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Guernsey – In the driving seat

By Peter Niven, Chief Executive of Guernsey Finance

If I had been writing this a year to eighteen months or so ago I would have been commenting on how Guernsey's finance industry was booming. Since then, there have been major changes in the world economy, most notably the sub-prime crisis and its fallout. Business flows have so far remained robust despite the difficult market conditions but given the global economic picture in early autumn we are steeling ourselves for the publication of the third quarter results.

However, we remain positive because so far our performance has been encouraging and business is still being done. What I hear is that there are still other substantial flows out there but at the moment there is a lack of confidence within the wider markets to put this business into place. A plus-side is that this gives us an opportunity to further enhance our offering and step up our promotion of the industry, both of which are helping sustain our performance during difficult times while also putting us in an even stronger position for when confidence returns and business levels increase.

Banking

A reflection of this situation is that deposits within the 47 Guernsey banks decreased in value by £1.4bn (1.1%) during the second quarter of the year. This was primarily because Swiss fiduciary deposits fell by 3.9% in the period as a result of a block of such business being transferred out of the jurisdiction to another part of the group.

What is encouraging is that other deposits, mainly in Sterling and Euro, continue to move upwards. This shows there is awareness that the banks and building societies in the Island provide very good products and services. Indeed, year on year deposits have increased by £20bn (18.5%) to reach a total of £128bn at the end of June 2008. Of course, these banking figures reflect not just the business coming in directly from outside Guernsey but also the sustained flows from the other sectors of the Island's financial services industry – fiduciary, investment management, funds and insurance.

Insurance

The Island's international insurance industry has seen continued growth during 2007 and into 2008 despite our maturity, increased competition and difficult market conditions. As part of this, Guernsey has become home to Gold Coast City Council Insurance Company Limited – the world's first local authority captive. Figures from the Guernsey Financial Services Commission (GFSC) show the number of international insurance entities now stands at more than 700, with 365 international insurers and 350 insurance cells. Guernsey retains its place as the number one captive insurance domicile in Europe and number five in the world.

Guernsey pioneered the Protected Cell Company (PCC) in 1997 and has since also introduced the innovative Incorporated Cell Company (ICC). There are now more than 70 PCCs established in the Island and last year saw the jurisdiction's first insurance-writing incorporated cells come on-stream. We continue to highlight, especially through the British Insurance Brokers' Association (BIBA), how the structure enhances the viability of self-insurance for small to medium sized enterprises (SMEs).

Work has also begun to promote Guernsey as a potential domicile for reinsurance operations. This has coincided with Barbican Reinsurance Company Limited becoming the first major commercial reinsurer in the Island. A Guernsey reinsurance seminar entitled 'Destination Reinsurance: Guernsey – an alternative to Bermuda?' is being held in London near the Lloyds buildings in November. This will be followed the next day by the main promotional event of the year for our insurance industry – the Guernsey Insurance Forum, which is also being held in London.

One of our key brand messages in all of this activity is that the Island boasts mature insurance law yet always ensures that it is enhanced to meet the evolving needs of the marketplace. This year we have completed a thorough review and made several changes to maintain our tradition of having modern insurance legislation.

Funds

The performance of our funds industry continues to be robust given the challenging market conditions. The value of funds under management and administration reached a record £207bn at the end of June 2008 – up 33% year on year. However, the 1.7% increase during the second quarter shows that growth rates have begun to slow. Traditional funds remain well represented among these flows. However, the major growth continues to be in alternatives such as private equity, property and funds of hedge funds, as well as more esoteric asset classes.

During the last year we have seen the addition of BNP Paribas, Capita and Citco to the significant list of administrators in Guernsey, which already included boutique providers such as Augentius – which has won two industry awards this year for its private equity administration services, as well as globally recognised names such as Northern Trust, HSBC, RBC and State Street who can also act as

custodians. In addition, the Channel Islands Stock Exchange (CISX) has seen continued growth and now has more than 2,800 security listings.

The Island's funds industry has been buoyed by the successful introduction of Qualifying Investor Funds (QIFs) – a self-certification regime for experienced investors – and the more recent launch of a 'fast track' registered funds regime. There are also plans to develop a specific regime to attract more hedge funds. This work is being complemented by the promotion of the industry. This year we have exhibited at conferences in Munich, Cannes, Monaco, Barcelona and Dubai, as well as hosting our own private equity masterclass in the City of London, the Guernsey Funds Forum in London and the day afterwards a private equity masterclass in Edinburgh. We are also starting to refine our plans for targeting the Zurich/Geneva, US and Middle East markets in 2009.

Investment management

The number of fund managers based on the Island continues to expand and now includes private equity giants Terra Firma and Permira and also new arrival Odey Wealth. Guernsey not only provides the right environment for these investment management and stockbroking firms to establish operations but also for them to fill niches in the market through innovative and pioneering products. Indeed, the Island plays host to award winning managers: Sigma Asset Management Guernsey received a leading industry award for the 12-month risk/return performance of one of its fund of hedge funds; and Dawnay Day Milroy (now Corazon Capital) was named 'Best Retail Product Provider' at the Hedge Funds World Awards Middle East 2008.

Fiduciary services

Guernsey plays host to some 140 licensed fiduciaries, ranging from large organisations to independent, boutique operations, holding between £250bn and £300bn worth of assets in trust. In March we saw a new Trust Law come on-stream. Some of the most significant changes included the introduction of Purpose Trusts, the removal of limits on the length of a trust's duration – allowing perpetual trusts – and the abolition of the personal liability of directors, particularly as a way to encourage greater use of Private Trust Companies (PTCs). These changes were the focus of a Guernsey fiduciary masterclass in London during the summer and where the Island restated its ability to provide Shari'a compliant trusts and its commitment to introduce Foundations.

Further development and promotion

In addition to the sector specific development and promotional work there is also on-going industry-wide activity.

On 1 January this year Guernsey moved to a zero rate of corporate tax as standard. There is still no withholding tax on dividends paid, no capital gains tax, no inheritance tax and no value added or general sales tax, and personal income tax remains levied at a maximum of 20%.

On 1 July this year a new Guernsey Companies Law was introduced in parallel with a new Guernsey Company Registry. This saw the Island's system for company formation and administration move from a court-based model to a streamlined statutory process. The registry is utilising cutting edge online technology to provide users with incorporations in 15 minutes and prices starting from £100 whilst maintaining the Island's hallmarks of personalised service. The Registry also incorporates the office of the Intellectual Property (IP) Registrar. IP has become a key driver of new business to the Island as Guernsey continues to introduce a cutting edge suite of IP legislation, including image rights.

We are though not resting on our laurels. During this year we have been hosting regular discussion forums with professionals from London to help better understand their client requirements from international finance centres such as Guernsey. The results of these discussions will form the basis of proposals for the further development of our finance industry.

Work is also ongoing to develop our brand in the emerging markets and particularly China. In March this year a delegation of senior government officials and business leaders from Guernsey met with their counterparts in Shanghai and in the process opened a Guernsey office in the city which is staffed by Chinese national Wendy Weng. In June I was able to develop our presence in Beijing and further raise our growing profile in Shanghai by visiting the cities as part of the Lord Mayor of the City of London's delegation to the region. In October a delegation visited Hong Kong and Shanghai to promote the Island's fiduciary expertise. This was showcased as lead sponsor and exhibitor at STEP Asia, through a specific fiduciary seminar in both locations and a series of meetings with key decision makers in the two centres. Discussions with Chinese government and regulatory officials were led by Guernsey's most senior politician, Chief Minister Lyndon Trott.

The right conclusion

It is this marketing and promotional activity alongside the continued development of attractive products and pragmatic regulation that is helping sustain new flows into the Island during the difficult market conditions while also putting us in the driving seat for when confidence returns and business levels increase.

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