

New State bank to demonstrate independence

The autumn announcement by Barclays to remove its retail operation and dramatically reduce private finance work meant only one high street banking name remained to serve the community. It was not good for the finance centre image either, but the planned launch of Gibraltar International Bank (GIB) next October is set to change things.

A new State-controlled retail bank is to be established this autumn in Gibraltar to meet the needs of local business and individuals and to coincide with the withdrawal of Barclays services locally.

"This can be achieved in the timescale, but it will be a challenge", said Marcus Killick, retiring chief executive of the Financial Services Commission (FSC), which is responsible for issuing a banking licence in response to a government pre-Christmas application to form GIB.

The FSC most likely will issue a 'banking licence in principle, but subject to conditions' by mid-February assuming the initial application meets with the regulator's approval, and that will give the investing government confidence to build a team, acquire offices and prepare for launch.

"But the bank doors will not open until all of any conditions the FSC requires are met to its full satisfaction. We need this to protect depositors, borrowers and anyone using or having dealings with the bank. We will not cut any corners in our supervisory approach", Killick told *Gibraltar International*.

"The last thing the FSC wants is to see any bank under its supervision get into any difficulties, let alone fail. Apart from anything else, this would be materially harmful to the reputation of the jurisdiction as a whole."

The GIB banking license application is being treated by the FSC like any other with the same process, except for the fact that the regulatory body has agreed to "prioritise the application in the interests of the community as a whole".

Two, not one

But the devil will be in the detail. The October decision by Barclays to remove retail and corporate services within a year as part of a global reduction in services, caused

the government to accelerate its long-standing consideration of whether to establish a community bank in addition to, or as part of, its existing Gibraltar Savings Bank.

A 'professional team' has been engaged for GIB and initial discussions held with the FSC; the government assured the bank would be "independently managed by professionals with appropriate banking experience". No detail on who is involved has been given, but most likely will involve at least some of the Barclays team.

But approval of the application requires more: the FSC, mindful of public awareness of worldwide historic banking issues, will look closely at the quality of the management and Board before the bank begins business.

Independence key

The FSC will need confidence in the people, the governance and independence in the manner in which it conducts day-to-day business. The Board must demonstrate that it is keenly aware of what is going on at all times and evidence that it is not doing what others want.

There has long been a call for wider availability of loans to overcome quotas from existing banks on the extent to which they will lend for a particular purpose – in this case mortgages – and by location that for example, places limits on individual housing projects. Civil servants can be Board members, but most of the Board should be independent of government as principle shareholder on the basis that shareholders do not run the bank, the Board does!

Killick, who received an OBE in the Queen's New Year Honours for services to the regulation of financial services in Gibraltar, confirmed: "The level of supervision will be identical to the other licensed banks and in full compliance with European requirements and international standards."

There will be checks on finances – analysing income, expenses, capital (tiered by risk to reflect greater risks) – and business plans. After launch, on-site risk assessments will take place and the bank will be required to make regular prudential returns to the FSC. Crucially, it will need to know details of the most significant depositors and borrowers to assess counterparty and other risks.

Minimum capital

The basic minimum capital for a Gibraltar bank start-up is €5m – the old rule was 8% to the amount being lent, but in Gibraltar it usually has been set at 12-15%. Banks also need to look at the liquidity to make sure there is sufficient capital available to meet immediate demands, and then varying layers (proportions) thereafter.



Regulator Marcus Killick says no corners cut

Basel III is the worldwide new standard for banks, effective in Gibraltar from January, ensuring a sufficiently high core Tier 1 capital level to absorb any losses.

Samantha Barrass takes over as FSC chief executive in mid-February from being executive director of the Solicitors Regulatory Authority (SRA) in England & Wales, and as such will have responsibility of steering the licence approval process.

Gibraltar Savings Bank was to have been developed more as a retail bank, but the government now says it will cater not just for deposit holders, but in conjunction with GIB, offer further services, including managing payments made by Government in the most cost efficient manner. Managing the relationship between the two banks was a "critical" factor, the Chamber of Commerce said in welcoming formation of GIB, which should have "commercial, but reasonable" lending terms.