

# ISLAND OF STABILITY

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Stability and innovation remain front and centre as the key drivers for Guernsey's financial services sector, writes Dominic Wheatley.

As a self-governing jurisdiction with its own parliament, Guernsey is not faced with going through the same protracted Brexit negotiations that the United Kingdom is currently presented with. Indeed, our position as a British Crown Dependency means we are not and, have never been, part of the United Kingdom or the European Union.

Therefore, the fundamental principles of our established relationship with both will not change because of Brexit, including our access to the EU. The Guernsey Government and the island's finance industry has already done the hard yards in terms of negotiating and gaining non-EU 'third country' status – a status which gives Guernsey guaranteed access to EU Member States.

For example, by utilising national private placement regimes (NPPRs) over the past year we have continued to see Guernsey-domiciled funds fundraising in EU Member States, including the likes of the Netherlands, Germany, Sweden, Denmark, Ireland and Luxembourg. Guernsey funds now channel more than £50 billion into Europe from global investors across all asset classes.

Where the City of London and the UK are about to tread as a 'third country' we have been walking for many years. At the recent Guernsey Funds Forum in London, Guernsey's Chief Minister, Deputy Gavin St Pier, explained that the island had already been sharing its experiences at a government and regulatory level with its counterparts in Westminster and Whitehall. He said Guernsey's relationship with the UK and the City remained of paramount importance and that Guernsey was not seeking to lure business away from the City like other jurisdictions might.

"Guernsey's finance sector sees itself very much as the City's 'offshore'. We are not your competition. We are your teammates in what is likely to be a marathon," Deputy St Pier told the audience.

At the same time, Deputy St Pier added that Guernsey's focus on new business will continue to be based around capitalising on its famed approach towards innovation and the emerging markets.

## Innovation

In fact, our reputation for innovation has already been on display this year with Guernsey becoming home to the first commercial deployment of blockchain technology in the administration of investment funds.

The deployment saw Northern Trust in collaboration with IBM building a security-rich blockchain, or distributed ledger solution, based on the open source Hyperledger Fabric for use in the private equity market.

It is now being used for the management and administration of a private equity fund by Unigestion, a Geneva, Switzerland-based asset manager with \$20 billion in assets under management. The group opted for a Guernsey fund because the use of blockchain had been approved by the Guernsey authorities ahead of elsewhere.

Blockchain is just the latest example of innovation emanating from our funds industry, as it followed in the footsteps of the launch of two new fund products – the Manager Led Product (MLP) and the Private Investment Fund (PIF).

## MLP

Building on interest generated by our dual funds regime in locating fund managers in Guernsey, the Guernsey Financial Services Commission (GFSC) introduced the MLP for use by Guernsey-based managers that are considered alternative investment fund managers under the Guernsey Alternative Investment Fund Managers Directive (AIFMD) Rules (equivalent to the AIFMD regime) and are seeking to market an alternative investment fund into a host country under NPPR.

Once licensed, the manager can launch new fund structures by simple notification and be registered within one

business day of receipt. No regulatory rules are applied to the structures, only to the manager, which must comply with the Guernsey AIFMD Rules.

## PIF

Then, at the turn of the year the GFSC launched the PIF. The PIF philosophy is a close relationship between investors and the licensed manager, who will be responsible for providing warranties on the ability of the investors to assume loss. The number of investors is restricted to no more than 50, however, an investment manager acting as agent for a wider group of stakeholders can count as one investor.

In April our PIF regime saw the launch of its first two funds only four months after the structure was developed and released. The Cairngorm Capital II Private Investment Fund will invest primarily in British middle-market companies in the manufacturing, distribution and services industries, while GMT Communications Partners LLP Private Investment Fund is focussed on tech-enabled assets and services.

There is strong interest in the PIF with managers eager to take advantage of the structure's flexibility, simplicity, lower costs and the speed at which it can be brought to market.

With product additions like these Guernsey's funds sector remains a buoyant place, as demonstrated by the fact that we have seen the total value of private equity business in Guernsey surpass £100 billion for the first time. Figures show that the value of private equity funds under management and administration in Guernsey grew by £25 billion during 2016 to stand at £110.3 billion at the end of last year. Launches by big ticket promoters including Permira, Apax Partners, Cinven, Macquarie, Partners Group and Inflexion all contributed to the record high.

Similarly, Guernsey remains the global leader for non-UK entities on the London Stock Exchange (LSE). There were 124 Guernsey-incorporated entities listed at the end of 2016 – more than 40 ahead of our nearest competitor. Guernsey also added nine new entities last year – the same number as its two nearest competitors combined.

## Global reach

Away from the funds sector, Guernsey is currently capitalising on substantial progress made within the international insurance market.

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

One deal also nearing completion has seen Guernsey Finance, local practitioners and the GFSC working closely with Hong Kong-based Joseph Yeung, Executive Director of HLCG 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. According to Mr Li, modern financial structures, like those found in Guernsey, are required to fuel the sustainable growth and internationalisation of the Chinese film industry, which has seen 35% year-on-year growth over the past decade.

The most recent MoUs between the two jurisdictions have involved the Guernsey regulator and the China Insurance Regulatory Commission (CIRC), and Guernsey Finance and the Beijing Airport Economic Core Zone.

The CIRC agreement 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 the GFSC's William 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.

The signing also provides 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.

## Hongkong Jet

Further progress in Asia is being made in the wealth management and private client sector, specifically by Guernsey's civil aviation registry 2-REG, which in April granted an air operator certificate for its first Boeing business jet, 2-DEER – the world's largest business jet – which allows its owner Hongkong Jet to offer it for commercial charter.

The ultimate parent owner of Hongkong Jet is Global Fortune 500 company HNA group, one of China's most recognised brands.

Concept Private, a division of Guernsey-based fiduciary services provider Concept Group, incorporated the Guernsey subsidiary of Hongkong Jet and will provide local management services to the company.

As we progress through the rest of 2017, innovation will continue to be at the forefront of our minds, particularly as this year marks the 20<sup>th</sup> anniversary of Guernsey's pioneering introduction of the protected cell company (PCC). The legislation, the Protected Cell Companies Ordinance, 1997, is widely regarded as Guernsey's go-to example for financial innovation.

Originally introduced for use in captive insurance, the concept is now used in the financial services world as an alternative application for the structuring of many different types of products, including funds and private wealth structures.

With Guernsey being the first to adopt the cell company, the island has developed a world-class infrastructure for its application, supported by a range of lawyers and accountants with the highest level of expertise and experience in utilising the structure. Other jurisdictions have changed the name in an attempt to differentiate (segregated portfolio company), but effectively all 'PCC' legislation globally has been based on that originally formulated in Guernsey.

The structure's key feature is the legal ringfencing of designated assets and liabilities it offers within the PCC so that each cell acts as a separate entity while sharing administrative efficiencies with the PCC core. Aon's White Rock Insurance Company PCC Limited, which was established in Guernsey in 1997 as the first PCC in the world, has now been used by more than 100 corporations as a cell captive facility and has grown to be the largest structure of its kind globally.

#### Conclusion

What is clear from this level of activity is that while Brexit will continue to dominate the headlines, Guernsey's financial services sector is able to offer stability and ongoing excellence in its service delivery amidst the uncertainty that pervades much of the global financial markets.

In fact, with some of the recent innovations I've highlighted in this article, it remains an exciting time for the island and we will be doing everything we can to ensure that Guernsey remains attractive to prospective clients for many years to come.

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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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