



JERSEY FINANCE

VOICE OF THE INTERNATIONAL FINANCE CENTRE

Jersey Depositors Compensation Scheme – Briefing Document

Background to Jersey's Depositors Compensation Scheme (DCS)

In the current climate depositors are seeking reassurance regarding their savings. Following the unprecedented events of this year, many countries have introduced measures to protect investors. Therefore a DCS is essential to safeguard Jersey's reputation and demonstrate its commitment to operating a safe, well regulated jurisdiction and banking industry.

Jersey's DCS was approved by the States Assembly on Friday 6 November 2009 and came into force immediately. Depositors are now protected up to a maximum of £50,000 per depositor per Jersey banking group. This limit matches the protection offered in the UK, Guernsey and the Isle of Man, however, the limit will be reviewed should international standards change.

The previous "political guarantee" that was offered this year was a short-term measure in response to a period where banks were perceived by depositors to be at risk. The statutory DCS has now replaced the political guarantee that was previously in place and will pay compensation to both resident and non-resident depositors.

How does the DCS work?

The newly introduced Jersey DCS means that in the unlikely event that a Jersey bank should fail, compensation to depositors would be paid as follows;

- to claim compensation a depositor needs to apply to the DCS and provide proof of their deposit with the failed bank
- up to a maximum of £50,000 per depositor (£100,000 for joint accounts holders), per Jersey banking group
- the DCS would assume that the money in a joint account is split equally between the named account holders, unless evidence showed otherwise.
- the first £5,000 of a valid claim within 7 working days
- the balance to be paid within 3 months

A depositor with more than £50,000 with a failed bank would receive compensation from the DCS only up to the limit (i.e. £50,000). However, depositors with deposits above the limit may also receive a proportion of any higher balance from the liquidation of assets of the failed bank. Depositors would have to wait until the liquidator had completed the liquidation to find out how much, if anything, they might receive in addition to the compensation paid by the DCS.

Which deposits/depositors are protected?

- Deposits held by private individuals (i.e. retail deposits) and charities with Jersey bank accounts are protected
- Protection does not extend to corporations, SMEs, partnerships or trusts
- Deposits held by sole traders in their own name are protected
- In keeping with international standards, protection extends to deposits held by residents and non-resident
- Deposits in foreign currencies are also be protected



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In order to qualify for protection under the Jersey DCS, deposits must be held in Jersey with banks regulated by the Jersey Financial Services Commission. A list of these banks can be found on the Commission's website at:

http://www.jerseyfsc.org/banking_business/regulated_entities/index.asp

Members of credit union, Community Savings & Credit will also be able to claim up to a maximum of £50,000 from the DCS per member.

How is the DCS funded?

The DCS will be funded primarily through levies on Jersey banks, based on the proportion of protected deposits each bank holds. However, in order to ensure that the DCS is not unacceptably more costly than in other jurisdictions, these levies would be capped for each banking group over a five year period and the States of Jersey making any shortfall. In the event that the full £100 million liability of the DCS was called upon, banks would contribute about 2/3rds of funding with the States contributing about 1/3rd, which, in nearly all circumstances, would eventually be repaid from the recoveries from the failed bank. To summarise;

- Payments will be funded primarily through levies that the Jersey banks will pay to the DCS
- The overall amount of compensation that the DCS can pay out will be limited to £100 million in each 5 year period

Further Information can be found at:

<http://www.gov.je/ChiefMinister/International+Finance/Deposit+Protection/>