

GUERNSEY: A MODERN FINANCE ENVIRONMENT FOR A COMPLEX WORLD

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Guernsey Finance Chief Executive Dominic Wheatley explains how Guernsey's financial services sector has remained at the forefront of innovation in the past year and is utilising its expertise across a variety of asset classes.

Recent events in the Caribbean have reminded us of the destructive power of Mother Nature. Global warming is changing traditional weather patterns, increasing the incidence of tropical storms and increasing their ferocity. This is placing substantial burdens on the wholesale reinsurance markets to meet the aggregate claims that arise out of such events.

Insurance linked securities (ILS) are a means by which investors can provide additional capital into the market against this risk, providing investors with enhanced returns in today's low interest environment. ILS also has a risk profile that is non-coterminous with that of conventional financial assets, facilitating improvements in the overall risk profile of investors' portfolios.

Guernsey's combination of both fund and insurance expertise within industry and at regulatory level has positioned the island at the heart of this fast-developing market. Fund managers and promoters with capital to deploy are brought together with transformation managers who understand insurance risk.

At the Guernsey Insurance Forum in London in October the audience of nearly 200 heard about the use of reinsurance technology to help meet the humanitarian outcomes of natural disasters. These have already been used to enable nation states in Africa respond to famine relief in a timelier manner and to preserve crucial assets for the rebuilding process that would previously have been used in immediate relief.

Non-governmental organisations working in this area face similar cash-flow issues in responding to disasters that can deflect crucial resources away from the important work and onto fundraising. Pre-funding using ILS structures could provide both an answer to the essential problem of having cash available at very short notice and facilitate investors increasingly focused on the social as well as financial outcome of their investments to deploy capital efficiently to meet this essential contingent purpose.

Fintech Innovation

ILS is also the asset class from which Guernsey has the latest example for its emerging excellence within the fintech space.

In August, it was announced that Dom Re IC Limited, a Guernsey-domiciled ILS reinsurance transformer and incorporated cell of Solidum Re (Guernsey) ICC had, with its most recent placement, issued the first notes to have been digitised on a private blockchain. Referred to as the 'ILSBlockchain', the mechanism replaced the role of a traditional settlement system such as Euroclear or DTC for the note issue.

This note solution was not the only global blockchain first Guernsey was able to lay claim to during 2017. In February, it was revealed that Northern Trust in collaboration with IBM and other key stakeholders, had launched the first commercial deployment of blockchain technology for the private equity market. Unigestion, the Geneva-based asset manager who was first to utilise the Northern Trust blockchain solution, said they opted for a Guernsey-based fund on the basis that the use of the distributed ledger technology had already been approved by the Guernsey authorities, including government and the Guernsey Financial Services Commission (GFSC).

Indeed, the GFSC has developed a familiarity with a range of emerging technologies to ensure the proper and efficient regulation of the business involved. This synergetic interaction between regulator and industry on innovative projects is achieved via the GFSC's Innovation SoundBox – a process designed to enable innovators to access the expertise of the regulator during the design process and build regulatory considerations into their business and operating models as they go.

Fintech has unmistakably emerged over the past 10 years, both as an evolutionary force improving the performance and customer interface of the established finance industries, but also as a disruptive force creating new customer opportunities and responding positively to the changing nature of society.

Guernsey's financial pedigree, coupled with its internal and external connectedness, makes it uniquely positioned to act as an environment for fintech development. An example of this is UK robotic investment adviser Wealthify, which recently saw Aviva acquire a majority shareholding.

Guernsey's role in this exciting start-up has included the entrepreneurial flare of one of the founders of the business, much of the initial funding and the investment expertise and administration. The internet-based platform delivers managed investment portfolios to retail investors facing the increasing need for long-term savings to meet their normal lifetime aspirations as opposed to traditional savings products, which can often deliver low interest rates and typically heavy expense ratios. The efficiency of Wealthify means that access to a balanced investment portfolio can be provided to savers at all levels, right down to those saving just £1 at a time.

Stability

Fintech is allowing Guernsey's business community to look to the future, but it is the experience the island has built up over more than half a century as a highly stable and secure centre for financial services that provides the platform for it to innovate in such a way.

This stability and security has never been more critical than it is today. Everywhere one looks there are signs of insecurity and volatility, whether this is the political turmoil around the world, the economic uncertainty associated with this, or the growing threats of international terrorism.

Meanwhile, individuals and families are accumulating wealth and leading increasingly international lives, and developing ever more sophisticated expectations of themselves and their impact on the world around them. The desire to secure and sustain assets for the future and future generations is now balanced by an increasing expectation that the deployment of investments will also deliver social as well as financial returns that reflect family members' commitment to the world and society in which they live.

Guernsey's focus on this developing trend is reflected in the formation of an impact investment working group, led by the local Chamber of Commerce, which brings together expertise from across sectors and industries to focus on the delivery of advice, structures and services to the fine-tuned aspirations in this area. This is not done through the development of generic products but through the ability to collectively respond to individual circumstances such as developing bespoke trust structures to facilitate the philanthropic ambitions of a family across generations.

Broadening our range of services in response to client interests is not new in Guernsey. Specialist insurance lines such as kidnap and ransom, fine art, general aviation and yacht insurance, line up alongside yacht and aircraft registration, specialist mortgages, Shariah investment structures and international pension schemes to meet the varied demands of a very diverse client base.

Quality and Transparency

Critical to all our clients, and to the international finance community generally, is that Guernsey continues to be a leading jurisdiction with regard to international trends in quality, transparency and ethical business behaviour. Our position on this has not changed over the years and we remain as committed today as we have always been to the highest standards of probity.

Our standards of anti-money laundering (AML) are regularly inspected by international agencies and our latest AML inspection by MONEYVAL, a body of the Council of Europe tasked with assessing the measures in place to prevent money laundering and the financing of terrorism, once again showed us to be the world's leading AML destination. MONEYVAL found Guernsey compliant or largely compliant with 48 out of 49 of the Financial Action Task Force recommendations on AML and countering the financing of terrorism – the highest standard of any jurisdiction so far assessed.

It is well known that Guernsey pioneered the regulation of fiduciary industries with the introduction of the Trust (Guernsey) Law 2007. This commitment to proper and effective regulation continues to this day, most recently with the introduction of the more direct regulation of pension schemes which were previously indirectly regulated via those fiduciary arrangements.

High quality regulatory and AML regimes are part of the foundations of any finance centre are not of themselves sufficient. International expectations also include a commitment to compliance with international standards of tax compliance and transparency. Once again, here we find Guernsey delivering in line with our obligations as a mainstream finance centre whilst respecting our client's reasonable and legal expectations of discretion and privacy. In June, Guernsey reaffirmed its commitment to international tax cooperation by joining 66 other

countries in an Organisation for Economic Cooperation and Development (OECD) tax treaty.

The OECD Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) was developed through negotiation with more than 100 countries and jurisdictions, including Guernsey, to help governments close gaps in international tax rules in line with the OECD's BEPS project. Guernsey was one of only four smaller jurisdictions invited to participate in the group that drafted the treaty, a real testament to our expertise in this area and the regard in which Guernsey is held.

Our position as first wave adopters of the Common Reporting Standard (CRS) also signals our commitment to be at the forefront of best practice, as does the recent implementation of our register of beneficial ownership. However, whilst available to relevant international agencies, our commitment to reasonable privacy means that the register will not be publicly available.

Conclusion

This proactive responsiveness to the international regulatory environment and global community is what lets the innovation I spoke of earlier not only be possible, but also to prosper.

Change is undoubtedly the new norm. Indeed, the pace of change and the level of volatility of all sorts in the world only seems likely to develop in one direction for the foreseeable future. In this environment Guernsey stands out as a secure and stable finance centre delivering real world solutions to real world issues.

DID YOU KNOW...

- Guernsey is the global leader for non-UK entities listing on the London Stock Exchange. At the end of September 2017, the 118 Guernsey-incorporated entities is more than 30 ahead of its nearest competitor.
- In the past 18 months, Guernsey has launched two new fund structures – the Manager Led Product (May 2016) and the Private Investment Fund (PIF) (November 2016). PIFs represented 14% of Guernsey-domiciled fund launches in the three quarters up to the end of June 2017.
- Fortune Global 500 company HNA Group has, via its subsidiaries Hongkong Jet and BAS Guernsey, registered two of its luxury corporate business Boeing jets on Guernsey's aircraft registry, 2-REG. Established in 2013, 2-REG has registered more than 240 aircraft including more than 100 in the last year alone.
- Guernsey was one of only five jurisdictions to receive an 'unqualified and positive assessment' from the European Securities and Markets Authority (ESMA) as part of its non-EU AIFMD passport reviews. Once ESMA's advice is approved by the EU Commission, Guernsey funds will be able to utilise the third-country passporting regime in addition to the existing national private placement regimes to market funds into the EU.
- Guernsey has established itself as the go-to jurisdiction for longevity risk transfers. Both BT and British Airways have established Guernsey insurance vehicles as part of their respective overall risk mitigation strategies.

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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