

FAR-REACHING GUERNSEY

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Dominic Wheatley, Chief Executive of Guernsey Finance, speaks to Captive Review about how Guernsey is spreading its captive insurance message further afield.

Guernsey has been busy sharing its captive insurance expertise with audiences across Asia.

The island is well-known in the western world as the leading captive insurance domicile in Europe, but it has now turned its attention to increasing that awareness and enhancing business ties with Asian corporations across the Far East.

This began in earnest back in June 2016 when Guernsey signed two Memoranda of Understanding with (MoU) with the Kashgar government and the China Captive Alliance (CCA), and most recently when Guernsey hosted an insurance masterclass in Hong Kong – the first event of its kind to be hosted by the island in Asia.

MoUs

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 CCA is the most authoritative professional captive institution in China. Both the Kashgar government and the CCA were eager to establish ties with Guernsey due to the island's long and established history in captive insurance and our reputation for innovation.

The Kashgar MoU – which was signed by Guernsey Finance's Asia Representative Wendy Weng at the first ever Asia-Europe Captive Summit in Kashgar on behalf of Guernsey – provides for cooperation between the two jurisdictions in the areas of captive insurance market development, financial innovation, international communication and information exchange. The CCA 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.

Captives of course are well established strategic tools among the world's top companies with most them using captives for a variety of purposes and across the full range of corporate risks. However, to date, their use has been limited among major Asian corporations.

The reasons for this are not hard to see. In China, for example, most assets and corporations have been publicly owned. Risk has simply been assumed by the government and losses met out of current government revenues. Not surprisingly, insurance has not been seen as necessary by managers or their public sector shareholders. However, the move towards a more mixed economy and a more international outlook has brought about two significant trends: the emergence of private sector corporations with increasing international assets and the increasing privatisation of government owned companies.

These changes in ownership and governance, and the exposure to international management practices, have increased recognition of the economic efficiency of insurance in a general sense and the financial efficiency of formal risk management, risk transfer and risk financing models.

Sharing Guernsey's expertise

Our November masterclass in Hong Kong therefore attempted to examine some of the factors that Asian corporations might need to consider as part of this evolution and the solutions provided by a jurisdiction such as Guernsey, which has garnered a reputation for innovation ever since pioneering protected cell company (PCC) legislation for use in the captive insurance sector. The subsequent success of this innovation is illustrated by the fact that the cell company is now used across the financial services world as an alternative application for the structuring of many different types of products.

The Hong Kong event, which also examined the area of employee benefits, attracted an audience of more than 50 delegates that included insurance and risk managers, family office managers, HR directors, finance directors, lawyers and accountants. It heard how captives allow for improved risk management and a greater understanding

of the cost of risk. Not only that, but how they also provide direct access to the wholesale reinsurance market and greater control of claims and result in less reliance on the commercial insurance market. It's a concept that is still being understood in China and Asia in general, but that is where we believe future growth in the captive sector will be concentrated, as opposed to the US and Europe where their use and advantages are already well-known.

With captives set to be at the forefront of innovation in Asia's insurance market, Guernsey is therefore proud to be recognised as a centre of excellence in this area. The interest shown by the audience in Hong Kong makes us believe there are significant opportunities for Guernsey practitioners to partner with corporate and individual clients in the region and to help build the market.

Feedback to the event itself has been fantastic. For example, the manager of a Hong Kong family office who only found out about the event shortly before it started, told us she dropped everything else she was doing so that she could be there to learn about captives. She told us her mainland Chinese corporate clients were all asking about captives and their capabilities so she could not afford to miss it.

Interestingly, since the opening of Guernsey's representative office in Hong Kong in March 2016, insurance has been the sector from which the most enquiries have been received. The office, which is used as a base from which Weng, who is based in Shanghai, can carry out further promotional activities, is also utilised by the Guernsey Financial Services Commission (GFSC). The GFSC's on-the-ground presence in Hong Kong means the Guernsey regulator is able to provide regulatory advice to those in the region who might be considering Guernsey-specific ventures.

UK and Europe

Closer to home, we held our first Guernsey Insurance Forum for several years over the autumn. The London event, which attracted an audience of more than 150, was moderated by ITV News presenter Alastair Stewart and consisted of two panel discussions focusing on the latest market trends, developments and growth potentials in the captive insurance and captive reinsurance market. Hosting such an event allowed us to remind the UK and European marketplace how robust our insurance industry is at the moment.

Indeed, Peter Child, chairman of GIIA, reiterated that point when he spoke recently to *Captive Review* recently on how the island stayed ahead of the pack and differentiated itself from other jurisdictions. He explained that Guernsey had always possessed the size and momentum of business to enable the employment of a large number of professionals within the captive management insurance sphere. As a result, Guernsey is able to retain the highest quality of individuals from insurance managers to accountants, company secretaries, actuaries and lawyers.

These individuals are then able to offer myriad professional advice and services, which within a European context means Guernsey can be found at the helm of the industry in regards to dynamic insurance-linked securities (ILS) and pension longevity structures, as well as arguably being the key pioneers in conversion of the alternative capital which is driving the ILS business into rated reinsurance vehicles.

In addition, not only does our proximity to the UK and mainland Europe and being in the same time-zone as the UK put us at an advantage, but so does the fact that we are not a member of the EU. It means we have been able to maintain a solvency regime that is fully compliant with the principles of the International Association of Insurance Supervisors, rather than be required to implement directives such as Solvency II which can be unnecessarily burdensome for captives. By existing outside of the Solvency II regime, we have found that Guernsey's proportionate and less prescriptive approach is attractive to both current and potential captive owners, especially those who still want a domicile within the European region.

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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.

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