

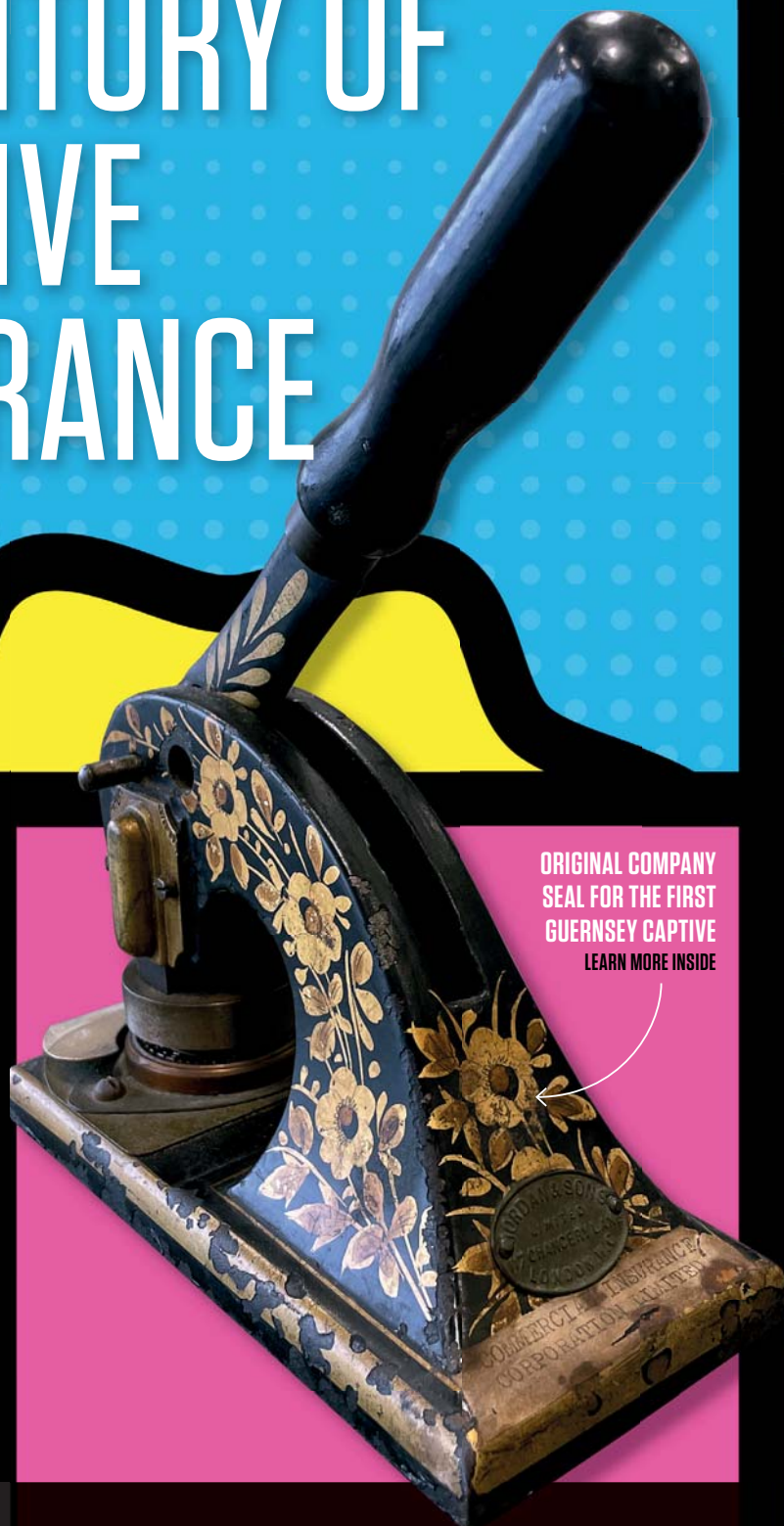
# GUERNSEY 2022

## A CENTURY OF CAPTIVE INSURANCE



# GIIA

Guernsey International  
Insurance Association



ORIGINAL COMPANY  
SEAL FOR THE FIRST  
GUERNSEY CAPTIVE  
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# 1922-2022

**100 YEARS**  
CELEBRATING OUR  
CENTENARY

**INNOVATION**  
GUERNSEY NOW  
AND THEN

**QUALITY**  
OUR STORY, OUR  
EXPERTISE

From the publishers of  
**CAPTIVE**  
REVIEW



## Leading the Way

Aon Insurance Managers (Guernsey) Limited has remained at the cutting edge of Guernsey's Re/Insurance industry since its establishment in 1977, ever evolving to meet the changing needs of our clients.

In a world that has become more volatile and interdependent Captive Insurance Companies and Cells are a powerful tool for a business' to manage risks, our team of qualified and experienced staff can guide and support you through every stage of a captives life from set-up to the ongoing management services delivering value each step of the way.

Aon is in the business of better decisions, delivering innovative solutions that give our clients the clarity and confidence to make better decisions that protect and grow their businesses. At Aon, we honour our commitments. Across our firm, we are united in our passion to provide you and every client we serve with a consistent, high-quality, high-value, and engaging experience with each interaction. Our colleagues are employed by Aon, but they work for you.



### 100 years of Captives

Aon Guernsey's Managing Director, Paul Sykes and first Managing Director, Roger Hall, holding the Company seal of Guernsey's first captive.

## Guernsey: A century of providing specialist insurance services

**T**his year marks 100 years of the existence of captives in Guernsey. To many, this will come as a complete surprise because the generally accepted narrative is that offshore finance started in Guernsey only in the 1960s.

In this feature, you will learn more about how our industry started and what historical changes led to Guernsey's growth into the pre-eminent jurisdiction in the European captive market. The opportunities represented by a global finance centre such as Guernsey via the insurance market were clearly appreciated many years before what is commonly accepted as the beginning of modern finance, and it is important to acknowledge this historic milestone in captive insurance.

Among our modern finance industry, captives are the 'senior service' of finance and remain a key contributor to Guernsey's prosperity as well as a valuable source of innovation, which has been copied around the world through the developments of novel, award winning international transactions and even new types of company.

Captives in Guernsey, and the professional services industry which supports them, are still evolving and punch well above their weight globally. Its expertise has been exported to other nascent insurance jurisdictions. I have myself been invited to draft, or advise on, regulation and legislation in several other jurisdictions, purely because Guernsey is so widely regarded in this light. I am therefore delighted to provide this introduction to the spotlight on this special anniversary.

So what have captives done for the world? Captives are about accepting, transferring and managing risk and allowing access to wider markets for large companies with complex or sometimes unique risk profiles. By all means, they can generate profit, but not always – most often they break even but generate a reduction of cost within their parent. A captive enables a key focus on the management and financing of risk and risk transfer. The board of a global company might otherwise see risk management spread across several jurisdictions, types of risk or company departments. I have chaired many meetings where the CFO of a global company suddenly sees the light for the first time and comes to understand the benefits of active and effective risk management through their own captive, bringing focus to an otherwise complex and often underinvested area of a global corporation's activities. The captive is a place where the 'risk log' of a large corporation should meet the tarmac. How is it covered? What does it cost? Can we manage that risk better?

Something I have always enjoyed the most about the sector is that it is an enigma – despite arguably being amongst the most complex and heavily regulated, it remains flexible, innovative, creative, and solutions-driven. In other words, an ideal place for a lawyer, accountant or insurance professional who enjoys creating new structures and solutions for transferring risk. Captives have also given the world an entirely new type of company – the protected cell company (PCC) first created in Guernsey in 1997 specifically for the insurance sector and now copied globally – completely novel in the way it ringfences from insolvency its assets and liabilities within different cells. I did some research about 10 years ago into the number of countries and US states that had adopted the PCC, and looking again today the PCC has become ubiquitous, thanks to an industry that took hold in Guernsey 100 years ago.

The modern captive and the focus it brings on risk management should be in every CFO and group risk director's arsenal.



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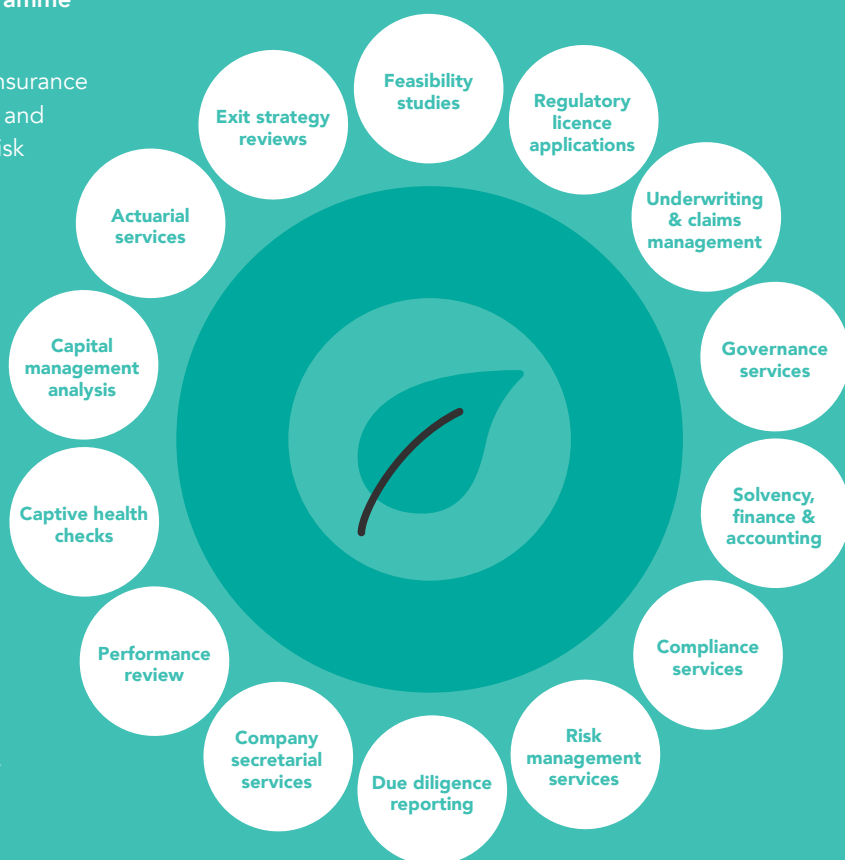
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A close-up view of the company seal for the first ever captive in Guernsey

## 7 CAPTIVES IN GUERNSEY

A look back in time at Guernsey's first ever captive insurance company

## 10 TIMELINE: INSURANCE IN GUERNSEY

An overview of Guernsey's insurance history

## 13 GUERNSEY: BEST IN CLASS

A case study on the enduring appeal of Guernsey as a captive domicile

## 17 A REAL SUCCESS

Mourant's Helen Wyatt assesses captives in Guernsey and their place among a variety of insurance structures

## 18 FLEXIBLE AND INNOVATIVE

A case study demonstrating the flexibility of Guernsey's captive structures

## 20 CAPTIVE EVOLUTION

Artex Risk client services director James Stewart looks at the captive sector's journey across the decades

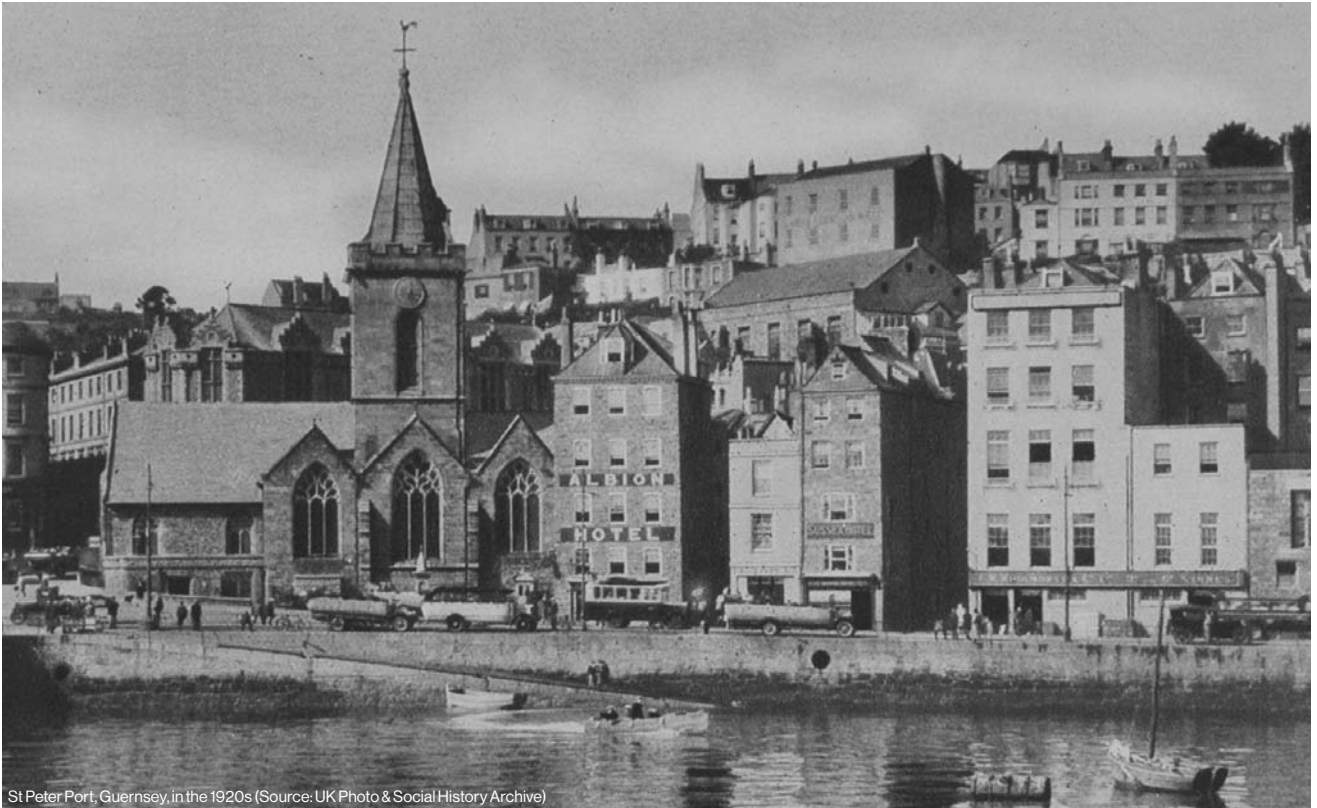
## 22 GUERNSEY'S CAPTIVE FUTURE

GIAA chair and CEO of Humboldt Re Mark Elliott looks at the future of captive insurance

Content provided by Guernsey Finance, thanks to input from Adele Gale, Graham Powell, Helen Wyatt, James Stewart, John Rowson, Kate Storey, Kevin Bates, Mark Elliott, Mark Helyar, Matthew Nichols, Mike Johns, Nick Wild, Peter Child, Paul Sykes, Philip Robinson, Roger Hall



**As the newest captive manager  
in Guernsey, SRS is proud to celebrate  
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looks forward to laying the  
foundation for the next 100 years.**



St Peter Port, Guernsey, in the 1920s (Source: UK Photo & Social History Archive)

# CAPTIVES IN GUERNSEY: THE BEGINNING

A look back in time at Guernsey's first ever captive insurance company

Guernsey's insurance industry can be traced back to the early 18th century. According to Michael A Ward's *Guernsey's Insurance History – An Initial Essay*, there was a healthy shipping industry, despite the island only having 11,000 inhabitants, which developed thanks to the opportunity for sheltered deep water anchorage on the edge of Europe. Many of the wealthy Guernsey shipping families were involved in the London insurance market.

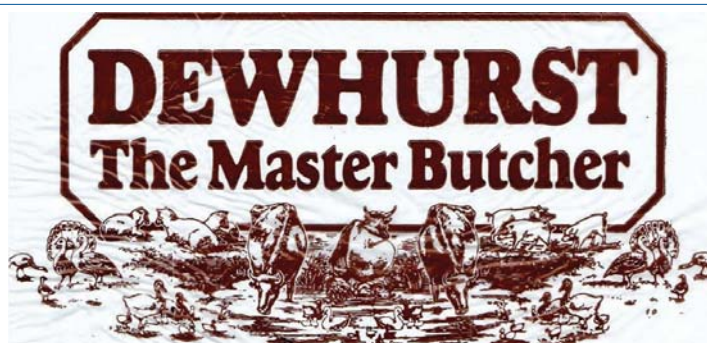
Early records also indicate that fire insurance in the island was provided by British insurers. The list of insurers grew throughout the 19th century, reflecting local activity, shipping, and local industries, such as granite quarrying and export. But we start our journey in 1922, with what is regarded as Guernsey's first private insurance subsidiary to be set up by its parent company with the purpose of insuring its own risks.

The Commercial Insurance Corporation Limited (CICL) was registered on 16 June. It was owned by the Vestey Group, previously

known as Vestey Holdings. Back then, it was known as an insurance subsidiary – the term 'captive' was coined by Frederic Reiss in the 1950s upon founding the Steel Insurance Company of America, borrowing the term from 'captive' mines sending ore to the parent company's mills.

CICL is believed to have initially been set up to cover the risks against the retail properties of Dewhurst the Butchers, from when the Vestey Group expanded into meat production. However, according to the registration document, the captive





"It had to be seen to be managed and controlled in Guernsey and therefore had to have a board of directors who were mostly resident here," explained Roger Hall, who was at the helm of Hogg Robinson at the time and also on the board of CICL, of the impact of the new regulations. "Also at that time, captive insurance companies were taxed in Guernsey and paid tax on various different bases.

"I don't think that, apart from the fact that there was a requirement to report and to file, there was very much of an impact on a day-to-day basis. Insurance companies were reasonably well managed before the law came in because there was a UK tax law that meant everything had to be done in Guernsey, so it didn't make a huge change in that regard. But it did formalise some of the arrangements and made all the insurance companies subject to Guernsey tax. So there was an element of restructuring, but for the time, the level of corporate governance was good. It was more a formalising of the arrangements that had been growing in normal practice previously. Formalising it was a positive from a reputational point of view."

Elaborating on Hogg Robinson's role in managing the captive, Graham Powell, assistant director of Hogg Robinson and account executive for CICL, explained: "We had traditional insurance management roles, underwriting of the book of business, making sure there was compliance with the regulations, looking after the investment portfolio, and working with the broker [which was also owned by the Vestey Group] to try and exploit opportunities to expand the captive.

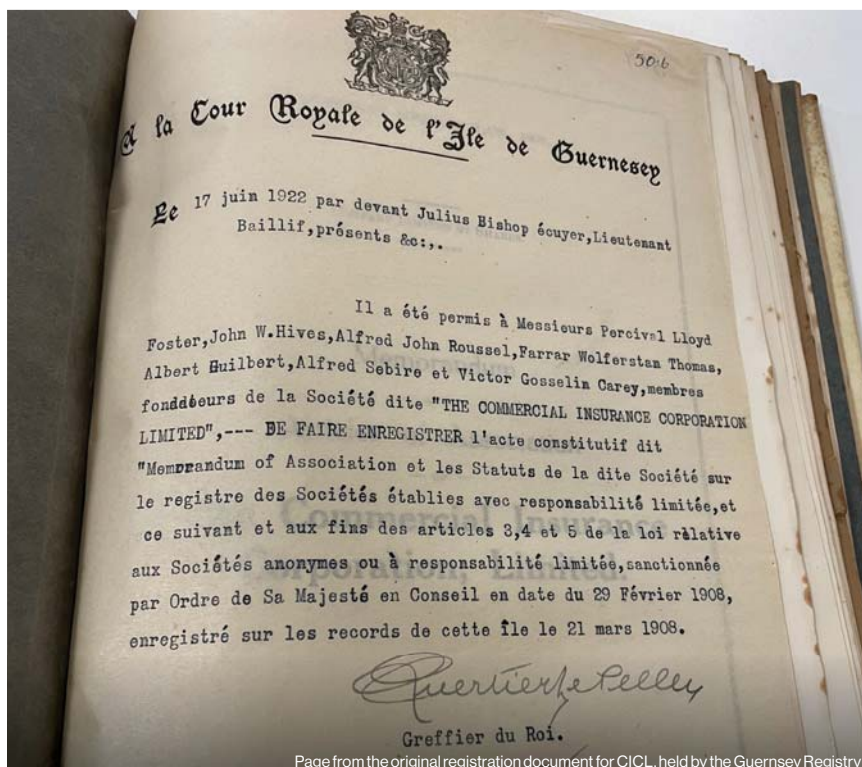
"It was very much business as usual for a small insurer in Guernsey at the time. Fundamentally, the manager looks after all of it. My recollection is the portfolio didn't change significantly during the time we looked after it. It was pretty much a property portfolio, providing insurance cover to the Dewhurst chain of butchers – looking after plate glass, awnings, and participating in the group's property all-risks' programme. It was relatively straightforward."

"There may also have previously been a very big marine cargo risk, because it is likely they were shipping carcasses from around the world," Hall added.

Aon Insurance Managers acquired Hogg Robinson in 1996 and looked after the captive in the final stages of its lifecycle before it was wound up in 2007.



CICL's name scratched onto the original company seal



Page from the original registration document for CICL, held by the Guernsey Registry

covered a range of lines for various business activities including general and life insurance, money lending, property, theft, investment and marine.

Not too much is known about the captive over the first six decades or so of existence,

but it was acquired for management in the late 1980s by the Hogg Robinson Group following the introduction of the Insurance Business (Guernsey) Law in 1986, after which it was obliged to be represented and managed on-island.



Powell and Hall suggest that the captive simply reached the end of its lifecycle as the Vestey Group moved on to pastures new, but it still carries an impressive tenure. “It ran for more than 80 years, and nobody else has managed that length of time thus far,” said Powell.

“From our perspective, it just stopped carrying on insurance business, or at least it didn’t renew,” Hall explained. “The company may have continued for some reason. It presumably surrendered its insurance business licence, so there was no longer a regulatory need for us to be involved.

“Of the wave of captive business that started in the ’70s and then gradually grew, a relatively small proportion of those companies are still trading because of natural business cycles, takeovers, etc. The way the insurance market works is that it becomes very cheap to insure at some point and captives are very often wound up for that reason. Then it becomes expensive again, and then new captives are formed. In my view, the average life of a captive is probably something in a region of 20-25 years, possibly a bit longer.”

By pure luck, an artifact to mark the birth of captives in Guernsey still exists. Aon retained the original CICL company seal used to certify the original registration document.

Aon managing director Paul Sykes explained: “We must have come into possession of it when we acquired Hogg Robinson and the management of the captive, but it was a stroke of luck that we found it when we were clearing out to move office in 2018. We kept it because of its extraordinary character. Usually these things look like those little staple extractors. It’s an historic item that we are delighted to have held on to.


“At Aon, we are thrilled to have had some involvement with Guernsey’s first captive. It’s a big year, especially because we are also celebrating 25 years of PCCs, which are also highly relevant in Guernsey’s fortunes. Given what Guernsey’s captive industry is today, it is certainly worth noting the fore-runner of it all.”

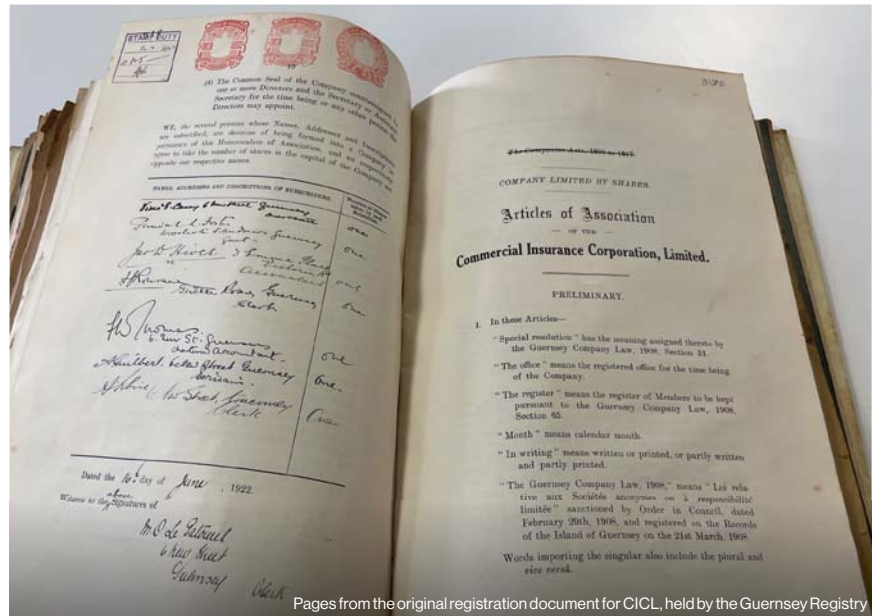
Powell agreed that, while it is hard to say if CICL had any impact on the standing Guernsey’s modern captive industry enjoys today, it is still worthy of its place in the island’s history. “The fact it existed may have been useful in later years,” he said. “It lasted longer than most other surviving captives. Today, Guernsey has an excel-

lent reputation which is well justified, and part of that is the infrastructure that we have here – the managers, auditors, banks, lawyers – and the regulator is flexible and open. It has a good reputation overseas, so people naturally gravitate to Guernsey for European business. The purpose of our insurance industry is still solid.

“It’s a very good idea to pool your insurance risks into one company within the

group, and using a captive insurance company provides those benefits. As a result of premium increases in the global insurance markets, captive insurers are currently enjoying a new lease of life with increased numbers and additional lines of business.

“It just goes to show an innovative concept that worked for the Vestey in 1922 is still relevant and useful for corporates of all shapes and sizes in 2022,” Powell said. 

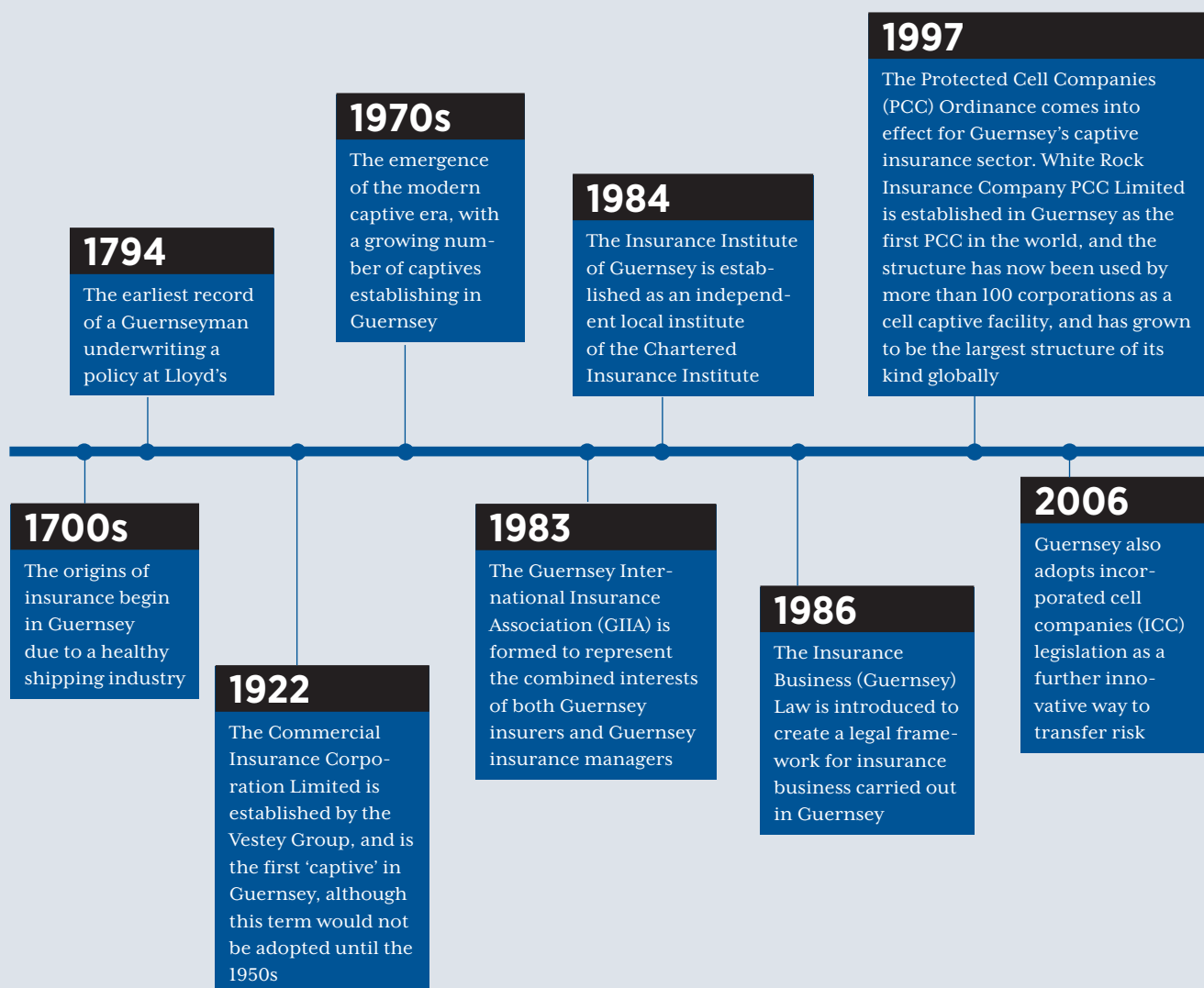


Pages from the original registration document for CICL, held by the Guernsey Registry



From left to right: Paul Sykes, Roger Hall and Graham Powell with the original CICL company seal

# INSURANCE IN GUERNSEY



## 2007

The first ILS-backed transaction is performed in Guernsey, with US Wind risks underwritten on a 12-month basis following a market hardening caused by Hurricane Katrina. Many more deals follow as Guernsey becomes the European centre of excellence for ILS transactions

## 2014

- In another global first, an ILS-sponsored credit rated property and catastrophe reinsurance conversion vehicle is created in Guernsey to revolutionise rollover/collateral issues
- The International Stock Exchange, headquartered in Guernsey, is home to the world's first listed private cat bond transaction and the first securitisation of Takaful (Shariah-compliant) insurance policies

## 2019

Guernsey introduces the world's first ILS hybrid vehicle regulation – whereby a protected or incorporated cell company is both a licensed insurance company and a regulated investment fund

## 2021

- Guernsey is at the heart of a risk and capital solution with Lloyd's, a landmark £650m five-year cover for the Central Fund which supports sustainable, profitable long-term market growth
- Guernsey's leadership and innovation was 'central' in achieving another world-first in sustainable finance – the very first humanitarian catastrophe bond covering pure volcanic eruption, completed using a Guernsey insurance-linked securities (ILS) structure.
- The Guernsey International Insurance Association introduces the world's first insurance ESG framework to include a kitemark for its members

## 2010

Guernsey achieves a worldwide first by amalgamating two PCCs – with 17 cells between them – into one

## 2017

A Guernsey-domiciled ILS reinsurance transformer issues what is believed to be the first notes ever to have been digitised on a private blockchain. Referred to as the 'ILSBlockchain', the mechanism replaces the role of a traditional settlement

## 2020

The Guernsey Financial Services Commission introduces 'fast-track' pre-authorisation for insurance cells, offering a scheme that permits just-in-time creation of new captive cells in existing PCCs

## TODAY

Guernsey is home to more than 600 international insurance entities and more than 300 captives





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# GUERNSEY: BEST IN CLASS

A case study on the enduring appeal of Guernsey as a captive domicile

**T**his glowing recommendation (*quote*) of Guernsey's captive credentials comes from Kevin Bates, head of risk and insurance at an Australian-listed corporation, with a core business in real estate investment, development and construction, headquartered in Sydney.

IRMSL is a captive that was set up in Guernsey in June 1998 and is wholly owned by its parent in Sydney. It is managed on-island by Marsh, following their acquisition of initial manager's JLT in 2019.

"We have captives in other jurisdictions, but IRMSL in Guernsey writes our Australian business and it works very well for those risks," Bates said. "We recognised

"If I was ever looking at forming another captive, I wouldn't explore anywhere other than Guernsey"

the opportunity for good, clean governance because the regulator, the Guernsey Financial Services Commission (GFSC), is enormously well respected. There was an opportunity for us to take a more mature position with regard to risk retention

within the organisation, and to diversify some of the risks in order to reduce any potential volatility.

"In Guernsey, we looked at how the captive manager worked with the regulator – is there efficiency there? Are they responsive? Is there stability? Guernsey has 100 years of experience with captives, which is extraordinary. There is maturity and infrastructure, so we were happy to place our insurance business in a Guernsey vehicle. Businesses go to Guernsey because the infrastructure around captives is, quite frankly, the best in class."

It is a reputation that is shared among the business elite. "From my relationships with other heads of risk and insurance, I know





there are very sizeable captives in Guernsey,” Bates continued. “We talk with some of the largest global enterprises. They too have chosen Guernsey, so we are in good company.”

The IRMSL captive has flexed over the years to adapt to the changing needs of its parent, but many of the lines of cover are what you would expect to see in a captive, including a motor fleet policy, professional indemnity, general liability and a spread across the financial lines. Other lines of cover demonstrate Guernsey’s ability to be both flexible and highly innovative.

“We have been innovative around a number of our risk exposures and have created some valuable solutions for the business,” Bates said. “For example, we have written a policy to cap off the group’s exposure to adjustable premiums on a workers’ compensation and liability programme in a way that I don’t think you’ll find any other captives providing. It’s a unique solution to our business needs.

“The initiative taken by the team in Guernsey was perfectly in step with what we were doing as a global organisation”

“We worked in close conjunction with the board in Guernsey to make sure everyone understood the risk. They had a responsibility for making sure this would work under the Guernsey regulatory regime and could also be practically delivered.

“Another example is our crisis containment policy that came from the Guernsey team. Nick Wild, who has been on the IRMSL board since it was under the management of JLT and has continued in that role since its transfer to Marsh, suggested

we write a policy in IRMSL that would respond to the additional expenses the company incurs when it has to manage such a crisis. We won an award for our crisis management programme and the support that IRMSL provides to that programme.

“The knowledge and expertise on Guernsey is extraordinary. When you are looking to do something you feel is new or different, there always seems to be someone in Guernsey who has done it before and knows how to go about it. This is hugely reassuring and extremely valuable to our business.”

Such examples of the expertise available in Guernsey show what can be done, but such are the high standards in the island, this expertise also extends to advising on what should not be done.

“The real acumen and benefit for this, is that the advice we get in Guernsey centres on doing what is right, not just what will give them more business,” Bates said. “Approaching renewal last year, we



explored a new policy. As an independent non-executive director and chairman of the board of IRMSL, Nick couldn't get comfortable with the risk we had proposed for acceptance by the captive. He really stress tested the proposal.

"As a result, we ran over it again and agreed that the proposed assumptions were possibly on the aggressive side. Nick challenged us and made us think again when he could have taken the easy option. We'll always explore interesting risks where we consider we can manage, or reduce volatility, but we can rely on the deep experience in Guernsey. They're not 'yes people' – they understand the risks, have substance and are not afraid to challenge us."

"Guernsey takes its fiduciary duties very seriously and responsibly. That's true of our local directors but the same is true of our managers, Marsh, who are extraordinarily diligent. There were people on our account when we were at JLT that we insisted were put back on it when the merger with Marsh took place. There is an outstanding team around us in Guernsey.

"That mentality of doing this properly is very much in sync with that of the GFSC, whose diligence, coupled with flexible regulation, was another attractive proposition for us. Compliance is taken very seriously by everyone in Guernsey and that sits well with the values of our organisation.

"We actually really like the rigour and the discipline. We're an incredibly ethical organisation and I see Guernsey's alignment with our moral compass very clearly."

Picking up on the above, Wild was keen to stress: "IRMSL has always been an Australian tax resident company despite operating from Guernsey. As such, all profit generated in Guernsey is fully taxed in Australia. This is worthy of note because it dispels any myth that the captive is in Guernsey for tax reasons. There is no tax benefit in this case, it's all about choosing the optimal environment in which to operate their captive, which is a powerful message."


"That's where we have the alignment of our moral compass," added Bates. "We are in Guernsey because of the infrastructure and the acumen on the island to help us with our risk transfer and risk retention."

IRMSL has recently achieved accreditation from ESI Monitor, a Guernsey organisation which rates businesses on their environmental and social impact. This accreditation process verifies and awards the kitemark for compliance with the

Guernsey International Insurance Association's (GIIA) ESG framework. This was launched in 2021 with the aim of helping GIIA's members to manage ESG opportunities and risk, and to deliver positive impact.

"It fits perfectly with the parent company's ESG sustainability outlook, which is a massive part of the business," Kevin said. "There was great work done in Guernsey

getting us to a position where we were able to apply for the accreditation.

"Our global head of sustainability agreed the initiative taken by the team in Guernsey was perfectly in step with what we were doing as a global organisation. It is another example on a long list of reasons why we are both grateful and faithful to the jurisdiction." 



Sydney, Australia

# Global reach

Guernsey is renowned for its pioneering and innovative insurance industry.

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St Peter Port, Guernsey

Mourant's Helen Wyatt assesses captives in Guernsey and their place among a variety of insurance structures

Guernsey has around 350 licensed insurers, including 58 protected cell companies (PCCs), each with multiple cells established but not separately licensed. Supporting and servicing those insurers are 20 licensed insurance managers. While not all of these are engaged in the captive industry, these numbers speak to the strength of Guernsey's captive industry, Europe's leading centre with a robust and proportionate regulatory environment.

Certainly, there's been renewed interest in captive insurance solutions over recent years as a result of the hard insurance market. As premiums rise, the approach to underwriting becomes less flexible and capacity shrinks, so self-insurance becomes more attractive as a long-term risk management tool. Unprecedented events only added further pressure to a difficult commercial market, with rate hardening seen to accelerate during the pandemic. Increased interest is now translating into new business, whether from prospective captive owners looking to launch new captives, or existing owners looking to make greater use of their captives to bridge unacceptable coverage gaps in commercial policies and write new lines of business.

At Mourant, we've seen a number of clients looking to dip their toe into the self-insurance market via PCCs or incorporated cell companies (ICCs) as an alternative to a standalone captive. Now 25 years after

Helen Wyatt




their creation, PCCs are more popular than ever due to the Guernsey Financial Services Commission's (GFSC) fast-track scheme for pre-authorisation of captive insurance cells. New cells in an established PCC that is owned by a licensed insurance manager can be authorised in as little as 48 hours, so a cell captive is a viable option right up to renewal. Under Guernsey law, it is possible to convert an incorporated cell or a cell of a PCC into a standalone, non-cellular captive, should the owner ultimately prefer.

Clients and their advisers are particularly interested in regulatory capital requirements that may apply to a new captive, whether standalone or cellular. Guernsey's regulatory regime is less prescriptive and more flexible than Solvency II, distinguishing between different classes of insurer and placing proportionate regulatory burdens on each. Likewise, Guernsey's economic substance regime is robust and Guernsey's insurance industry has demonstrated a track record for managing captives in a manner consistent with the substance regime.

Speed to market is also key and, in addition to the fast-track scheme, Guernsey

captives can make changes to retentions, reinsurance and fronting arrangements and can add new lines of business, all without needing to await any approval from or provide any notification to the GFSC. The GFSC has been quick to adapt, encouraging captive boards to confront the impact of the ongoing pandemic and climate change. The island remains innovative with initiatives such as the environmental, social and governance (ESG) framework for insurers (see page 21).

At Mourant, we've continued to see bespoke insurance solutions available via Guernsey captives. Several high-profile UK companies, such as BT and the Willis Group, have set up arrangements to manage longevity risk in their defined benefit pension schemes. The pension scheme can limit its exposure to increased life expectancy by entering into a longevity swap with the Guernsey captive. This works by the scheme funding benefits up to an agreed cap with the captive assuming liability for any excess payments in return for a pre-agreed premium. The captive can then access the global reinsurance market to reinsure some or all of the risk.

It is easy to see why, 100 years on, the Guernsey captive remains an appealing option for anyone wanting to own their risk management and based on the pipeline we have seen, the future looks bright for the Guernsey captive for many years to come. 





### A case study demonstrating the flexibility of Guernsey's captive structures

Changes in the wider insurance market can alter the benefit of covering a particular line of risk within a captive structure. As a business, it is important to have flexibility to move cover in and out, which is one of the benefits Anglian Water Group found in locating its captive, Rutland Insurance Limited, in Guernsey.

"We have had a changing strategy over the years depending on the state of the insurance market for each class of cover," Philip Robinson, the group's head of insurable risk, explained. "When I started with the business in the mid-2000s, one of my roles was to tidy up the captive, selling off the longtail liabilities back to insurers where possible to derisk the balance sheet while reducing capital to offer greater value to the group."

"For example, we recently reintroduced the motor programme back into the captive as there were advantages and it provided an alternative to increases in external market prices. And here we are, back in a semi-hard market and placing a bit more business through Guernsey in line with the cyclical nature of all markets. We are considering placing more business [within the captive] to limit our exposure to the volatility of the market. Even in a softer market, it's provided an alternative to the traditional markets, and therefore creates market competition where there may have been none. The flexibility of a captive means we are able to bring policies in and out depending on what the external market is offering. Having that option means you can ensure the best value is achieved."

Anglian Water Group supplies drinking water and wastewater services to around seven million customers in the UK. Rutland was established in Guernsey in the 1990s, where it is now managed by Strategic Risk Solutions (SRS). According to Robinson, Rutland was set up to cover the firm's operations in the UK primarily, but also stretched to include its international operations as part of a construction and international business it owned in that period.

"The captive, in its original form, was playing a part in cross-class casualty programmes, public, motor, employer liability, etc," he explained. "Recently, we've looked at more bespoke risks that have become difficult to place in the external market, either because they are unavailable or the terms are un-economic, so it makes sense to place them in the captive if possible."

"The captive now no longer places any long-term liabilities, and so can be used to 'plug gaps' where it is economic to do so in the group's insurance programme."

"Water contamination risk is a good example. This represents an ever-present risk in the water industry and there is a limited market for this type of risk in the external market, so having the option of a captive is vital. We are also just starting to review whether any employee benefits can be placed through the captive, and an income replacement scheme will be placed shortly. For a relatively small business, it's important to hold a good spread of risks to reduce volatility where large losses may be experienced in any one class of insurance."


"Future risks for consideration are related to how climate is impacting the

infrastructure used in Anglian Water. This includes weather-related parametric type solutions where the Captive could facilitate that programme and make it more attractive to the business and supporting the external market approach."

Having studied the captive's origins, Robinson learned that the reputation of Guernsey's captive industry and of its regulator, the Guernsey Financial Service Commission, were key factors in the decision to domicile in the island.

"The regulator has a strong reputation in the UK for doing the right thing. It strikes a sensible balance between ensuring business is legitimate, but not creating over burdensome legislation at the same time - that's a huge part of reputational risk management. Guernsey is a low-risk captive domicile, but also flexible and maintains high standards in terms of how captives are run and managed. There's a healthy captive market in Guernsey, with plenty of resources with regards to directors and non-execs - a good support network. It's also easy to get to from London. As part of moving the management of Rutland to SRS, we did a mini review of the domicile and Guernsey still comes out as the best option."

"Innovation is always a key driver for any business. A captive is no different. As part of the management review, we had some new ideas that we were looking to progress and use the captive differently. Our manager was best placed to support that process."

"Captive insurance is an industry where support and networking is vital, and that is all present in Guernsey. I'd happily recommend the domicile." 

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# CAPTIVE EVOLUTION



St Peter Port, Guernsey

Our centenary celebrations inspired us to explore how Guernsey's industry has developed into what it is today. Artex Risk client services director James Stewart looks at the sector's journey

**G**uernsey has grown into Europe's number one captive domicile, with more than a third of European business carried out from there. The latest figures from the Guernsey Financial Services Commission (GFSC) show 307 captives domiciled on the island as of the end of 2021.

But our success isn't just about numbers. As well as adapting to underwrite new and emerging risks, captives have had to respond to changes in their business environment. Captives really took off in Guernsey during the '70s and '80s. Significant growth in the '70s came as companies bought into the concept. Uncertainty and volatility in international relations and

**James Stewart**



global economies translated into the commercial insurance market. In response, corporations sought to retain more of their insurable risk and captive formations increased, with many UK-headquartered multinationals establishing captives in Guernsey.

When the UK repealed Exchange Controls legislation in 1979, there was significantly increased freedom to invest (and transact) Sterling outside the UK, and Guernsey's existing and historical insur-

ance industry expertise made it a logical destination for captive investment.

The 1980s provided another springboard for growth with the introduction of insurance legislation proportionate to the captive industry in Guernsey in 1986, giving greater certainty to captive owners. Simultaneously, captives became more popular due to increasing sophistication within UK corporates, supplemented by the privatisation of nationalised industries with large and complex risk exposures.

Gradually, the extent to which owners needed to dedicate hands-on management to their captives reduced as the expertise of Guernsey's insurance management industry increased. Today, Guernsey's holistic approach brings together the professional



skills required to manage a licensed insurer into a single service offering. Clients who choose Guernsey can be confident their insurance vehicles are in expert hands.

Market and macro-economic conditions resulted in an extremely prolonged soft insurance market throughout the 2010s, until deteriorating claims experience resulted in premium rate corrections and a harder market. While this became apparent in 2019 in the most severely affected classes of business, it has since developed to include most classes of insurable risk. Increasing prices and decreasing availability of cover led buyers to consider insuring their own risks using a captive. While new structures are created, existing captive owners have also increased the use of their vehicles, bringing in new lines of cover and increasing participation in others.

Technological advances have allowed captive managers quicker access to more detailed data. Captive owners and insureds expect faster settlement of claims and a real-time understanding of performance. The same developments have made actuarial modelling more accessible, whereby insurance programmes lend themselves to this kind of analysis and allow for more reliable decision-making in respect of setting loss reserves and a more scientific approach to premium rate pricing.

The international insurance industry has always been subject to a developing regulatory environment. Guernsey is no exception. The GFSC is actively involved with the International Association of Insurance Supervisors to ensure Guernsey's regulatory framework is in line with its insurance core principles. Over the years, the industry has proactively engaged with the GFSC as the regulatory environment has developed, and more recently has adapted to changes in solvency and capital requirements and the implementation of a code of corporate governance.

### Sustainability

Guernsey's insurance industry leads in the sustainability space. In the early 2000s, Guernsey was one of the first jurisdictions to introduce a code of corporate governance specifically tailored to its insurance industry, and in 2021 the GFSC introduced Principle 18 to the Licensed Insurers' Code of Corporate Governance, requiring boards to consider the impact of climate change on business strategy and risk profile and make timely related disclosures.



St Peter Port, Guernsey, in the 1970s, a boom time for captives in the island  
Source: Guernsey Press & Star

In 2021, the Guernsey International Insurance Association created the world's first ESG framework with a kitemark for its members. It enables insurers and managers to self-certify, with the kitemark achieved through a third-party accreditation process. It follows the United Nations' recommended approach of incorporating ESG processes to align insurer's products, services and investments with the UN Sustainable Development Goals (SDGs).


The framework sets out requirements which must be fulfilled to gain the kitemark:

- Embed ESG within decision-making and governance structure
- Investments and risks underwritten to contribute to achieving the SDGs

- Insurer to publicly disclose how it meets requirements.

### Why Guernsey?

Guernsey has proven captive expertise, including ancillary services for managing a captive – legal, accounting, banking and investment, enabling our captive industry to be 'hands-on' when it comes to insurance underwriting.

This is key to captives demonstrating economic substance in Guernsey. Guernsey's insurance industry has a truly long history of working with counterparts in the London market, sharing innovation and expertise with brokers and underwriters in order to deliver effective solutions to our clients. 

# GUERNSEY'S CAPTIVE FUTURE

The history of the captive insurance industry is one of adaptation to continual change. To sign off this celebratory magazine, Guernsey International Insurance Association (GIIA) chair and CEO of Humboldt Re Mark Elliott looks at how those changes will affect the industry in the future

**T**his centenary encourages us to consider and ready ourselves for the future development of our industry – the continually accelerating rate of change in all aspects of our society – technological, environmental, economic and sociological – can only be expected to result in more complex risk environments. Guernsey's captive insurance industry has historically proven itself capable of providing solutions to new and changing risks and will continue to welcome and rise to these challenges.

While the current hard insurance market has increased interest in captive insurance and led to increasing numbers of new captive formations, it is likely that insurance rates in the commercial market will stabilise and that increased competition will lead to a softening of the market. It is interesting, however, that one of the factors contributing to this hard market was a desire within the commercial insurance industry to “restore underwriting discipline and performance”.

Regulators can be expected to share this view. If commercial underwriters do maintain such disciplines as competitive forces build, then we may see premium rates stabilise, but not return to the same soft market levels that buyers have enjoyed for much of the past 20 years.

In any event, investment in a captive insurance subsidiary should be seen to be a long-term risk management strategy and there are many existing captive insurers that were established during prior hard markets that still continued to deliver benefits to their owners throughout the soft market of the 2000s and 2010s. We can also expect to continue to see opportunities

**Mark Elliott**



for captives to underwrite emerging and unique risks of their parents for which there is no or insufficient market capacity.

Insurance as a financial instrument is uniquely flexible. It seeks to provide certainty where certainty previously did not exist, and one might argue that this has never been more relevant. Enabling non-insurance companies to transfer risk by way of an insurance contract, and thereby keeping the commercial market honest, should always retain a compelling logic, and I'm sure that the captive product will continue to adapt to support corporates who seek a foundation of certainty from which to speculate in the core areas of expertise.

Sustainability issues will continue to dominate the global agenda and financial services are rightly coming under pressure to do their bit.

Guernsey has always been a good global citizen and is unsurprisingly looking to support the changes necessary to improve global standards for the environment, socially and through the highest standards of governance. GIIA's ESG Framework has already been discussed earlier in this publication, but it will have an important role to play going forward.

It is a tool which allows risk managers to demonstrate their captives' compliance with ESG principles without needing to shoehorn a group policy to fit a licensed

insurance entity, but more excitingly it is a lens through which corporations can look at their wider environmental and social impact and find ways to mitigate them through changing behaviours or operational strategies.

ESG matters are foremost on the agenda of most organisations, and increasingly so. A number of the UN Sustainable Development Goals (climate action, for example) themselves respond to natural and man-made risks, while others (such as those seeking equality and equitability in societies) have the potential to create internal risk for large employers and businesses with large numbers of consumers.

While climate change is only part of the ESG spectrum, in many cases it is climate change risk that has become the one risk exposure that has most dramatically risen through businesses risk priorities. This has, in turn, increased the focus on ESG in C-suites and corporate boardrooms around the world.

With a captive insurer being an integral part of a corporation's overall risk management strategy, it is critical that the captive is involved within its owner's considerations of these matters. It is equally important that these matters are considered by the captive board from the captive's own perspective. The GIIA ESG framework supports insurers in managing ESG opportunities and risks and it helps to deliver a positive ESG impact.

Looking back over 100 years of constant evolution and innovation, Guernsey, and especially its insurance industry, will be a beacon of thought leadership and a safe harbour with strong and proportional regulation giving assurance globally. 🌐

# Proud to be part of 100 years of captive insurance in Guernsey

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Captive Manager of the Year



## **European Captive Review Awards 2021**

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## **U.S. Captive Review Awards 2021**

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# WE ARE | INSPIRING INNOVATION

Victor Hugo's house (pictured) is enduring proof that the author found living in Guernsey inspirational. Not only did he create a unique living space, which is preserved in exquisite detail, he also completed arguably his most famous work, *Les Misérables*.

Guernsey continues to inspire innovation, particularly in our world-class insurance industry. We are inspirational. WE ARE GUERNSEY.

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