pay compensation within three months of a bank failure. The maximum total amount of compensation is capped at £100 million in any five-year period.²⁰ Payouts would be scaled back were a number of banks, or one of the largest banks (by covered deposits), to fail in this period. Some 180,000 depositors had deposits covered by the scheme as at September 2008. However, analysis of data on the distribution of deposits as at that time (i.e., before the scheme's establishment) suggest that actual coverage level, in case of a single bank failing, is high—nearly 100 percent in the case of subsidiaries, although lower, at 62 percent, for bank branches. It will be paid for by the banks through annual charges and special charges in the event of a bank failure.

54. The limitations on the scheme need to be made clear to depositors and practical preparations to make actual payouts should be completed. The board of the DCS, which is separate from the GFSC, has published details of the scheme, including the limitations. Efforts should continue to prevent misapprehension by depositors of the extent of coverage. While the scheme has a target payout period of three months, which is longer than in other jurisdictions, steps should be taken to ensure payouts as early as possible to help support confidence. A high priority should therefore be given to work on ensuring that banks have the necessary IT systems to facilitate the early and complete identification of covered deposits in case of a failure. Finally, the Board of the DCS has certain powers to take action

²⁰ with GBP 1.2 billion in deposits covered by the scheme—i.e., amounts under GEP 50,000.

to ensure the lowest cost resolution in case of an actual or threatened failure, including providing financial support to prevent it. Policies need to be developed on the use of these powers and coordination with the comprehensive powers available to the GFSC (CP 23).

55. While the establishment of the DCS is, in general terms, a welcome development, a wider review of the DCS should be undertaken in the medium term. Its creation was a necessary response to the crisis pressures in 2008 and should help to support confidence in the

banking system in the future, and its design reflects certain limitations dictated by the nature of the Guernsey financial system. Nonetheless, in due course a wider review of the approach is needed, such as reducing the payout period, a review of the level of the cap on total payouts, the ex ante funding of the scheme, and a risk-based assessment of banks. The latter two points are already considered by the authorities, but will take time to be implemented, especially ex ante funding. This review could also take account of developing international standards on deposit insurance.