



# Leader of the pack Guernsey

SINCE WRITING IN THE inaugural cell company handbook this time last year a lot of water has passed under our bridge. Out of the global economic crisis has come an increased focus on so-called 'tax havens' or 'offshore' financial centres.

We are proud that Guernsey has been positioned alongside the likes of the UK and US on the Organisation for Economic Cooperation and Development (OECD) 'white list' that was published at the conclusion of the G20 summit in London this April.

This has reinforced our position that Guernsey is in the very top tier of international finance centres. Clients come here to do business because we are well regulated and have high standards of corporate governance, but they also appreciate that we have a reputation for meeting their needs through creativity and innovation – the development of the cell company is one such example.

## The pioneer

Guernsey pioneered the cell company concept when in 1997 it introduced the protected cell company (PCC). The success of this innovation is illustrated by the fact that the cell company is now used across the financial services world as an alternative application for the structuring of products.

However, it is Guernsey which is the jurisdiction with the greatest experience in utilising the concept. During the past decade it has built up a wealth of expertise in the cell company field.

In addition, as well as adopting the innovative incorporated cell company (ICC), the island has through legislative advancements developed a regu-

latory infrastructure that enables a particularly wide employment of them.

For example, in Guernsey, cell companies can now be formed to conduct any business that would otherwise be undertaken through a conventional company.

The island also boasts provisions that give notable flexibility to cell company structuring arrangements, in particular: an ordinary company can convert to a PCC or ICC; a PCC can convert to an ICC; an ordinary company can convert into an incorporated cell (IC) and become part of an ICC; and an IC can leave the umbrella of the ICC and convert into an ordinary company. Further, Guernsey allows for inward and outward migration of companies.

It is this environment which means Guernsey leads the way in providing many and creative uses of cell companies, including for investment funds, structured finance products, wealth management and insurance.

## Investment funds

Cell companies are widely used for investment funds and particularly multi-strategy umbrella funds.

Traditionally a series of separate funds would have been established under a family of funds structure. This faced the potential risk that losses attributable to one class or sub-fund may reduce or even extinguish the gain attributable to another.

Using a cell company means that individual cells can be established to run distinct investment programmes. These can be marketed under the same corporate banner but the provisions of structure mean that each cell is insulated from one another.



In addition, economies of scale mean that one cell company with its component parts is more cost and time effective to establish and run than a series of individual funds.

Guernsey hosted the first-ever conversion of a PCC to an ICC, a process which created the world's largest ICC mutual fund.

### Structured finance

Cell companies are also being used in Guernsey as special purpose vehicles (SPVs) for securitisation programmes where series of securities are issued, backed by distinct underlying assets.

In such transactions, cells may issue a series of bonds, notes or other debt securities where the payment of principal and/or interest is funded from the proceeds of a distinct pool of underlying assets attributable to that cell.

Again, the statutory segregation of assets afforded to a cell company provides enhanced security to the usual limited recourse provisions in any underlying contractual documentation.

### Wealth management

Guernsey's experience, expertise, flexibility and creativity with cell companies means that providers on the island have been able to start building a niche for their use within the wealth management sphere, which includes private trust companies (PTCs) and family office solutions, family governance and succession planning; private investment funds; real estate ownership; intellectual property and royalty ownership; and tax planning.

### Insurance

The cell company was actually developed to encourage the use of captive insurance: the structure reduces the risk in captive sharing (which is more economically viable than establishing a traditional captive); and also allows the various parts of one institution's business to be written into separate cells.

The use of a third-party cell company rather than a full-blown captive has distinct benefits which

for small- to medium-sized businesses in particular makes captive insurance more viable:

- Lower operating costs
- Less management time
- Quicker and cheaper to set up and exit
- No minimum capital
- Less tax

The use of the structure as a risk management tool has expanded to the extent that today it is also utilised in the form of:

- Transformer cells
- Cells converting intra-group reinsurance into third-party reinsurance (using a third-party reinsurance cell)
- Fronting cells
- Insurance linked securities (ILS), where cell companies can be used as special purpose vehicles (SPVs)
- Fully collateralised reinsurance cells, acting in a similar way to 'sidecar' vehicles

Growing recognition of Guernsey's excellence in employing cell companies as insurance products is illustrated by the fact that there were six PCCs and 14 cells domiciled in the island at the end of 1997 but this has since risen to today's 69 PCCs and 339 PCC cells (including 81 life policy cells), as well as 4 ICCs and 8 ICC cells.

### Summary

Guernsey's position as the pioneer of the cell company concept means that it has been able to develop an environment of experience, expertise, flexibility and innovation that makes it the leader in providing many and creative uses of cell companies, including for investment funds, structured finance, wealth management or insurance.

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