Guernsey International Insurance Association

Chairman's Report 2019

Welcome to the 2019 Guernsey International Insurance Association ("GIIA") Annual General Meeting and thank you for coming.

I normally start with a brief review of the performance of the sector over the past year.

On this occasion, the 2018 statistics are not yet fully in the public domain, as they are still being discussed and agreed with the Guernsey Financial Services Commission. I will, however, do my best to give an overview.

Overall, the industry remains robust, maintaining its leading position in Europe in its specialist areas and carving out new niches in others.

While there has been a healthy number of new licences issued (for full insurance companies) in 2018, which is vital for the continuous regeneration of the business, overall, after taking account of end-of-life licence surrenders, there has been a small net number of surrenders.

As I have pointed out many times - from my own experience, the bald numbers do not take account of the larger entities getting larger, the average size of the new formations getting larger and the predominance of smaller entities in the licence surrenders. There is no current empirical evidence to demonstrate my contention conclusively, and my main point of reference is my own experience. We have seen exponential growth of some clients and a significant increase in new lines of business being added, particularly in the employee benefits and credit space.

Indicators of relative size, such as gross premium or gross assets have not been published. The number for net surrenders does not distinguish between the addition of a new reinsurer and the closure of a small captive. In assessing the health of our industry, we <u>must</u> have regard to size and to growth prospects and it may be a challenge for my successor to help find the appropriate indicators, which might, for example, include the amount of tax and social security contributions paid by industry participants, the growth in audit fees or other measures not previously collated. Clearly, each of the reinsurance companies formed over the last few years generates very substantial revenue to the island (far more than all but the very largest captives) and employs increasing numbers of people.

In relation to cell formation, the picture is very different and growth continues to be significant.

Overall, it is clear to see that the major growth of the industry as a whole is coming from markets adjacent to the traditional captive insurance space – i.e. in reinsurance, insurance linked securities, pensions de-risking and managing general agents. In all of these areas the industry continues to show its ability to be nimble, to innovate and to build on the jurisdiction's deep and embedded knowledge and experience base. In this, I am referring not only to our insurance company and insurance manager Members, but also to the excellent support services and real expertise offered by our Membership among the lawyers, actuaries, bankers, investment managers and accountants.

As you will be aware, there are several Committees and Sub-Committees of the main Committee, and the Market Development Committee ("MDC") ably chaired by Peter Child in particular has been very busy this year:

In 2018 the MDC;

- Prioritised three key work streams: ILS/Reinsurance; MGAs; Pension De-risking and set up specific working groups to develop those areas.
- Undertook the first ever ILS Roadshow to London & Zurich in April
- Held ILS Insight in Zurich in July
- Held our biggest ever reception at the Monte Carlo Rendezvous in September
- Held the Guernsey Insurance Forum in London, focussing on captives in October
- Worked with the GFSC to clarify & develop the ILS rules and guidance
- Made presentations to various local industry groups representing other parts of the financial services sector re ILS
- Worked hand in glove with Guernsey Finance on all of the above events and to produce updated promotional material

During the last twelve months, in the lead up to the inspection of the Guernsey Financial Services Commission by the International Association of Insurance Supervisors at the end of 2018, the industry faced a deluge of new insurance regulation and guidance, mainly but not exclusively following the "Omnibus" consultation, including:

- Public Disclosure
- Conduct of Business Rules
- Reporting Frequency
- ORSA
- Reinsurance and Risk Transfer
- Category 6 – Special Purpose Entities
- Majority shareholder control

The industry mobilised in a very impressive way to address these proposals and, in particular, to ensure that the public disclosure rules were proportionate to the nature of the industry here and did not put Guernsey at a competitive disadvantage in relation to other jurisdictions. As ever, the industry supports good, proportionate regulation but is not in favour of wholesale adoption of standards which are not suited to the nature of the industry in Guernsey or, for that matter, to any of our direct competitors. It was pleasing that the GFSC was prepared to listen and that both the Commissioners and the Executive engaged with industry to find a way through this.

In addition to the changes and new guidance flowing from the omnibus consultation, there has been further guidance on insurance fraud and on fit and proper persons, and, also challenges coming from other areas, such as the new economic substance regulations for tax purposes and the challenges caused by the absence in Guernsey's GDPR regulations of an "insurance purposes" justification for holding and processing special category data.

All-in-all a very challenging year from a regulatory perspective, and I am very grateful for the help and support of Martin Le Pelley, Chair of our Regulatory and Technical Committee and indeed of many others who stepped forward and took a very active part in these debates for the greater good of the industry.

While we are assured that there are no further immediate plans for regulatory change, there could be some changes flowing from the IAIS inspection. Also, more work is needed on the economic substance worked examples and, although we seem to have a sympathetic ear in relation to GDPR, no firm plans have yet (to my knowledge) been agreed. It seems almost inevitable, also, that as we work our way through BREXIT, further challenges will emerge.

Turning to education, I would like to thank Clair Le Poidevin for her continuing work and support. During the past twelve months, much thought and effort has gone into reinvigorating GIIA's offering to its Membership, particularly its younger Members and I must pay tribute to Mark Elliott, deputy Chair and the work he has done with our sponsors, BDO and Barclays and with Lorraine Allen and others in successfully launching the Insurance Development Forum. I think this is a great initiative and look forward to more exciting meetings over the coming year.

One of the key areas of activity for your Committee over the last two year has been 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. Your Committee believes that the work on this report is now complete. In particular, a possible bifurcated approach to Solvency II equivalence was debated in detail and a conclusion reached and the recommendations in relation to convergence capital have been implemented.

At the 2016 AGM, the Members agreed increased level of subscriptions to fund increased expenditure in relation to additional support, initially from CWC, in relation to the PWC report, the Solvency II question and other initiatives and projects. Last year I was in the unenviable position of being the first Chairman in quite some years to announce a deficit for the year, as the additional costs kicked in before the increased subscriptions. The position has now stabilised and we have a small surplus. I am very grateful to our Treasurer, Ian Drillot, for his diligent and dependable stewardship of the funds and accounts and to Lorraine Allen for her work on subscriptions.

While the work in relation to the PWC report is largely over, there are many more challenges on the horizon and it remains clear that outside support of some description will be required and that GIIA will need to maintain its level of income in order to meet the future challenges. We should not forget that the Committee is made up of volunteers, all of whom have big day jobs in addition to their Committee roles, and there are limits on what any of us can achieve in our "free time" when major issues arise.

Overall, the year has been busy, but enjoyable, 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 to Peter Child and Mike Johns who have always been willing to roll their sleeves up. I would encourage others to step forward and get involved and to improve the diversity and age profile of the Committee.

I am grateful also to Graham Powell of CWC for his work.

Enormous thanks to Lorraine for her excellent work and for the great success of the annual dinner and the summer drinks event. I am delighted that she will be staying in post and I am sure that she will be as great a support to Mike as she has been to me.

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.

It has been a privilege to serve GIIA for two years (and thirteen days – not that I'm counting of course) and I think we are hugely fortunate to have an industry and an industry body that, on the big issues that really matter, are prepared to pull together for the greater good of the industry on which all of our livelihoods depend.

I commend Mike Johns to the Meeting and wish him and his Committee every success in 2019 and beyond.

Derek Maddison
Chairman
26 February 2019