

CHINA SETS ITS SIGHTS ON GUERNSEY'S CAPTIVE INSURANCE MARKET

07 JUNE 2017

Guernsey Finance Chief Executive Dominic Wheatley reflects on his company's recently-forged ties with China, and the bright future for Guernsey Finance within the country.

Guernsey's insurance industry has made great strides in developing captive opportunities in China over the past year.

Not only has the island signed four Chinese insurance-related Memoranda of Understanding (MoU) since mid-2016, but Guernsey captive structures are now being set up by China-based businesses.

One deal also nearing completion has seen Guernsey Finance, local practitioners and the Guernsey Financial Services Commission (GFSC) working closely with Hong Kong-based Joseph Yeung, executive director of HLCCG Film Guarantors, film production specialists, in coming up with a workable captive scheme. Mr Yeung visited Guernsey in February alongside film investor and producer Xing Li, who is another individual in the Chinese industry interested in learning more about Guernsey's offer for the region.

Mr Yeung, who said he moved to work with Guernsey after completing due diligence on a number of captive jurisdictions, believes he could make 50% savings on insurance costs over the long-term through the use of a Guernsey captive, and that there was much wider potential for the use of Guernsey structures and other speciality insurance in China. He also believed it would enable the film industry in China, which produces some 700 films every year with a 40bn RMB (\$579.2bn) box office value, to secure more investment.

According to Mr Li, more modern financial structures, like those found in Guernsey, were required to fuel the sustainable growth and internationalisation of the Chinese film industry, which has already seen 35% year-on-year growth over the past decade.

Their words were well received by us in Guernsey as we have set widening our insurance reach across emerging markets such as China as an ongoing priority.

The preferred choice

In yet another positive development and a sign of future business for Guernsey, it was reported by Captive Review earlier this year that Beijing-headquartered healthcare management firm, DINGTAI Health, was aiming to form a pure captive in Guernsey by the end of 2017.

Speaking to Captive Review at the Asia Captive Summit in Singapore in February, DINGTAI's Chunyan Mu said the firm was keen to use a captive to control its medicine and health management risks. The company is described as China's 'top medical and health group' and has managed more than 30 medical projects in sectors including real estate, property and education as well as for the government.

Again, a number of domiciles were considered, but Guernsey was DINGTAI's preferred choice.

"We have been working with Artex [Risk Solutions] on the Guernsey captive project and we hope to have it formed by the end of this year," Mr Mu told Captive Review.

We see these future business opportunities as a natural progression to Guernsey's continued efforts in the region.

MoUs

As referenced earlier, Guernsey has also signed some key MoUs with the Chinese authorities. The most recent of which involved the Guernsey regulator and the China Insurance Regulatory Commission (CIRC), and between Guernsey Finance and the Beijing Airport Economic Core Zone (BAECZ).

The agreement between the GFSC and the CIRC on 'mutual assistance and exchange of information' was signed at a ceremony in Beijing between the CIRC's director general, Bo Jiang, and the director general of the GFSC,

William Mason. It will enable a flow of information between the regulators to ensure compliance with the relevant laws in each jurisdiction, thereby promoting the integrity, efficiency and financial soundness of those doing business between the two places.

The MoU also means the GFSC now has MoUs with all of China's financial services regulators including the China Banking Regulatory Commission and the China Securities Regulatory Commission. As explained by Mr Mason at the signing, as Chinese financial services firms expand they are looking for a high-quality domicile from which to conduct their international business, and the signing of this latest regulatory MoU is symbolic of the openness of Guernsey's insurance sector to Chinese-led business.

Indeed, the signing also has broader positive implications for Guernsey's finance sector as it will also provide Chinese insurance companies with an approved conduit for investing into Guernsey funds, once they have obtained a quota from the State Administration of Foreign Exchange.

Just a day after the signing of the CIRC MoU, Guernsey Finance signed its own MoU with the BAECZ – a key Chinese business centre. Signed by BAECZ Management Committee Deputy Director Jie Hu and Guernsey Finance chairman Lyndon Trott, the agreement sees the parties agree to cooperate in the areas of captive insurance market development, financial innovation and international information exchange to promote the viability of the Chinese captive market and wider communication between China and the global captive industry.

The BAECZ at Beijing Capital International Airport was created to boost the city's airport-based economy and features developments in five key sectors: airport transportation and related industries, strategic emerging industries, industrial finance, business services, and culture and creative industries.

Businesses in this zone are eager to learn the advantages of utilising captive insurance vehicles as opposed to insuring through the commercial market and Guernsey, as Europe's number one captive insurance domicile, is perfectly placed to assist them with this.

Adapting to captives

Captives, of course, are well established strategic tools among the world's top companies, with most of them using captives for a variety of purposes and across the full range of corporate risks. However, up until now, 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.

Alongside the recent MoUs, Guernsey already boasts agreements with the Kashgar Government and the China Captive Alliance from June last year, which set about laying the necessary foundations for spreading our captive insurance message across China.

Kashgar, located in the Xinjiang autonomous region in northwest China, has become a dedicated centre for the country's growing domestic 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.

It seems inevitable that captives are going to be at the forefront of Asia's own insurance market innovation in the years to come, and Guernsey is proud to be recognised as a centre of excellence in this area. It has been nearly 10 years since we established our Guernsey representative office in China, and the developments of the past 12 months are a great way to mark that anniversary.

An original version of this article was first published in [Captive Review's Asia Focus](#), June 2017.

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

