

Positive Action Group

Mrs Susan Woolard – Adviser Policy & Legal Division
FSC
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24th March 2008

Dear Mrs Woolard

PAG Submission - Options for Change to IoM Depositors' Compensation Scheme

We refer to your request for comment on your Consultation Draft re the above.

Positive Action Group (PAG) is a local community lobby group that seeks to stimulate education, discussion and debate of topical issues. It does so through open forums, meetings, lectures, films and debates on matters relating to the well being of the Island Community.

Part of our activity involves responding to government consultation processes. This PAG submission is made in that capacity.

With the benefit of hindsight, we strongly believe that levels of protection for depositors must be inflation-proofed in future and that Maximum and Minimum Bank Levies must rise by reference to growth in Deposits under management. Otherwise, the Island could be in danger of being viewed as asleep on the job,

If the essence of the 1991 legislation was to offer a genuine real level of Depositor Protection and to ensure the Banks contributed in proportion to the degree of exposure that their business brought to the Island, these figures should undoubtedly have been the subject of FSC annual review.

PAG hopes that the FSC will now act vigorously to recoup the slippage that has occurred over the past 16 years and to portray the required increase in Bank Levies as following on normally from business growth.

It is perhaps pointless for PAG to regret starting from here, but PAG certainly do not wish past inactivity to be to the detriment of properly protecting diligent savers, at the benefit of lucrative growth in bank business.

Yours faithfully

W Roger Tomlinson
Chair - Positive Action Group

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CONSULTATION RESPONSE

Options for Change to IoM Depositors' Compensation Scheme

Background

PAG is aware of the economic uncertainty from reduced confidence in the strength of collateral supporting bank lending (originally prompted by the US sub-prime lending) and the dramatic impact this has had on inter-bank lending.

The net result is that basically sound institutions may face difficulties due to transitional liquidity problems triggered by a global crisis of lending confidence.

In PAG's opinion maintaining Confidence is crucial to resolving present market liquidity problems. PAG's comments are based upon ensuring that any changes increase the general level of confidence in the Isle of Man as a place to deposit funds.

PAG Comments

1. The FSC primary role in the DCS must be to ensure good protection for all Depositors.
It is not to find a solution that protects Banks / Government from increased cost / contributions.
The FSC Consultation paper does not come over as taking public protection as its overriding objective in reviewing the status quo.
2. The suggestion that protecting international financial institutions from moral hazard is the responsibility of Depositors is ill founded and impractical. Depositors do not have the legal and financial research teams to investigate the comparative lending and collateral policies of different international/global financial institutions.
3. The FSC must set the regulatory framework for good banking practice and police it with the utmost vigilance. In particular, those Depositors who are also Island Taxpayers actually employ the FSC (as their paid government representative) to protect them from unwise banking practices. The FSC is actually "the expert" employed by Island Resident Depositors to safeguard them from moral hazard.
4. Because the Isle of Man attracts vast international deposits, with a relatively smaller local island resident depositor base, the Island scheme of protection has the ability to differentiate within the scheme between these two segments e.g.
 - a) Local Island Resident Deposits – secured perhaps at up to 100%
 - b) Foreign Resident Deposits – secured at international / UK standards

In support of this, local residents could use the argument that by saving locally with their FSC Approved Institutions, locally they can in no way be accused of encouraging moral hazard. Furthermore, the Treasury has sought ideas on increasing incentives for on-island saving and this concept could be a “nil cost” method of encouraging such saving.

PAG requests that examination is given to treating Island Resident Depositors and Foreign Depositors differently. Local Island Resident Depositors should receive the highest possible level of saving protection. Foreign Resident Depositors should receive the appropriate international level of protection.

5. There is a need to protect the financial reputation of the Island and to demonstrate that Island Officials are ever vigilant. The FSC should be take as given that Depositors are at least owed and entitled to a belated increase in protection in line with inflation. Otherwise, one must believe that Manx Politicians had voted for a scheme of protection that was intended to simply disappear with time !

PAG requests that revised savings protection levels are increased as a minimum to a level that reflects inflation since 1991.

PAG requests that FSC raise with CoMin that all legislation that attributes financial values to its subject matter has an inflation-proofing clause attached. Such clause to have automatic effect in the absence of legislation to the contrary.

PAG requests that FSC raise with CoMin that an urgent review is undertaken across all departments to identify any financial values that may have fallen out of line due to failure to inflation-proof figures.

6. **PAG requests clarification of the figures in tables at Appendix B for Total No. of Depositors and Total Net Value of Deposits, as they do not appear to add up**
7. To give a better sense of magnitude and recovery time for various levels of protection, it is suggested that each Option has its percentage value in relation to Island Wide Deposits calculated.

e.g. Option 1 = £288.6m / £42,128.9m** = 0.68% of Island deposit base***

** This is figure should be reduced to deduct one bank from the deposit base

*** If one further restricts the eligibility of claimants, one may need to restrict the deposit base to only those deposits falling within the protected definition

PAG requests that a percentage figure is produced for each Option which compares the effect of each Option upon the deposit base relied upon to fund that particular Option

8. PAG believes that the FSC Consultation Paper ought to calculate and spell out the levels at which the Bank Minimum and Maximum Levy ought to be

a) To keep in line with inflation since 1991 i.e.

Minimum £ 25,000 x 167.9% = £ 42,000

Maximum £250,000 x 167.9% = £420,000

b) To keep up with the dramatic growth in depositor base which is meant to be afforded protection

Minimum £ 25,000 x £50.54bn / £9.16bn = £ 138,000

Maximum £ 250,000 x £50.54bn / £9.16bn = £ 1,380,000

PAG requests that the FSC calculate and publish in the Consultation paper the levels for Minimum and Maximum Bank Levy levels in order to keep pace with both Inflation and with the fivefold growth in Deposit Base since 1991. In doing so PAG requests that the FSC point out most clearly that such amendments pose no extra real burden, as they merely reflect normal increases in line with business growth - in exactly the same way that staff numbers increase as a business grows.

9. PAG have grave doubts about using a period of global uncertainty to eliminate certain categories of beneficiary from protection under the scheme. In PAG's view this could send shockwaves throughout our international business base. All changes must be focused on catching up and strengthening our out of date legislation.

PAG requests that all changes to DCS are focused on increasing protection for Depositors and their savings by addressing previous erosion of protection by inflation, offering even greater protection to Island Resident Depositors and not losing competitive advantage to the UK and other jurisdictions by reduced levels of deposit protection.

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