

April 2008

Financial stability and depositor protection: strengthening the framework

This letter also forms Bradford and Bingley's response to the tripartite consultation on Financial Stability and Depositor Protection. It should therefore be read in conjunction with the response of the BBA, with whose views we concur.

There are three areas of the BBA submission which we would like to stress in particular:

- First, that communication of any change needs to be extremely carefully handled. Customer confidence in the banking system is understandably fragile at present and we suspect many account holders are unaware of the current position regarding protection in the event of a bank failure. A careful balance therefore needs to be struck between raising awareness of any revision to depositor protection arrangements, and raising anxiety.
- Second, Bradford & Bingley agree with the BBA that the case has not yet been made for pre-funding.
- Third, there is a need for a distinction to be drawn between the needs of current account holders and savings accounts holders (Bradford & Bingley's interest being the latter). For example there is little need for a 1-week payout for fixed rate depositors, many of whom are likely to be much more interested in knowing that their money is secure. Indeed for all customers, liquidity and security are all generally more important to account holders than immediate pay-outs in the event of bank failure. For these reasons the very large costs involved in the system changes needed for 1-week payouts appear difficult to justify.

A number of additional points where we take a slightly nuanced position from some of our industry colleagues:

- First, we take the view that there is scope for a modest increase in the £35,000 limit perhaps to take account of inflation or earnings growth. We have no specific figure in mind.
- Second, we believe there is a need for a level playing field for all contributors to the scheme, and for all banks covered by the scheme. For example it is important to ensure that new entrants to the UK market do not benefit from any new scheme if they have not contributed to it.
- Third, there is a need to ensure that consumers are made aware that several large banks own several brands, to avoid consumers switching accounts in the erroneous belief that they covered by separate depositor protection cover.

In relation to this last point, you asked whether we had a view on depositor protection operating on a per-account basis. This is an idea worth further consideration, though the issues associated with customers with multiple account holdings may prove difficult over time.

Bradford & Bingley does have concerns about the apparent competitive advantage enjoyed by Northern Rock because of its effective unlimited depositor limit. We have anecdotal evidence of account switching and some 'mystery shopper' experience of Northern Rock sales staff unfairly marketing this advantage.

Yours sincerely,