

Guernsey International Insurance Association – Chairman’s Report 2016

Welcome to the 2016 Guernsey International Insurance Association (GIIA) Annual General Meeting.

In keeping with tradition I’ll begin with a review of Guernsey insurance sector’s health and performance over the last year. The Guernsey Financial Services Commission (GFSC) licensed 66 new international insurers during 2015. This equates to a top-line rate of just over 8% which is slightly down on 2014’s 10% top line growth rate, but still a great result in the current climate.¹

It means that there were 804 international insurers licensed in the Island at the end of December 2015.² That compares to a total of 797 international insurers licensed by the GFSC at the end of December 2014, which means there has been net growth of 7 entities during the year.

These net growth numbers are not as impressive as in previous years, but by continuing to grow and by breaking through the 800 licensed entities barrier, it is clear that *GIIA’s primary purpose: to ensure that Guernsey remains Europe’s leading offshore centre for insurance and alternative risk financing* continues to be met.

Paul Sykes stated in his address to this meeting last year, that he and I had discussed a vision that saw Guernsey becoming **the leading offshore international insurance centre over the next five years**. This was a bold ambition, even given the momentum that had gathered across Guernsey’s insurance industry through 2013 and 2014, and the seminal developments in key sectors of the industry including insurance linked securities, reinsurance and life and pensions. It is a vision that the Association is working to bring into clearer focus through the work of its main committee and the Market Development Committee.

The Association recognises that captive insurance remains core to Guernsey’s success as Europe’s premier insurance & risk financing domicile. It also recognises that international developments including the continuing prolonged soft market and the increased cost of transacting by way of insurance contract arising from hikes in IPT rates make the captive concept a hard one to sell to new prospects at present. That’s not to say that new captives are not being formed – they are – but the rate has slowed from the time when the logic driving the captive concept was inescapable and the financial benefits flowing from the use of a captive structure were almost immediately tangible.

This position has been exacerbated somewhat by some commentators’ interpretations of the OECD’s BEPS initiatives and the UK’s Diverted Profit Tax. The examples of captive structures cited by those commentators are extreme. It is a truism to state that tax has not been a motivator for the establishment or maintenance of captive insurance structures in Guernsey for over a decade now, with any historic tax advantages having been removed by most countries’ introductions of Controlled Foreign Company tax regimes. It would seem that it is a truism that requires repeating to ensure that some of those who perhaps should know better or not mistaken into stating otherwise.

Given the current low growth environment for captives, GIIA’s Market Development Committee has agreed to focus on three main product types:

¹ This included 13 limited companies, 3 Protected Cell Companies (PCCs), 43 PCC cells, 4 Incorporated Cell Companies (ICCs) and 3 ICC cells

² This number comprises 242 limited companies, 64 PCCs, 444 PCC cells, 13 ICCs and 41 ICC cells. New additions totalled 85 in 2014, 89 in 2013, 97 in 2012 and 72 in 2011.

1. Rated reinsurance: The launch of Kelvin Re at the end of 2014, followed by Humboldt Re at the end of 2015 has shown that Guernsey is an attractive destination for this business.

2. Insurance Linked Securities: This niche has been mined by a small number of the Guernsey insurance fraternity, and has been the main engine behind the continued growth of licensed entities within the insurance sector that I summarised earlier.

3. Pension De-Risking: The pension longevity deals of 2014 have not been replicated in 2015. However, much work has been undertaken to ensure a strong pipeline for 2016 and beyond, and participants in our market are developing new de-risking techniques for pension funds that promise to bear fruit very soon.

Guernsey is clearly in a strong position to attract these three types of business. As always, however, we can improve the island's offering beyond what it has already: a strong reputation for effective policy making, its sovereign AA credit rating, its expanding pool of talented expertise, and its high standards of pragmatic regulation.

I am happy to say that the Financial Sector Policy Unit will shortly be undertaking a review of the opportunities open to the Guernsey insurance sector, canvassing opinion from on and off island. GIIA's Market Development Committee has already met with members of the FSPU, and will be working side-by-side with them and their chosen consultants throughout the review period in 2016 to ensure that the final report provides the best possible basis for improving Guernsey's legislative, regulatory and commercial environment to ensure the continued growth of the island's insurance industry.

I am also delighted to be able to say that a Guernsey Insurance Conference, slated for September 2016 is shaping up very nicely. The event will be held in London and will focus on the three main product areas identified by the MDC. The final details are currently being finessed by the Events sub committee, headed up by Clive James, with much valued support from Guernsey Finance. Look out for hold the date flyers that should be circulating soon. This event will be in addition to the masterclasses on ILS in July and Pensions in October which are being put together by two further specifically focussed sub committees. These latter two events will be looking to build on past masterclasses in London and Zurich as Guernsey solidifies and develops its reputation in these areas.

Although it is not in GIIA's constitutional purpose to aim to become **the leading offshore international insurance centre**, it is an aspiration that we can use to drive initiatives for growth and for diversification without which we will probably retain our position as Europe's leading offshore centre for insurance and alternative risk financing, but could be holding onto a position atop of a shrinking market.

Other GIIA objectives, which are to an extent complimentary include, **"to represent and promote the insurance industry and to act as a forum for discussion and exchange of ideas"** and **"to represent the interests of the members"**.

As well as the Market Development Committee, and its ILS, Pensions and Conference sub-committees, GIIA also has an Accounting Working Group and a Regulatory and Technical Committee.

The fruits of the **Accounting Working Group's** labours in 2014 and early 2015, led by Vanessa Pipe, are just now being enjoyed as Guernsey licensed insurers with financial years ending 31 December 2015 are preparing their statutory financial statements. The innovative alternative solution developed by the Accounting Working Group of "Properly prepared accounts in compliance with the insurance law requirements" is saving insurance managers and their clients time and costs, right now.

The **Regulatory & Technical Committee** led by David Riley has been busy since last February, consulting on Guernsey's Evolving Insurance Legislation, and most especially the revised Licensed Insurers' Corporate Governance Code which is now due to be issued on 1 April 2016. GIIA has also been represented on the AML handbook working group by Derek Maddison, and successfully advanced the argument for licensed insurers who fall into categories 2, 4, 5 and 6 under the 2015 solvency rules to be exempt from paying the Channel Islands Ombudsman levy, while still being able to access the service on a pay-as-you-use-it basis.

The RaT has also recently taken on the role of liaising with the States' BEPS working Group, and during the year worked with Deloitte on its bulletin addressing the subject of captives and Diverted Profits Tax.

Liaison with the Guernsey Financial Services Commission remains a key role of GIIA. The relationship between the insurance industry and the regulator has always been, mostly, constructive, and this year it is good to be able to report that the GFSC has engaged with the GIIA committee at a very early stage in order to address the relative equitability of regulatory fees within the sector. The GIIA committee is currently considering data provided by the Commission, and will be holding a special meeting to try to come to a consensus on an alternative proposal for the apportionment of the regulatory fees for 2017.

GIIA members have also been involved in an initiative to train GFSC personnel who have moved into the Authorisations Unit from non-insurance sectors. This initiative was at the behest of the GFSC, and it is good to see the regulator continuing to try to ensure that its staff have sufficient experience to regulate a part of the financial services sector that has its own quirks and nuances.

A further objective of our Association is **to encourage the achievement and maintenance of acceptable professional standards of education and training.**

I'm pleased to acknowledge that Clair Le Poidevin has stepped into the role of Education Secretary. She got off to a positive start organising a high quality, well attended half day training session on the subject of captive insurance.

As Paul said last year, education and training is going to become increasingly critical if we seriously aspire to continuing growth. I am happy that recent government moves seem to be in the direction of loosening housing and immigration policy to enable the employment of some outside talent. However, there can be no long term replacement for educating our own young people. Our member firms need to be far sighted and invest in education and training, capturing talented school

leavers and graduates. If we commit and fully invest in people and professional skills we can create a virtuous circle that will support Guernsey becoming a global hub for all types of insurance and reinsurance.

It is good to be able to report another **financial surplus** for the financial year ending 30th June 2015, totalling £4,431 (£3,655 in 2014) according to the financial statements kindly prepared by Ian Drillot and audited by Grant Thornton, thank you both. The Association now has accumulated funds of £99k.

Some of these funds are being spent on communications. Thanks to the hard work of Lorraine Allen, our Permanent Secretary, a new website was launched earlier this year and since the tail end of 2015, two editions of a Members' newsletter have been produced. In future these will be issued to coincide with the frequency of each bi-monthly committee meeting.

We are also spending funds on a project to draft SPI Insurer rules. By spending a small amount now, and then working with the GFSC and government, we can quickly put Guernsey on a level playing field with Bermuda when it comes to the clarity and attractiveness of our regime for ILS structures.

It's been a busy year, and one that has only been productive because of the efforts of a few individuals to whom I now want to give thanks:

Lorraine Allen is the oil that keeps GIIA working. Her commitment and diligence motivates me when I'd sometimes rather be just doing something else, and it is down to her that the committee meetings and annual dinner happen at all.

I'm also very grateful to Mike Johns, the outgoing Deputy Chairman, and Derek Maddison, the outgoing Honorary Secretary. Both have been there to support the activities of GIIA as & when required, attending various events with mixed ratings on the Child scale of tedium.

David Riley has led the Regulatory & Technical committee with his now habitual sang froid, and Clive James, who is stepping down from Committee this year, has moved the Guernsey Conference from embryo to fully formed foetus with his usual élan.

Finally, thanks to all of those who have given of their own time during the past year. I will never tire of restating that this is an organisation powered almost exclusively by volunteers. I am always gratified when people share the belief in the importance of the work undertaken by this Association and the pivotal role that it plays in the future of Guernsey's insurance industry. I am all the more gratified when those people back up that belief with an investment of their most precious resource: their time.

Peter Child
Chairman
18th February 2016