

## **ARE BANK DEPOSITS SAFE IN THE ISLE OF MAN?**

Northern Rock and HBOS rescued. Lehman Brothers failed. Who is next? Recently the Financial Times wrote:

‘Banks deemed to be potentially short of capital – Barclays, HBOS and UBS for example – will be judged vulnerable.’

UK banks were highly leveraged in 2007 and never less liquid. High leverage, low liquidity was an accident waiting to happen. It is picking off the vulnerable one by one. It may only be a matter of time before there is a victim in the Isle of Man.

The lesson of Lehman Brothers is that not all banks will be saved.

How safe are banks in the Isle of Man? The FSC have said:

‘No financial transaction is without some risk.’

‘.. the important element is that depositors must use their own judgement in assessing institutions where they place their deposits.’

Not very encouraging, it gets worse:-

‘I would reaffirm that it is not the role of the Commission to prevent failure.’

The FSC is clear – don’t blame us.

Locally incorporated banks can muster two credit ratings between them. Most locally incorporated banks are deposit gathering operations. Most lend much of their deposits to their parent, so safety depends on the parent’s ability to repay. What does the FSC know about the parent?

We asked the FSC this question suggesting the FSC did not have full information from parent regulators. Our understanding of their reply was they did not have full information about the ability to repay. The FSC should publish details of the type of information they get, so we all know what they take on trust. We should also be told which local banks have restrictions on sending deposits back to their parent bank? We want to avoid those banks.

What can you do?

1. Get a copy of your local bank’s and its parent company’s accounts. The parent bank accounts are impenetrable and if you fully understand them please can the writer work for you.
2. Ask if they have a credit rating.

3. Compare the interest rates offered by local banks generally. Higher rates may mean higher risk.
4. Look at the press clippings for the banks. Negative press worries the funders.
5. Ring the FSC and ask them what to do.
6. Ring the local directors and ask them.
7. Decide that you really don't know what to do.

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