

The Isle of Man's banking sector - where are we now and what is the future?

The banking industry is undergoing a seismic shift. John Hunter is confident that the Isle of Man is well-placed to face future changes

There is no doubt that the banking industry is undergoing a seismic shift. In 2018 and the upcoming years, banks are facing various challenges and opportunities related to regulations, legacy IT systems, disruptive models and technologies, new competitors, and a restive customer base while pursuing new strategies for sustainable growth.

For years, we have seen the restructuring of banking operations around the world - and the Isle of Man has been no different. Our economic sectors are served by a strong base of private and retail banks that support the growth of businesses and enterprise on the Isle of Man. In this article, we look at the current state of the Island's banking sector, the Alternative Banking Regime and share our outlook for the future.

The current state of the Isle of Man's banking sector

The Isle of Man is an established banking centre with £35.8 billion deposits. It is aligned with international regulatory standards and is committed to protecting depositors.

The Isle of Man is home to an array of domestic, UK and international banks including Barclays Bank, Cayman National Bank & Trust Company (Isle of Man), Conister Bank, HSBC, Isle of Man Bank, Lloyds Bank International, Nedbank Private Wealth, Santander UK, Standard Bank Isle of Man, The Royal Bank of Scotland International.

The Island's banking sector provides a diverse range of services including deposits, treasury services, foreign exchange, trust and corporate services, residential mortgages, investment property finance, commercial finance, corporate finance, asset and wealth management. Though sterling based, the Island is highly experienced in multi-currency banking, making servicing global clients all the easier.



John Hunter is Head of Banking and Fiduciaries, Isle of Man Department for Enterprise

The Alternative Banking Regime

The Alternative Banking Regime (ABR) is an innovative framework designed to open the Isle of Man banking sector with the objective of providing banking services tailored to a wider and more diverse sector of businesses including e-gaming, fintech and e-business.

The Island can now offer three types of licence, namely, Retail, Non-Retail and Representative Office. The ABR is part of a suite of initiatives created to support the Island economic sectors and to attract banking operations, in particular private banks, foreign bank branches and representative offices.

... businesses and individuals look for a service that is specific to their needs and objectives



The ABR expands the existing Class 1 (deposit taking) banking licence to include:

- Class 1 (1) – for typical existing banks and any taking retail deposits.
- Class 1 (2) – for non-retail deposit takers - those that provide services to a very limited class of individuals, and corporates.
- Class 1 (3) – for Representative Offices of Foreign banks not able to take deposits in the Island.

Banks operating under the Class 1(2) and Class 1(3) would not participate in the Depositors' Compensation scheme thereby removing this liability from them.

The Class 1(2) licence is a restricted deposit taking licence which enables a bank to carry out deposit taking only for a limited and specified customer base, 'restricted depositors.' In summary the definition of a 'restricted depositor' is regarded as:

- A body corporate,
- An individual who certifies that they have a minimum of £500,000 net worth, or

- An individual who is a trustee of a particular trust, who certifies that the assets of that trust are valued at a minimum of £500,000.

In the case of deposits held jointly, each depositor must meet one of the criteria above in their own right. Corporation tax on profits for retail deposit-based businesses is set at 10 percent with all other banking activities rated at 0 percent.

The ABR creates a unique opportunity for banks to develop a new proposition. It should be noted that wider ownership models would be permitted, rather than just those of existing banking groups, subject naturally to the usual rigorous tests of transparency, fit and proper and adequacy of financial resources.

For technology based or other financial services businesses the ABR can offer the opportunity to explore a natural progression in to the provision of banking services in an environment that is both supportive and financially attractive.

Outlook for the future

Whether it is the change created by Open Banking or the innovation from fintech disruptors, it is no secret that the global banking industry will continue to transform. Recent years' developments have highlighted that there is no 'one size fits all' for banking. Instead businesses and individuals look for a service that is specific to their needs and objectives.

By listening to the demands of the customers and the institutions themselves, we created an innovative regime with the flexibility to be effective whilst retaining its fundamental regulatory and corporate governance

requirements. ABR represents an important part in the evolution of the Island's banking sector, and we are excited and confident in the sector's future. ■

John Hunter is Head of Banking and Fiduciaries, Isle of Man Department for Enterprise