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The Jersey Depositors Compensation Scheme

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The Banking Business (Depositors Compensation) (Jersey) Regulations (the "Regulations") established a Jersey depositors compensation scheme (the "Scheme") designed to provide compensation to any person who has a bank account in Jersey with Jersey registered bank which enters bankruptcy. This has the effect of introducing a depositors compensation scheme equivalent to that in the United Kingdom.

Who is protected?

The Scheme will be available to any "eligible depositor" (wherever resident), defined as any person who is:

1. a natural person with a deposit in a bank account in Jersey, where such deposit is held: (a) for the person's own benefit (i.e. not as trustee); or (b) for the benefit of a child for whom that person has parental responsibility;
2. or the administrator or executor of the estate of a deceased person with a deposit in a bank account in Jersey, where such deposit represents the whole or part of the proceeds of the estate of the deceased person; or
3. a charity with a deposit in a bank account in Jersey.

The Scheme is not generally available to corporate entities.

A bank account in Jersey means any account in Jersey held at a person registered under the Banking Business (Jersey) Law 1991 to carry on deposit taking business. Therefore, the Scheme will apply to accounts at Jersey branches of foreign banks.

What is covered by the scheme?

If a Jersey registered bank becomes bankrupt, under the laws of Jersey or elsewhere, the maximum amount of compensation that may be paid to an eligible depositor is the lesser of:

1. £50,000; or
2. an amount equal to the total amount of all deposits in Jersey that he or she had with the bankrupt bank on the relevant date.

However, the maximum amount payable under the Scheme may be reduced if the eligible depositor receives payments in respect of those eligible deposits from:

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- A bank depositors compensation scheme operating in some other jurisdiction
- An insurance policy taken by the depositor or on his or her behalf
- The administrator of the bankrupt bank.

The eligible depositor is entitled to be paid £5,000 within seven working days of receipt of a valid application for compensation, with the balance being payable within three months of receipt of such application.

Administration of scheme

The Jersey bank depositors compensation board (the "Board") administers the Scheme and is has separate legal personality. It is independent of the States of Jersey and the Minister for Economic Development. The Board is not liable in damages for anything done or omitted to be done in the discharge of its function under the Regulations unless such act or omission was in bad faith.

How is the scheme funded?

When a bank registered under the Banking Business (Jersey) Law 1991 becomes bankrupt, the Board will, as soon as practicable, publish a notice and inform the Minister that such bank is now in default. The Board will then raise levies against other regulated banks or groups of banks in Jersey. The overall levy is apportioned according to the percentage of eligible deposits held by a particular bank as against eligible deposits held by all banks.

The maximum amount payable by each bank is 0.3% of the eligible deposits held by it subject to an overriding limit of in:

- Any five year period, an aggregate of £10,000,000 (unless 0.3% of the eligible deposits held by the bank is less than £10,000,000, in which case the limit is £5,000,000 for the five year period)
- Any 12 month period, an aggregate of £2,000,000 (unless 0.3% of the eligible deposits held by the bank is less than £10,000,000, in which case the limit is £1,000,000 for the 12 month period).

Payment of compensation

The Board may pay a maximum amount of £100,000,000 in compensation payments and meeting its administrative costs in respect of any one or more banks during any period of five years. If there is a shortfall of funds (subject to such cap) after the banks have contributed the maximum amount that they are required to contribute, the States of Jersey will be required to meet such shortfall.

Final words

In the financial chaos of the last few years, depositors of banks with reliable reputations located outside of Jersey have seen their bank submit to the threat of bankruptcy. Whilst no Jersey bank has suffered this fate,

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the Scheme provides Jersey deposit holders with comfort of protection and that Jersey is committed to tightening its regulation in the banking industry.

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