

Guernsey International Insurance Association – Chairman’s Report 2018

Welcome to the 2018 Guernsey International Insurance Association (“GIIA”) Annual General Meeting.

I will start, as usual with a brief review of the performance of the sector over the past year.

During 2017, the Guernsey Financial Services Commission licensed 84 new international insurers, an impressive top line growth of just over 10%, comparing favourably with the 6 to 8% estimated by last year’s Chairman and 8% for 2015.

The net growth of 18 (approximately 2.2%), after 66 licence surrenders, remains encouraging in what is a challenging market for traditional captive business and is reflective of the innovation and adaptability of the industry as it continues to drive growth in newer areas such as pensions de-risking, insurance linked securities (“ILS”), commercial reinsurance and in new geographic markets, such as China.

The total number of international insurers now stands at 853, with more than half (57%) now represented by PCC cells, reflecting in particular Guernsey’s strong position in ILS.

These bald numbers may not fully reflect the substantial growth in recent years in the commercial reinsurance business, where the number of entities is small in absolute terms but their size relative to the average traditional insurer in Guernsey is very large. Each entity generates very substantial revenue to the island and employs increasing numbers of people. The overall market size of this sector globally is substantial and even a relatively small share of it brings major economic benefit to the island.

Meanwhile, the independent managers in particular, continue to drive growth in the producer owned (re)insurance company space.

While there is no room for complacency, and the industry needs to continue to co-operate on growth initiatives and to fight for the right regulatory, political and commercial environment to encourage business to come to the island, GIIA continues to meet its primary purpose: ***“to ensure that Guernsey remains Europe’s leading offshore centre for insurance and alternative risk financing”***.

Last year Peter Child referred to a vision, originally set by Paul Sykes, which saw Guernsey becoming the leading offshore international insurance centre over the next five years. This was and remains a bold ambition and has, as Peter observed, been subject to some challenge from the approval of Bermuda’s bifurcated solvency regime by the EU, which came into force in 2016. Some would argue that it is essential for Guernsey to achieve a similar bifurcated approach in order to achieve that ambition, but the jury is still out following the completion of

the consultation, which I will discuss later. Meanwhile, it remains a vision that the Association is working towards through the work of its main committee and the Market Development Committee (“MDC”), albeit that the timeline has been stretched.

While I agree that the continued growth of new products and commercial reinsurance is critical to the achievement of our bold ambition, I do not share some of the pessimism I have heard in relation to traditional captive business. Yes, the UK market is mature, and there are challenges from BEPS, insurance premium taxes, low interest rates and soft markets, but I see very strong evidence that a well-managed captive remains an essential part of the risk manager’s toolkit and we see increasing use of captive structures to drive better deals from the market, to cover new and emerging risks including cyber, trade credit and employee benefits and to take greater control over cover and claims. The largest captives are growing and not declining. Some of our members have also achieved success in China and other new markets and their success is borne of hard work and taking a long term view - this is good for Guernsey plc and should be applauded.

As Peter reported last year, the MDC agreed to focus on three main product types:

1. Rated reinsurance

Kelvin re and Humbold Re continue to thrive and we are assured that there is more growth in the pipeline.

2. Insurance Linked Securities

This business continues to grow.

3. Pension De-Risking

There has been further growth in this area during 2017, with the formation, for example, of Mercer Insurance ICC Limited and several active cells.

In support of these core areas, GIIA worked with GF to put on the ILS Insight seminar in Zurich in July 2017 to be repeated in 2018 and the Guernsey Insurance Forum in London in October 2017, also to be repeated in 2018.

Both were well attended and well organised successful events, raising the profile of Guernsey and highlighting the continuing level of interest in Guernsey as a domicile for this type of business. Both will be repeated in 2018.

In addition the MDC has been a founder member of a Capital Convergence Working Party and is organising a roadshow including representatives from GIIA, GIFA, TISE and the GFSC to market Guernsey’s ILS/Rated Re capabilities.

The MDC has been instrumental in the increased production of articles for publication on the Guernsey Finance website – 2 a month through 2017 and the production with Guernsey Finance of a very useful Bermuda v Guernsey jurisdiction comparison.

The MDC also continues to look at the role the insurance sector can play in impact investing and will continue to work with the States of Guernsey and other sectors to ensure that the good that our sector can bring to society as a whole is clearly articulated. There is already a very strong argument that ILS structures can bring substantial humanitarian benefits, and the Committee has also looked at the emerging area of disaster relief funding. The sector also has a good story to tell in terms of other areas which are of wide benefit to society, such as insurance cover for decommissioning of industrial sites, and providing innovative solutions to pensions funding problems.

Guernsey is in a very strong position to take full advantage of all of these areas and the importance of a stable political environment, a robust infrastructure, and a strong pool of talent should not be underestimated. I prefer not to make political statements, but it is a given that stability in our education system and certainty over the future of the GTA University Centre would be very much welcomed by the financial services industry, and the sooner a clear way forward is agreed, the better.

I am grateful to Peter for his continuing chairmanship of the MDC and to the members of all of the sub-committees for their hard work and commitment and indeed for the great outcomes they are achieving, particularly the strides forward in relation to convergence capital.

There has been a huge amount of government consultation with industry – both sector specific and through GIBA - in relation to BREXIT and what industry needs from government. Clearly, the eventual deal between the EU and the UK remains uncertain, so it is dangerous to speculate on outcomes. Overall, while there is a strong correlation between the economic well-being of the UK and that of Guernsey, our sector in general, is not expecting to be hugely affected by BREXIT, as we do not benefit either from passporting rights or from Solvency II equivalence. Our preference has therefore been to support the general efforts of government in ensuring that the voice of Guernsey is heard, but to maintain a relatively low profile in relation to BREXIT and concentrate on our niche areas of expertise. It is possible that we may benefit from opportunities brought about by BREXIT – the possibility of direct writing of motor on a par with Gibraltar is one example cited by some – and there has been some interest in Guernsey from EU based insurers wishing to make sure that they can continue to access the UK market post BREXIT.

One of the key areas of activity for your Committee this year was responding to the PWC report on the Insurance Sector prepared for the Financial Sector Policy Unit and issued in November

2016. The review included 30 recommendations, a large number of which showed GIIA as the lead party. One of the core recommendations was that industry should “undertake a cost/benefit analysis of a dual Solvency II regime”.

In response to this challenge, your Committee concluded that it needed some outside help and support to share the workload. In that context, the 2016 AGM agreed increased level of subscriptions to fund increased expenditure. In the financial year to 30 June 2017, GIIA spent £10,000 on its own report from PWC on the Solvency II question and also engaged Cutts Watson Consulting (“CWC”) at a cost of approximately £1,000 per month to assist the Committee and, in particular, the MDC in addressing the remainder of the main PWC report and in supporting market development activities generally. The Solvency II report was a one-off expense, and the expenditure on CWC is expected to reduce in 2018, as a large number of the other PWC recommendations, including the formation of the Convergence Working Capital group, have been concluded.

Large amounts of my time and the Committee’s time in 2017 were expended on the debate on the Solvency II question. Following receipt and discussion of PWC’s report to GIIA and open meetings with the PWC expert on the subject, the Committee supported further discussion on the narrower question of whether Guernsey should seek Solvency II equivalence for commercial general reinsurers only, and it was agreed that the GFSC would consult industry on the subject. We are very grateful to the GFSC for the way in which it approached this, which included detailed consultation with individual GIIA members and other interested parties and a presentation to the Committee.

It is fair to say that feelings among certain GIIA members on this issue ran high, and there was an absence of overall consensus, with very strong support from some and strong reservations from others. It was, however, gratifying that all members engaged in the debate in a constructive manner. The GIIA response, recognising that GIIA is a membership organisation, was therefore balanced rather than strongly supporting any position. It recognised both the potential growth in commercial reinsurance business from Solvency II equivalence, which some argued very strongly represents the best hope for the future of the industry, and the strongly held views of others about the potential threat to the existing client base. Following completion of the consultation period on the GFSC paper, we await further news from the GFSC. This remains a very important issue for the sector and one which will not go away.

Other GIIA objectives 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 MDC, and its ILS, Pensions and Conference sub-committees, GIIA also has a Regulatory and Technical Committee (“RAT”) led by David Riley and latterly by Martin Le Pelley.

The RAT has not been highly active in 2017, mainly because the core issue of the day, Solvency II equivalence, was addressed through the main Committee, but the early part of 2018 has seen a ramp up in activity.

The RAT has addressed issues such as Revision of Laws; Register of Beneficial Ownership and General Data Protection Regulation. My thanks go to both David and Martin.

I am also grateful to Clair Le Poidevin, who continues to chair the education Committee, which has run a successful masterclass on GDPR and has continued to grapple with the question of whether GIIA should champion an update to the Certificate in Captive Management qualification formerly run by Glasgow Caledonian University. This question remains under review and we shall be liaising with the Insurance Institute of Guernsey and the Chartered Insurance Institute on this matter. Training remains critical to the success of Guernsey, and the flow into the industry of both younger people and those looking for a career change remains essential if we are to maintain and improve our pre-eminent position.

On that note, I am pleased to advise that a proposal will be put to the next Committee Meeting on the formation of a younger persons' forum, with the aim of providing support, encouragement and networking opportunities to the next generation of industry leaders.

I would also like to remind everybody of the Chris Le Conte Award [for achievement in Guernsey's Insurance Industry]. Get your nominations in now!

I am in the unenviable position of being the first Chairman in quite some years to announce a deficit for the year, but I am also conscious that attendees at previous AGMs have often questioned why we held so much in retained reserves. Now they have their answer. However, the deficit of just over £25,000 is after one off fees for special reports and before the increase of around £13,000 in annual subscription income kicked in, so I remain confident that with the reduced level of CWC activity and the increased income, we should return in 2017/18 to a position much closer to break-even. I am very grateful to our Treasurer, Ian Drillot, for his stewardship of the funds and accounts and to Lorraine Allen for her work on subscriptions.

Overall, the year has been busy, but appears to have flashed past, and I am very grateful to the whole of the Committee and, in particular to my deputy, Mark Elliott, who has been an invaluable support and I believe will make an excellent future Chairman and indeed future industry leader.

I am grateful also to Graham Powell of CWC for his sterling work in moving the PWC recommendations forward and to Malcolm Cutts Watson for his wise counsel.

We are all grateful to Lorraine for her excellent work throughout the year through thick and thin and for the great success of the annual dinner and the summer drinks event. Lorraine is the bedrock of our Association.

Last but not least, I would like to thank David Oxburgh and the GIBA Committee for their support and Dominic Wheatley and his team at Guernsey Finance for their great work in promoting our industry and to Barclays bank for their generous sponsorship.

I look forward to a successful 2018.

Derek Maddison
Chairman
13 February 2018