

Guernsey International Insurance Association – Chairman’s Report 2017

Welcome to the 2017 Guernsey International Insurance Association (GIIA) Annual General Meeting.

If I were to keep with tradition I’d begin with a review of Guernsey insurance sector’s health and performance over the last year by reference to the Statistics section of the Guernsey Financial Services Commission’s (GFSC’s) website. Unfortunately it has yet to be updated, so I can but speak from hearsay, tittle tattle and a subjective feeling for what has gone on in 2016 (fortunately I’m a trained underwriter). I think that we all know that captive net growth is fairly flat, as any new gains are matched by older entities surrendering their insurance licences. Most net growth in the last few years has come from the ILS sector, ably supported by those entities which provide a commercial benefit to their shareholders perhaps through a Producer Owned (Re)insurance Cell or similar structure, which can often be replicated and sold widely to members of particular industries, sectors or niches. For now, I would estimate that net growth for 2016 was probably fairly flat overall, similar to 2015, and that top line growth came in again at around 6-8%.

The net growth numbers are not as impressive as in previous years, but such has been the fate of most if not all of our offshore contemporaries, so I wouldn’t hesitate to affirm 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.

Last year I referred to 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. Given the approval of Bermuda’s bifurcated solvency regime by the EU, which came into force in 2016, this statement is looking even bolder. However it remains a vision that the Association is working to bring into clearer focus through the work of its main committee and the Market Development Committee, albeit that the 5 year deadline might have to be extended.

The Association continues to recognise 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.

Some are looking further afield for new captive formations, and it is encouraging to see at least two new captives from China currently being formed. In June 2016 Charles Scott signed a memorandum of understanding with the China Captive Alliance on behalf of GIIA, and in November Guernsey Finance (“GF”) put on a well-attended seminar in Hong Kong focussing on the Guernsey insurance industry. The investment by the GFSC and GF to place two permanent representatives in Hong Kong can but further favour the brave who venture to the Far East in search of new business.

As I reported last year, GIIA's Market Development Committee agreed to focus on three main product types:

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. In this area, GIIA supported work undertaken by Mark Helyar in drafting up the Insurance Business (Special Purpose Insurer) Rules which came into force in December. Thank you Mark for all your hard work.

3. Pension De-Risking: The pension longevity deals of 2014 have not been replicated in 2016. However, much work has been undertaken to ensure a strong pipeline for 2017 and beyond, and participants in our market are developing new de-risking techniques for pension funds that promise to bear fruit very soon.

In support of these core areas, GIIA worked with GF to put on the ILS Insight seminar in Zurich in July, a reception at the Monte Carlo Rendezvous in September, and the Guernsey Insurance Forum in London also in September. All were successful events highlighting the continuing level of interest that exists in doing business with the Guernsey insurance sector. All will be repeated in 2017.

Guernsey is clearly in a strong position to attract these 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 reported last year that the Financial Sector Policy Unit would undertake a review of the island's insurance sector in 2016. This initiative culminated in the publication of PwC's report in November: Insurance Sector Strategic Review. The report is available on the gov.gg website. The review provided 30 recommendations, ranging from those requiring high level, island-wide engagement to those that can be dealt with internally by the industry. I am happy to report that GIIA, the GFSC, GF, Government and other interested parties are working to progress the majority of those recommendations through 2017 and beyond. We are using the report as something of a roadmap to ensure that Guernsey is in as competitive a place as it possibly can be to continue to attract, diversify and grow its insurance business.

One of the recommendations of the report was to "undertake a cost/benefit analysis of a dual Solvency II regime." Recognising the need to update thinking in this area, GIIA has re-engaged with PwC which has been tasked to produce an authoritative report as to Guernsey's options. This work will be finalised by 31 March 2017, and GIIA will be seeking a consensus from local industry as to what action, if any, should be taken by the island. Once this consensus has been achieved, GIIA will engage with the GFSC and Government to ensure that the best interests of the industry are served.

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 are using 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 a Regulatory and Technical Committee.

The Regulatory and Technical Committee led by David Riley has been less busy in 2016, though it continues to represent GIIA on the GIBA technical committee, and has dealt with issues such as BEPS; GFSC Revision of Laws; Register of Beneficial Ownership; Brexit; Electronic CDD; GFSC Online submissions; EU General Data Protection Regulation; Discretionary Financial Penalties; and the AML Handbook.

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 last year it was 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 result of that consultation was an apportionment of the regulatory fees for 2017 that more accurately reflected the regulatory risk presented by different types of licensees, and encouraged growth in GIIA’s target sectors.

GIIA has also engaged closely with the GFSC on the subjects of Brexit and Solvency II, and is confident that the GFSC will provide support as and when it is required by industry in these areas.

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 continued in her role of chair of the Education Committee. The Education committee has put on a Master class on the subject of the UK Insurance Act, and has spent considerable time investigating the ongoing viability of the Captive Insurance qualification delivered by Glasgow Caledonian University, and the potential for it to be upgraded into a qualification more fit for today’s insurance manager.

I want to repeat what I said last year: education and training is going to become increasingly critical if we seriously aspire to continuing growth. There is no doubt that government moves to loosen housing and immigration policy to enable the employment of some outside talent is welcome. 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.

I’m pleased to be able to report another financial surplus for the financial year ending 30th June 2016, totalling £3,998 (£4,431 in 2015) according to the financial statements kindly prepared by Ian

Drillot and audited by BDO, thank you both. As at 30 June the Association had accumulated funds of £104k.

It is worth noting that some of these funds are being spent already, on professional advice in respect of Guernsey's position re Solvency II from both Martin Membury, who provided an article setting out how EU companies could still validly trade with Guernsey reinsurers earlier in the year, and PwC for the re-engagement that I have already referred to.

In addition to this, and as set out in more detail under the Revision of Annual Fees agenda item, the GIIA committee has recently agreed to retain the services of Cutts-Watson Consulting ("CWC") as its permanent consultant. This is, I believe, a seminal moment for the industry. The international environment is a challenging one: as previously mentioned the continuing soft market, international tax initiatives, and IPT increases as well as the growth of national protectionism, have served to make our job harder. On the flip side, GIIA, Government and the GFSC are aligned in their commitment to work together to support various initiatives that aim to promote growth of the sector. I believe that this level of internal cooperation can but put Guernsey in the best possible position as it seeks to make the most of the opportunities that are arising and will continue to arise from a changing world. The appointment of CWC, whose number includes not just Malcolm, but also familiar names such as Graham Powell, Paul Wakefield and Niall Lucas, will ensure that GIIA's hardy band of volunteers has a highly experienced resource available to address all the challenges of the coming year.

As always the year gone by has been a busy one for your association. It's been a year that has only been productive because of the efforts of a few individuals, some of whom I have mentioned already, and to two more of whom I now want to give thanks:

Lorraine Allen, our Permanent Secretary is as I've previously said, the oil that keeps GIIA working. Her diligence and good humour keeps me going when I'd sometimes rather be doing something else, and it is down to her that the committee meetings and annual dinner happen at all.

Derek Maddison, the outgoing Deputy Chairman, and potentially, the incoming Chairman, has provided unstinting support throughout the year, always making himself available to attend events, sometimes with embarrassingly short notice. I am sure that if you vote him into the top job in a few minutes time, he will ensure the continued development of your association and industry as a whole. I wish him the very best of luck.

Finally, thanks to all of those who have given of their own time during the past two years. 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 confident that with all of our continued efforts the future can be bright for us all.

Peter Child
Chairman
28th February 2017