



Originally published in Global Assets Online, March 2010

## **Guernsey: Rising to the challenge**

*By Peter Niven, Chief Executive of Guernsey Finance*

During this last year the world has been picking itself up off the floor of the global financial downturn. We have seen the start of renewed confidence in the markets but this really is just the start of a trip down what will be a very long road to recovery and at the moment I would gauge that the general economic conditions remain fragile and will be so for some months to come.

Guernsey cannot be completely immune from these worldwide issues, although the Island has to a large extent remained resilient in the face of these pressures. Perhaps the most significant fallout though has been the increased international focus on so-called 'tax havens' or 'offshore' centres.

I am very pleased however to say that the Island is consistently recognised as being within the very top tier of international finance centres. This is a message that is right at the heart of our activity as we promote Guernsey's finance industry across not just the traditional UK and European centres but also further afield in the emerging markets of China, India and the Middle East.

### **Resilience**

The economic conditions have demonstrated the way in which today, more than ever before, we are part of a global financial community. Guernsey has been adamant throughout that it has not exported instability but has been subjected to it and we have not been able to completely shelter from the impact.

However, one of Guernsey's great strengths is the breadth of finance business that is carried out in our small Island. So, while the general downturn has adversely impacted business flows within some sectors such as banking and funds, others like (captive) insurance and fiduciary services are seeing an upswing or have identified new prospects.

For example, total deposits held by banks in Guernsey stood at £120bn at the end of September 2009 – down 3.5% during the third quarter of the year and 11.8% year on year. A major reason for this deterioration is the fall in our Swiss fiduciary deposit base, as this product is relatively uncompetitive in the current low interest rate environment. If we leave aside this business, the rate of decline is much less severe and the generally robust nature of the sector is highlighted by the fact that our core deposits are now at the same level as just prior to the credit crunch.

Guernsey's funds sector has also been heavily impacted, although it has remained pleasingly resilient but more recently we have seen some signs of growth. The total value of investment funds in Guernsey was up by 7% in the third quarter of last year to reach more than £180bn at the end of September 2009. However, despite reversing the trends of the previous twelve months it still means that there has been a contraction of 10% year on year. The markets remain relatively sluggish because of fragile investor confidence but this is gradually improving (even if not yet back to the levels of a couple of years ago). We are seeing growing numbers of new inquiries as promoters with new products try to take advantage of brightening conditions and this should continue to accelerate as we move through the remainder of the year.

From a (captive) insurance perspective it has been a period of consolidating our position as a market leader. There were 46 new insurance licences issued in 2009, compared to 37 new entrants to the market in the preceding twelve months but we have also seen the surrender of licences gather some momentum as some structures have reached the end of their insurance programmes. Overall though Guernsey now has more than 678 international insurance entities, retaining its place as the top captive insurance domicile in Europe and number four in the world.

Guernsey's fiduciary sector also continues to see solid business opportunities on a whole range of fronts. It has been a mainstay of the Island's finance sector over the last 50 years and today we play host to more than 150 licensed fiduciary providers, ranging from large multinational organisations to local, independent operations. Together they hold more than £300bn worth of assets in trust.

What we have seen during the past year is that globally there has remained a significant amount of private wealth looking to take advantage of appropriate structures for asset protection or estate planning (and – albeit to a lesser extent – corporate monies seeking sound investment opportunities). In addition, the financial crisis triggered something of a 'flight to quality', with the uncertainty and turmoil crystallising the benefits of using familiar vehicles from reliable and reputable jurisdictions to maintain and even enhance wealth for future generations.

It is within this context and the consistent validation of Guernsey's position within the very top tier of international finance centres that our fiduciary providers are reporting buoyancy in business flows. As part of this we have seen continuing inquiries regarding our more traditional wealth management services as well as a growing interest in newer products such as Qualifying Recognised Overseas Pension Schemes (QROPS).

### **Top tier**

One of the key developments resulting from the financial crisis has been the increased focus on so-called 'tax havens' or 'offshore' centres. Guernsey has during its 50 years as a finance centre and particularly during the last decade or so faced scrutiny from the likes of the UK Government (the 1997 Edwards Report), the EU, the IMF, FATF and the OECD/G20. The Island has always cooperated in these processes and on each occasion been placed within the premier division of international finance centres.

This has continued to be the case during the past year:

- Guernsey features alongside the UK and US on the OECD 'white list' that was published at the conclusion of the London G20 summit in April 2009;
- The review of British Crown Dependencies and Offshore Territories by Michael Foot on behalf of HM Treasury placed Guernsey in the top division of international finance centres;
- Lord Hunt's review of the Guernsey banking sector has revealed that there are opportunities for us to increase our provision of private banking and wider fiduciary services to the wealthy across the world, as well as attracting high net worth individuals (HNWIs) to live and do business in the Island; and
- Guernsey was ranked 15<sup>th</sup> in the latest *Global Financial Centres Index* (GFCI 6, September 2009) – within the very top echelon of the so-called 'offshore' centres.

In addition, Guernsey continues to show its commitment to meeting international standards of tax transparency through the signing, currently, of 15<sup>1</sup> Tax Information Exchange Agreements (TIEAs). Practitioners have in the past viewed TIEAs as potentially jeopardising confidentiality and therefore a threat to attracting new business but our experience means that they are now embraced as providing confidence to clients that Guernsey is working to the highest international standards.

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<sup>1</sup> Guernsey has signed TIEAs with the following 15 jurisdictions: Australia, Denmark, Faroes, Finland, France, Germany, Greenland, Iceland, Ireland, Netherlands, New Zealand, Norway, Sweden, United Kingdom and United States.

Indeed, there is every reason to believe that Guernsey will perform well under assessment by the IMF during the first half of this year. However, the Island never rests on its laurels but is always looking to the future.

We are currently facing challenges in a variety of guises – tax transparency, corporate tax rates, a revised EU Savings Tax Directive (EUSTD) and sector specific EU initiatives, such as the Alternative Investment Fund Managers (AIFM) Directive.

We have been challenged many times in the past and the Island has always proved more than capable of adapting to survive. For example, Guernsey worked very closely with Jersey and the Isle of Man regarding the original EUSTD and we are intending a similar level of cooperation again now, not least in the need to review corporate tax rates.

It is so that we can tackle such challenges most effectively that the Island is also stepping up its representation within the corridors of power in both the UK and the EU. Guernsey is determined to do all it can to ensure that it remains attractive to clients as a jurisdiction within the very top tier of international finance centres.

### **New markets**

This is a message that is right at the heart of our activity as we promote Guernsey's finance industry during 2010. Guernsey Finance, in conjunction with industry, is determined to ensure that we retain our high visibility in the marketplace during this period of improving economic conditions. It is vital to reinforce the very strong relationships that already exist with lawyers in the UK and particularly London, which remains our principal source of new business.

The Island's practitioners are also increasingly attracting new clients from India, the Middle East and the Far East. Some of our independent fiduciaries already have offices in locations such as Hong Kong and are now looking to establish links into Shanghai – where Guernsey has had a representative office for two years – as a way to directly access the Chinese market. We are therefore also working to increase awareness of the Guernsey brand across these regions so that the Island has a further pool of potential new business flows for the future.