

GUERNSEY BROADENS ITS INSURANCE HORIZONS

24 AUGUST 2016

Dominic Wheatley, Chief Executive of Guernsey Finance, discusses the new wave of global interest that Guernsey looks to build upon.

Guernsey underlined its position as Europe's leading captive insurance domicile when it signed two Memoranda of Understanding (MoU) with the Kashgar government and the China Captive Alliance at the end of June.

Kashgar, located in the Xinjiang autonomous region in northwest China, has become the dedicated centre for the country's growing captive insurance sector, while the China Captive Alliance is the most authoritative professional captive institution in China. Both the Kashgar government and the China Captive Alliance were eager to establish ties with Guernsey due to the island's long and established history in captive insurance and our reputation for innovation, which includes pioneering the cell company concept with the introduction of the protected cell company (PCC) for use in the captive insurance sector.

The Kashgar MoU was signed by Guernsey Finance's Asia Representative, Wendy Weng, at the first ever Asia-Europe Captive Summit in Kashgar in June on behalf of Guernsey's government, the States of Guernsey. This provides for cooperation between the two jurisdictions in the areas of captive insurance market development, financial innovation, international communication and information exchange in order to promote the viability of the Chinese captive market and communication between China and the international captive industry.

The China Captive Alliance's MoU with the Guernsey International Insurance Association (GIIA), the representative body of both Guernsey insurers and Guernsey insurance managers, sets out a similar statement of intent to facilitate business development initiatives between the two parties, as well as international communication and information sharing.

From a Guernsey perspective, the MoUs also mean the island is well placed to help develop captive opportunities in the international arena that will emerge from Chinese corporations as they expand internationally.

Continued progress

The MoU signings build on what has been a very productive year for not only Guernsey's insurance industry, but for the island's financial services sector generally. Confirmation that Guernsey ended last year with more than 800 international insurers was a terrific endorsement of our standing. Figures from the GFSC show that there were 804 international insurers licensed in Guernsey at the end of December 2015, made up of 242 limited companies, 64 PCCs, 444 PCC cells, 13 incorporated cell companies (ICCs) and 41 ICC cells.

It was the first time Guernsey has ended a year above the 800 threshold. The range of business written during 2015 included insurance-linked securities (ILS) (38%) and insurance lines covering property (14%), After the Event (ATE) legal expense (10%) and general liability insurance (7%).

The opening of a Guernsey representative office in Hong Kong in March was another boost and certainly aided discussions around the signing of the MoUs. The office, which is run by Guernsey Finance is our second outpost in South East Asia, following the opening of our Shanghai office in 2007. Our Asia Representative, Wendy Weng, who is based in Shanghai, is using the office as a base from which to carry out further promotional activities focused on the wider South East Asian market, while it is also being utilised by the Guernsey Financial Services Commission to provide regulatory advice to those in the region who might be considering Guernsey-specific ventures. The GFSC's John Dunford, a former deputy director of the regulator's insurance division, has relocated to Hong Kong to act as on-the-ground representative for the commission.

Longevity risk

A white paper titled 'Longevity risk market comes of age' written by insurance journalist Helen Yates further illustrated Guernsey's expertise not only in the area of captive insurance but in utilising cell structures. Published earlier this year, the whitepaper examined how longevity risk – the risk that people live longer into their

retirement - has become a growing burden, particularly for closed defined benefit schemes or final salary schemes.

Finding solutions to pension longevity risk has become an area of growth for Guernsey ever since the British Telecom Pension Scheme (BTPS) entered into a £16bn transaction to transfer a quarter of its longevity risk to Prudential Insurance Company of America in July 2014. In order to transfer the risk to Prudential, BT established its own captive insurer, a Guernsey-based ICC, allowing it to access the reinsurance market directly without paying a bank or insurer to act as an intermediary. The deal was significant, both in terms of its size and its innovative use of an ICC structure.

In the white paper, Paul Eaton, new business director at Artex Risk Solutions, explained that longevity had been hedged by transferring the risk for many years, but the use of captive insurers was a recent phenomenon.

“Historically, commercial insurance companies or banks would be the intermediaries and they would access the reinsurance market to find capacity. What’s happened over time is that the loading intermediaries applied to the transaction have led some schemes to look for a more cost effective way of reaching the reinsurance capacity, and this is where establishing your own insurance company comes into play,” said Paul.

The ICC has subsequently become the structure of choice. Each ICC has a core which is owned by the sponsor of the ICC and surrounding the core are a potentially unlimited number of cells, each of which can be set up for separate captive-type business and owned, or licensed, by other parties. The white paper explains that the preference for ICCs had been instigated by reinsurers requiring absolute certainty that there is no contamination risk between cells.

“Pension schemes are also aware they may require additional longevity transactions in a number of years’ time, as their portfolio matures, so it helps to have a vehicle that is already in place to which you can add further cells,” added Paul.

The benefit of going down the captive, or ICC route, rather than using an insurer or bank to access the reinsurance market, is that it is easier to do business with just one reinsurance counterparty. This was something explained by Ian Aley, senior consultant at Towers Watson.

“If you are a commercial organisation with multiple product lines that expects to write more business in the future, you probably want to spread your credit risk limits thinly across a number of reinsurers. But if you’re a pension scheme hedging your longevity risk to a reinsurer, you’re very comfortable to take an acceptable level of credit risk with any one reinsurer, and the same applies in the other direction. One of the advantages of the captive is you can access the most efficient reinsurance price without having to take an average of three to six - which bumps the price up.”

Towers Watson itself has launched a dedicated Guernsey ICC for pension schemes to gain direct access to the reinsurance market in order to hedge their longevity risk. The ICC, managed by Willis Guernsey, was put to use in January 2015 by the Merchant Navy Officers Pension Fund to hedge £1.5bn of its longevity risk.

Insurance Forum

A further examination of the use of cell companies will be on the agenda at the 2016 Guernsey Insurance Forum. The event, titled ‘Future Stars – where next for the (re)insurance market?’, will include two panel sessions that will focus on global developments and their impact on innovation and growth in the reinsurance market. It will also seek to identify which insurance centres are best placed to adapt to focusing on new structures, particularly reinsurance.

The half-day event, moderated by ITN news anchor Alastair Stewart, will be held on 21 September at etc.venues, 8 Fenchurch Place in London and is expected to attract more than 200 professionals from across the insurance space.

Conclusion

Guernsey’s union of an innovative industry and intelligent regulation has underpinned the evolution of its mature international insurance sector and is why those in China and elsewhere regard the island as one of the leading insurance domiciles in the world and one they want to work with. Recent developments only go to reinforce that fact.

An original version of this article was published by [Captive Review](#), May 2016.

WE ARE GUERNSEY is the brand under which Guernsey Finance promotes the island's financial services sector internationally. Guernsey Finance - the promotional agency for the island's finance industry internationally - is a joint industry and Government initiative responsible for the promotion of Guernsey. Under the leadership of Chief Executive Dominic Wheatley, the agency ensures that the core values and competencies of the island's finance sector are accepted and respected by the global community and that financial business development flows are enhanced.

PO Box 655, St Peter Port,
Guernsey, GY1 3PN

+44 (0)1481 720071

INFO@WEAREGUERNSEY.COM

