



10 DOWNING STREET

From the Private Secretary

30 December, 1981.

Deposit Protection Scheme

The Prime Minister has seen the Chancellor's minute of 23 December about this scheme. The Prime Minister has no objection to the conclusion reached by the Chancellor. She has commented that she hardly thinks the Government can be accused of being too cosy with the banks after this year's taxation measures. She is therefore content for the Chancellor to proceed as he proposes. She hopes that he will prepare the ground carefully for an announcement.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. A. PATTISON

John Kerr, Esq.,
HM Treasury.

010
Cable
Don M. Ed P. 9

CONFIDENTIAL



AD
AW
JV
2

Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

To note.
PLS 24/12

PRIME MINISTER

1 hardly think we
can be accused of being too
close with the banks after
this year's legislation.
How you will prepare
the ground
for an
announcement
mt.

DEPOSIT PROTECTION SCHEME

You may remember that the Banking Act 1979 included a scheme for the protection of depositors, under which the banks would contribute to a fund to provide partial reimbursement of depositors if an institution became insolvent. The banks indicated at the time - and since - that they did not like the scheme. Nor, in Opposition, did we, though we were prepared to acquiesce in its reaching the Statute Book before the Election because there were other things in the Act to which we attached importance.

2. The scheme has not yet been implemented. I frankly don't believe that we can leave it in limbo any longer. There are two risks in doing so. First, banking supervision should reduce the risk of banking failure, but it cannot eliminate it. In particular, some deposit-taking institutions have been given transitional licences on the basis that they are given the benefit of the doubt, rather than put out of business, and on the assumption that the scheme would in the end be introduced. We could be vulnerable to criticism if an institution were to fail, and we had not set up the safety-net for depositors which Parliament approved. Secondly, we might be obliged, in such circumstances, to concede compensation at public expense.

3. It follows, I think, that we must either make it clear that we are not going to implement the relevant provisions of the Act, and repeal them, or implement the scheme. Doing nothing could initially be justified as giving us time for reflection: but this is becoming more and more implausible.

CONFIDENTIAL



4. Repeal, it seems to me, is simply not on politically. There would be widespread criticism, some of it from the benches behind us, that our relationship with the banks had clearly become altogether too cosy. While we would not have chosen to put the scheme on the Statute Book if we had been drafting the 1979 Act, it is now there, and to repeal it would be a much more significant, and controversial, political act than not to have introduced it in the first place.
5. Implementing the scheme will of course be unwelcome to the clearing banks, and they will point to the lack of a similar provision for building societies. But the building societies have given assurances about their readiness to help, if one of them gets into difficulty, and are discussing a voluntary scheme of their own. Moreover, and more important, the banks have to recognise that the crucial difference is that, whereas Parliament has not been asked to consider legislating for a comparable scheme for the building societies, the bank deposit protection scheme has been on the Statute Book for 2½ years.
6. I intend therefore to announce fairly soon that the scheme will be activated. But I thought I ought first to let you know why I have reached this rather unsatisfactory, but I think unavoidable, conclusion. We face a choice of evils, but implementation is, I am sure, the least unsatisfactory of the three available options.
7. A copy of this minute goes to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

G.H.

23 December 1981