



**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

Lught-Reill Shirveishyn Argidoil Ellan Vannin

**Consultation Paper
Depositors' Compensation Scheme –
Review**

CP23-03

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Consultation Paper – CP23-03

This Consultation Paper is issued by the Isle of Man Financial Services Authority ('**Authority**'), which is the regulatory body for financial services in the Isle of Man.

The purpose of the consultation is to obtain views on some proposed changes to the Depositors' Compensation Scheme ('**DCS**').

The closing date for comments is **21 January 2024**.

Please send comments in writing and preferably by email to:

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If you have a query in relation to how this consultation has been carried out, please contact the Authority's Policy and Authorisations Division by email at Policy@iomfsa.im or by telephone on +44 (0) 1624 646000.

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Glossary

In this document the following terms have the meanings indicated below	
Term	Meaning
Authority	Isle of Man Financial Services Authority
Bank	Participant in the DCS
Banking Industry	Participants in the DCS
DCS	Depositors' Compensation Scheme, as prescribed in the Depositors' Compensation Scheme Regulations 2010 ¹
Depositor	A person who holds an eligible protected deposit with a participant bank
IoM	Isle of Man
Treasury	The Treasury of the Isle of Man Government

¹ https://legislation.gov.im/cms/images/LEGISLATION/SUBORDINATE/2010/2010-0683/DepositorsCompensationSchemeRegulations2010_10.pdf

1. Executive Summary

1.1 Overview

The Isle of Man ('IoM') has a Depositors' Compensation Scheme ('DCS') which is prescribed in the Depositors' Compensation Scheme Regulations 2010² made under section 25 of the Financial Services Act 2008³. Some information about the DCS may be found on [Isle of Man Depositors' Compensation Scheme \("DCS"\) \(iomfsa.im\)](https://www.iomfsa.im)⁴

The Authority, Treasury and the banking industry have together undertaken a review of whether the DCS legislation aligns with the International Association of Deposit Insurers ('IADI') Core Principles⁵ as far as is possible, practical and proportionate. Key aspects considered were the timeliness of payments; levels of payments to certain depositors; and public awareness of the DCS.

Proposed revisions will amend the current DCS by:

- Paying compensation in a more timely manner, up to specified levels, to depositors with deposits in a bank that has failed;
- Contributing to the financial stability of the Isle of Man; and
- Maintaining depositor confidence in the financial system.

The proposed revisions will also aim to increase public understanding about the DCS.

For the purposes of this consultation document, licenceholders with permissions to carry on Class 1(1) deposit taking business, and which are participants in the DCS, are referred to as 'banks'.

1.2 What is the purpose of this Consultation Paper?

The purpose of the consultation is to obtain views from affected parties on the proposed changes to DCS legislation.

1.3 Who may be affected by this Consultation Paper?

The general public, the banking industry, the Treasury and the Authority.

2. Consultation Process

2.1 The Authority's regulatory objectives

The Authority's regulatory objectives are set out in section 2(2) of the FSA08 as —

² https://legislation.gov.im/cms/images/LEGISLATION/SUBORDINATE/2010/2010-0683/DepositorsCompensationSchemeRegulations2010_10.pdf

³ https://legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/2008/2008-0008/FinancialServicesAct2008_16.pdf

⁴ <https://www.iomfsa.im/consumer-material/isle-of-man-depositors-compensation-scheme-dcs/>

⁵ <https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf>

- (a) securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity;
- (b) the reduction of financial crime; and
- (c) the maintenance of confidence in the Island's financial services, insurance and pensions industries through effective regulation, thereby supporting the Island's economy and its development as an international financial centre.

The Authority is required to give consideration to certain factors when discharging its functions in accordance with paragraph 3 of Schedule 1 to the FSA08. The factors that are most relevant to this proposal are:

Functions – manner of discharge	Reason
(b) the need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments ...;	The changes aim to make the DCS more effective
(d) the desirability of implementing and applying recognised international standards;	The aim is to more closely align to IADI's international standards
(f) the need to safeguard the reputation of the island;	Meeting international standards will safeguard the IoM's reputation
(g) the need to promote public understanding of the financial services, insurance and pensions industries;	Simplifying and clarifying the DCS will aid public understanding
(k) the impact of its decision on the stability of the financial system of the Island.	One aim of the revisions is to reduce the burden on taxpayers and thereby to improve the IoM's financial stability

2.2 Responding to the Consultation Paper

Open dialogue with stakeholders is an essential element for successful development of the Authority's proposals. Constructive feedback will help the Authority reach an informed decision on the content of the proposals and manner of implementation. Respondents should note the following when responding to this Consultation Paper:

- As responses to the consultation may be subject to publication or disclosure in accordance with access to information regimes, respondents should state if they wish their response to remain confidential and, if so, the reasons for this.
- Submissions received by the closing date of the consultation will be considered but may not necessarily result in a change to the proposals following a review of all responses received.
- Professional bodies, trade associations and other representative groups should provide a summary of the people and organisations they represent when responding to a consultation as well as the methodology used to gain members' input.

- The Authority requests that submissions are not made anonymously as they will not be considered or included in the Consultation Response.

This Consultation Paper has been published on the Authority's website and the Isle of Man Government's Consultation Hub⁶. A list of specific representative groups to which this Consultation Paper has been sent is shown in Appendix A.

3. Proposals

3.1 Overview

The international banking landscape has changed significantly over the last 12 months, with increased focus on both depositor compensation and resolution strategies for banks of various sizes. These changes have confirmed the importance of robust macro-prudential, regulatory and supervisory standards.

It is proposed to introduce a new framework for the DCS, with up to date legislation which is in line with the requirements of IADI's Core Principles for Effective Deposit Insurance Systems as far as is possible, practical and proportionate.

The revision of the DCS framework will:

- Compensate depositors of Isle of Man Class 1(1) licensed banks ([DCS - list of deposit takers in the DCS \(iomfsa.im\)](https://www.iomfsa.im/consultation/2023/01/10/dcs-list-of-deposit-takers-in-the-dcs-iomfsa-im)⁷) and help safeguard the stability of the banking system by:
 - Reviewing the coverage of the scheme, to help ensure it can pay compensation up to a certain level and in a timely manner, to depositors whose bank has failed;
 - Contributing to the financial stability of the Isle of Man; and
 - Maintaining depositor confidence in the financial system.
- Require participants to provide timely, accurate and comprehensive information in the form of a Single Customer View ('SCV') file to facilitate collation of data about depositors' account balances. (See 3.2 for more information on SCV).
- Enable banks to be charged for the costs of developing and establishing an SCV system.
- Implement a compensation payments mechanism based on the data gathered by the SCV system. This will aim to facilitate a speedy pay out to depositors i.e. within 7-14 days of invocation of the DCS. It will also instigate a structured testing regime of the bank's data files.
- Make legislative amendments to enable collation of SCV data and charge banks for the costs of establishing and operating such a system. This is proposed via:

⁶ <https://consult.gov.im/>

⁷ <https://www.iomfsa.im/media/2863/dcs-deposit-takers.pdf>

- **a short term solution** comprising an amendment to the Financial Services Rule Book 2016⁸ and a specific Fees Order. The draft legislation comprises a *Financial Services (Deposit Data) (Amendment) Rule Book 2024* and *Financial Services (Deposit Data) (Fees) Order 2024*⁹. These may be found in Appendix B of this consultation document; and
- **a longer term solution** comprising an amendment to section 25 of the Financial Services Act 2008. This is currently pending drafting, but (if approved) is likely to be introduced by 2025. A separate consultation on this draft legislation will follow.

The proposed Rule Book change will require each participant to submit to the Authority information on the total amount of eligible protected deposits held by the bank and other information relating to the customer.

The proposed Fees Order will require participants to pay a levy which will represent a share of the costs for the design and implementation of the SCV system, a payments mechanism and ongoing maintenance of these. Three different fee levels are proposed, which will relate to the numbers of accounts held by the banks. This banding is based on the format used in Jersey.

Outside the legislative process, the new DCS framework project will also:

- Determine technological requirements;
- Identify through the appropriate procurement process a suitable Third Party Supplier that will manage any invocation of the scheme;
- Develop a technological solution to make any necessary payments;
- Consider processes to raise public awareness of the DCS; and
- Put in place updated invocation plans and a new framework for operational processes that would apply if the DCS is activated. This will include considerations for the funding of the DCS, the handling of claims, pursuing recoveries from the liquidation and the pay-out process. It is anticipated that these will all be different following the implementation of SCV.

3.2 Single Customer View ('SCV')

SCV is a mechanism already in use in other jurisdictions (including Jersey and Guernsey) to collate data about depositors' account balances with banks. This system facilitates smooth and fast payments of compensation under a DCS.

⁸ https://legislation.gov.im/cms/images/LEGISLATION/SUBORDINATE/2016/2016-0264/FinancialServicesRuleBook2016_4.pdf

⁹ Note that the draft Fees Order is included for information only at this stage. The draft fees legislation will be subject to separate consultation when SCV system costs are known.

It is proposed that, following the introduction of legislation to enable collation of this data (see Appendix B), a third party supplier will be appointed to process the SCV data, handle the claims in the event of a bank failure and possibly pursue recoveries from the liquidation.

Summary of SCV targets
1. Development of customer files
2. Development of a payments mechanism
3. Ongoing system support, updates and stress testing

The Authority will develop details of the SCV plans in due course, taking into consideration matters such as data protection and IT security.

3.3 Limits of compensation and funding

Working with the banking industry, the Authority has reviewed the current levels of compensation payable under the DCS (see regulation 13), with the aim of ensuring that depositors are appropriately protected. The following categories of depositors are eligible for protection up to the levels shown:

Category	Current maximum level	Proposed maximum level
Individuals and sole traders (An account held jointly by two individuals would have double the protection)	£50,000	£50,000
Companies incorporated in the Isle of Man	£20,000	£50,000
Trusts	£20,000	£50,000
IoM registered charities	£20,000	£50,000

The proposed increases in maximum compensation levels to £50,000 for companies, trusts and charities will provide consistent levels of cover across all areas. The cover for local companies will provide the same level of cover for IoM incorporated businesses as for sole traders.

No other changes to compensation or funding limits are planned.

3.4 Pay out Timeline

There is currently no specific timeline in place for the pay-out to depositors in respect of their protected deposits. However, the current international standard is for the majority of pay-outs to be made within 7-14 days and the new DCS framework will aim to meet this timeframe.

The SCV system will be designed to facilitate faster compensation payments through same-day calculation of each depositor's net deposits and collation of all depositors' data.

3.5 Simplification and clarification of wording in DCS

The current DCS legislation dates from 2010, but some provisions are based on those in the IoM's first DCS legislation (dating from 1991). Consequently, many of these provisions would benefit from modernisation, simplification and clarification.

An objective of future DCS Regulations will be to simplify and clarify the wording of the current DCS Regulations.

4. Impact Assessment

The introduction of a SCV payments mechanism will have a significant positive impact on depositors, as the timescales for payment of compensation under the DCS will be reduced to 7-14 days for the large majority of depositors. Depositors will also benefit from clearer DCS legislation.

The proposed increase in compensation limits for IoM Companies, Trusts and Charities will increase the burden on participants, but it has been calculated that the overall sum to be paid out will only increase by approximately 3.5%. Views of participant banks are divided equally regarding this proposed increase in compensation – some suggest it may make these banks more commercially attractive.

The Authority and the Treasury are only expected to incur costs in developing the legislation and administering the initial set up, as set up costs of the SCV system will be met by participants. The proposals will not lead to any other increased costs or risks to IoM Government.

No impact on the public or other bodies, other than as described above, is anticipated.

5. Questions

Question 1

Please explain why you do or do not agree with these proposals

Question 2

Please provide any comments on the draft legislation shown in Appendix B, namely the:

- Financial Services (Deposit Data) (Amendment) Rule Book 2024; and
- (Financial Services (Deposit Data) (Fees) Order 2024¹⁰)

Question 3

Please provide any additional comments

6. Next Steps

Following closure of the consultation period, the Authority will review the responses received and publish a Consultation Response document on the Authority's website and the Isle of Man Government's Consultation Hub.

Subject to no significant comments, the Authority will submit the draft *Financial Services (Deposit Data) (Amendment) Rule Book 2024* to Tynwald soon thereafter. The draft *Financial Services (Deposit Data) (Fees) Order 2024* will be subject to separate consultation and progressed to Tynwald when costs of the SCV system are known.

¹⁰ Note that the draft Fees Order is included for information only at this stage. The draft fees legislation will be subject to separate consultation when SCV system costs are known.

Appendix A – List of Groups to which this Consultation Paper has been sent

- Isle of Man Bankers Association
- Jersey Financial Services Commission
- Guernsey Financial Services Commission
- Gibraltar Financial Services Commission
- Members of the Affiliation of Micro European States (AMES)
- IoM Information Commissioner

Appendix B – draft legislation:*Financial Services Act 2008***FINANCIAL SERVICES (DEPOSIT DATA) (AMENDMENT)
RULE BOOK 2024***Approved by Tynwald:**Coming into Operation:*

The Isle of Man Financial Services Authority makes the following Rule Book under section 18 of, and Schedule 3 to, the Financial Services Act 2008, after carrying out the consultations required by section 44(5) of that Act.

1 Title

This Rule Book is the Financial Services (Deposit Data) (Amendment) Rule Book 2024.

2 Commencement

If approved by Tynwald this Rulebook comes into operation on xxx 2024.

3 Amendments to the Financial Services Rule Book 2016

(1) In connection with the Depositors' Compensation Scheme, the Schedule to the Financial Services Rule Book 2016 is amended as follows.

(2) After Rule 2.24, insert the following –

«

Rule	Application
<p>2.24A Deposit data</p> <p>(1) A licenceholder must submit to the Authority the following information as specified in a notice to the licenceholder ("SCV Notice") –</p> <p style="padding-left: 40px;">(a) a statement of the total amount of eligible protected deposits held by the licenceholder as at a time specified ("SCV Report"); and</p> <p style="padding-left: 40px;">(b) other information that may relate to –</p> <p style="padding-left: 80px;">(i) the eligible protected deposits held by the licenceholder; and</p> <p style="padding-left: 80px;">(ii) the design and implementation of an SCV System.</p>	All Class 1(1)

<p>(2) The SCV Report must be submitted in the form, within the time and using the method of electronic communication specified by the Authority.</p> <p>(3) In paragraph (2) “electronic communication” has the same meaning as in the Electronic Transactions Act 2000.</p> <p>(4) In this rule –</p> <p style="padding-left: 2em;">(a) “eligible protected deposit” and “Depositors’ Compensation Scheme” have the meanings given in the Depositors’ Compensation Scheme Regulations 2010¹¹; and</p> <p style="padding-left: 2em;">(b) “SCV System” or “Single Customer View System” means a data system to enable the calculation of licenceholders’ total eligible protected deposits.</p>	
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MADE _____ 2024

B. ROTH*Chief Executive of the Isle of Man Financial Services Authority***L. BOYLE***Chairperson of the Isle of Man Financial Services Authority***EXPLANATORY NOTE***(This note is not part of the Rulebook)*

This Rule Book adds to the Financial Services Rule Book 2016 a requirement for Class 1(1) deposit takers under the Financial Services Act 2008 to submit information to the Authority regarding deposits held, to enable calculation of total deposit liabilities in connection with the Depositors’ Compensation Scheme.

Fees to be charged for establishing and administering a system for calculating this deposit liability data are specified in the Financial Services (Deposit Data) (Fees) Order 2024.

¹¹ SD 2010/0683

This is a preliminary version of the draft Fees Order for information only.
The draft fees legislation will be subject to separate consultation following the design of the SCV system.

Financial Services Act 2008

FINANCIAL SERVICES (DEPOSIT DATA) (FEES) ORDER 2024

Approved by Tynwald:

Coming into Operation:

The Isle of Man Financial Services Authority makes the following Order under section 46 of the Financial Services Act 2008 after carrying out the consultations required by section 44(5) of that Act.

1 Title

This Order is the Financial Services (Deposit Data) (Fees) Order 2024.

2 Commencement

If approved by Tynwald this Order comes into operation on xxxx 2024.

3 Application

This Order applies to all licenceholders holding licences under section 7 of the Financial Services Act 2008 to carry on Class 1(1) regulated activity as specified in Schedule 1 to the Regulated Activities Order 2011¹².

4 Interpretation

In this Order —

- (a) “**eligible protected deposit**” and “**Depositors’ Compensation Scheme**” have the meanings given in the Depositors’ Compensation Scheme Regulations 2010¹³; and
- (b) “**SCV System**” or “**Single Customer View System**” means a data system to enable the calculation of all licenceholders’ total eligible protected deposits.

¹² SD 884/11

¹³ SD 2010/0683

This is a preliminary version of the draft Fees Order for information only.
The draft fees legislation will be subject to separate consultation following the design of the SCV system.

5 Deposit data – SCV System design specification fee

- (1) In respect of the Depositors' Compensation Scheme, a licenceholder must pay to the Authority a fee which represents a share of the costs of the design and implementation of –
 - (a) an SCV System; and
 - (b) a mechanism for payments in accordance with the SCV System.
- (2) The amount of the fee payable by each bank is £xxx.
- (3) This fee must be paid by xxx [date].

6 Deposit data – SCV annual fees

- (1) In respect of the Depositors' Compensation Scheme, a licenceholder must pay to the Authority an annual fee representing a share of the administration costs of the SCV System.
- (2) The amount of the fee payable by each bank is £xxx.
- (3) The annual fee must be paid by xxx [date].

MADE _____ **2024**

BETTINA ROTH

Chief Executive of the Isle of Man Financial Services Authority

LILLIAN BOYLE

Chairperson of the Isle of Man Financial Services Authority

EXPLANATORY NOTE

(This note is not part of the Order)

This Order specifies fees that must be paid by Class 1(1) licenceholders for establishing and administering an SCV System for calculating deposit liability data in respect of the Depositors' Compensation Scheme.

The requirement to submit such data is in the Financial Services (Deposit Data) (Amendment) Rule Book 2024.