

Just across THE CHANNEL

With its proximity to the European insurance market, Guernsey is positioning itself as an offshore solution for reinsurance and insurance-linked securities, explains Peter Niven

Guernsey offers a favourable environment to conduct reinsurance business. The island's position as a principal international finance centre with a very strong captive insurance sector not only means that such diversification is a natural progression, but it also provides the foundations for a very attractive proposition. This includes a robust yet pragmatic and flexible approach to regulation and the fact that the island can offer the full complement of services required to undertake even the most complex of transactions.

It is against this background that Guernsey is seeking to garner interest from those organisations operating in reinsurance and insurance linked securities, particularly given that there are new sources of capital coming into these markets. This capital is being deployed very quickly, often to write specific risks for a relatively short duration. Such an operation lends itself to the Guernsey business model and the island is experiencing an increasing level of interest from the investor community keen to access insurance risk.

WHY CHOOSE GUERNSEY?

So what sort of reinsurance business would be good business to conduct from Guernsey? Non-US business is best placed for Guernsey, whereas Bermuda and Cayman are closer to the US markets. Businesses with low administrative workloads are also well suited to the island. There are not large numbers of staff available to apply to a low level administration business, although much of this work could be outsourced from the island where processing is a requirement of the business plan.

Reinsurance businesses that locate in Guernsey can take advantage of:

- The island's zero tax regime;
- The domicile's approach to regulatory requirements for capital regarding Solvency Margin Requirements (SMR) and Own Capital Risk Assessments;
- Legislation that enables a single entity to enter into insurance/reinsurance contracts and capital market derivative contracts, such as ILS and international swaps and derivatives association (ISDA) contracts from the same company; and
- Securitisation of insurance portfolios, particularly for life.

Businesses may also complement the captive insurance business that already exists on the island, as these captives

are collectively very substantial purchasers of reinsurance capacity. UK groups may be further attracted to establish reinsurance operations in Guernsey by proposed changes in UK taxation law. It is planned that from 1 July 2009, UK companies with overseas subsidiaries whose business is substantially third-party transactions – such as reinsurers – will become exempt from paying UK tax on the dividend returned to the parent.

This provides extra flexibility and enables decisions to be made for purely business reasons. It is a benefit to UK groups with subsidiaries, no matter where they are located. But it also makes Guernsey attractive in comparison with some of its competitor domiciles. Provided the right conditions are satisfied, the absence of taxation in the UK at parent level, combined with Guernsey's zero rate of tax for insurance companies, means that a UK group with a Guernsey reinsurance vehicle can ensure return on capital deployed are maximised.

SETTING A TREND

Key players that have already established operations in Guernsey include Barbican Re, Catlin, Conopios, Generali and Hiscox. The announcement that a licence has been issued to Lloyd's, which permits its underwriters to write direct general insurance business (including domestic business) in or from within Guernsey, opens up the potential for this to be significantly expanded.

In talking to a number of reinsurers we have found that there is considerable pent-up demand in the capital markets for insurance-linked investment opportunities. Furthermore, we have found that many European-based organisations did not realise that they could conduct this business in such a close location. We firmly believe that the island has the expertise and resources to provide a high quality service for these deals and the organisations instigating them.

Peter Niven is chief executive of Guernsey Finance.



Guernsey Tourist Board