

Positive Action Group

Mrs Susan Woolard – Adviser Policy & Legal Division
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31st March 2008

Dear Mrs Woolard

PAG Submission 2

Options for Change to IoM Depositors' Compensation Scheme

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

Due to your time constraint PAG's initial submission of 24th March 08 commented on the amount of Depositor Compensation and Bank Levies.

We now submit comments upon the future structure and operation of the Scheme

Yours faithfully

W Roger Tomlinson
Chair - Positive Action Group

Positive Action Group

CONSULTATION RESPONSE (2)

Options for Change to IoM Depositors' Compensation Scheme

Background

This submission follows on from the PAG submission of 24th March 08.

It comments on the structure and operation of a future scheme.

PAG Comments

1. The Isle of Man Government must accept that the Island's DCS is primarily their responsibility – not the responsibility of the banks. By creating and policing the banking and financial regime within which deposit compensation scheme operates, the Government is its de facto Guarantor.

PAG agree that there is a need to pay Depositors promptly under any DCS. Consequently, PAG agree with the concept in the consultation paper that Government should have power to borrow to lubricate the flow of DCS payments.

PAG requests that Government is given power to borrow to meet any call on the DCS

2. The Isle of Man's reputation that will suffer catastrophically in the event of any bank failure, as well as the reputation of the bank concerned. The Island could not claim to be a centre of international finance and banking excellence, if it appeared to lack self confidence in its regime for deposit protection.
3. If the Government unreservedly accepts that providing a sound DCS scheme is a key responsibility, there is a need to examine improvements to the existing scheme from the standpoint of what might be the characteristics of a world-class leading DCS in a major international finance centre.

PAG requests that the following factors be considered in trying to develop a market leading DCS scheme to enhance the Isle of Man's reputation:

(a) All of a Depositor's money should be seen as worthy of protection, not just a portion thereof [to emphasise this point, savings protection should be viewed in the light of the unfairness that would ensue from someone losing their home due to collapse of a bank holding their House Sale proceeds]

(b) Payments to Depositors should be made within 2 months of a call upon the Scheme

(c) The Government should fund initial payment and supervise administration of the bank DCS collection process

(d) A realistic time period should be set for the remaining banks in the DCS syndicate to reimburse the Government under the scheme (e.g. 5 years)

(e) Government (i.e. taxpayers) should receive a fair market interest rate from the banks for interim funding of the DCS while collecting bank levies

(f) Banks should be required to deposit a substantial upfront DCS levy as part of being awarded a Bank Licence, in the same way that commercial businesses pay goodwill

(g) Banks should be required to deposit annual DCS contributions to help create a starter fund

(h) Banks DCS deposits should receive a fair market interest while on deposit

(i) The use of bank default bonds or insurance protection should be considered as a means to guarantee bank contributions to the DCS and also as a means for Depositors to obtain insurance protection at the level of 100% of funds on deposit in return for foregoing a small portion of their deposit interest

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