Raphaels Bank
Since 1787

To: Basel Committee

Dear Sir

We write in respect of the Basel Committee on Banking Supervision Consultative Document on large exposures (the "CD"), which invites comment by 28 June 2013.

We have only one area of concern in respect of the document which relates to section 133, specifically:

"The committee therefore encourages jurisdictions to consider applying stricter limits to exposures to D-SIBs ***and to exposures of smaller banks to G-SIBs***."

By any standards Raphaels Bank will be considered as a smaller bank and therefore may possibly be affected by this suggestion if adopted by our regulator. Accordingly we wish to lay out to you our current position and issues and a reasoned case for why an application of this suggestion would both exacerbate a current market distortion and probably be impossible to implement for us, leading us to exit the prepaid card market in which we are currently one of the UK's leading issuers.

Unlike most banks, Raphaels' balance sheet is significantly impacted by its activity in the prepaid card market. In balance sheet terms, on the liability side we currently hold around £140m (sterling equivalent) of prepaid card balances, reflected as cardholder liabilities. For liquidity purposes, to allow for daily settlements and to comply with the requirements of Visa and MasterCard, a significant proportion of these balances needs to be held in cash, we estimate around 40% on an ongoing basis, with the remainder held in short term zero-weighted instruments. Roughly half of this 40% is needed on a readily available basis for settlement purposes. At present these cardholder liabilities are not used in any lending by the Bank to other customers.

We have a panel of banks we use for this purpose which currently comprises, Barclays, HSBC, Lloyds, Royal Bank of Canada, Svenska Handelsbanken, Standard Chartered, Deutsche, ING, Societe Generale, BNP Paribas, RBS, Clydesdale, Bayerische Landesbank, Raiffeissen, Santander. Of these, the only non G-SIB banks acting as a settlement bank in the UK are Lloyds and Clydesdale (each of which we believe would be classified as a D-SIB), and there are no other highly rated UK capable settlement banks.

Our plan suggests that we will reach £250m of balances in the next three years implying a requirement of £100m in cash.

Under BIPRU 10.6.32R we currently enjoy, subject to our own risk assessment, the ability to place deposits with other banks up to 100% of our capital, currently c £22m. This exemption follows the EU Directive 2009/111/EC.

So, with our current panel of banks and our ability to use zero-weighted investments, we believe we have sufficient capacity to grow our successful prepaid card business for the foreseeable future.

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However, if the option discussed in the CD highlighted above were to be accepted and (worst case) imposed at a 10% of capital level on us (as a smaller bank) for G-SIBs and D-SIBs, then to run our business in 3 years' time if our plans are met, we would need to have at least 45 counterparty banks with half of these capable of carrying out UK settlements. Such banks do not exist.

Apart from the issue of such a large number of banks, we believe this or any significant move in this direction would become unduly burdensome for us from an administrative perspective and, if imposed, would probably lead to us exiting this market.

We can then contrast this potential lower limit of £2.2m per bank with the lack of a large exposure regime that applies to e-money licence holders. A licensed electronic money institution with our level of capital could hold £1.1bn with a single bank based on the capital requirement of 2% and the absence of any exposure regime. Whilst licensed electronic money institutions are regulated entities, we are aware that the regulatory regime under which they operate is significantly lighter touch than that of a Credit Institution and we are at something of a loss to explain even the current disparity in this respect. This also puts us at a competitive disadvantage (as we have increased operating costs through operating so many counterparty banks), which would be significantly increased if our exposure limits were further reduced.

Accordingly we request that the CD be amended to the effect that section 133 should exclude the reference to any encouragement to tighten the limits on smaller banks on the basis that this may distort competition in the e-money and emerging payments space and that the current arrangements should remain unchanged. Alternatively, as a fallback from our perspective, a positive encouragement to national regulators to apply waivers (assuming they will continue to exist) to e-money and emerging payments customer balances would work.

Yours sincerely

Miles Roberts
Chief Executive Officer
12 June 2013

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