

**OPEN FOR BUSINESS: GUERNSEY REMAINS LEADING CAPTIVE INSURANCE CENTRE IN THE EU**

*By Guernsey's Chief Minister, Lyndon Trott*

Guernsey's economic performance through the course of the global downturn has been robust and relatively strong. Guernsey experienced a short period of mild contraction and zero growth in 2010, but did not enter recession and on present evidence, the Island's recovery from the downturn is well established. That recovery began towards the middle of 2010: seasonally adjusted employment has now risen for three consecutive quarters and, perhaps most significantly, year on year, total employment in the finance sector was 1% higher at the end of the first quarter 2011: as is well known, the finance sector contributes 42% of GDP and 22% of total employment on the island.

The foundations for the success of Guernsey's finance sector are laid out by clear policies to ensure economic and fiscal stability and sustainability together with a fiscally competitive environment and a respected, proportionate regulatory regime which meets international standards.

Guernsey's is a mature and sophisticated finance sector; the sector is broadly balanced with four key pillars: insurance, funds, fiduciaries, and banking, complemented by having the Channel Islands Stock Exchange in the heart of St Peter Port. That broad balance, and a designed absence of activity linked to more esoteric financial activities more affected by the downturn, allied to our strong reputation as a respected, well regulated, tax transparent jurisdiction were the key fundamentals underpinning our robust economic performance.

Last year, studies such as those by Business Insurance and Captive Review again demonstrated that Guernsey is the leading captive insurance centre in Europe and among the top four in the world, and we are keen to maintain and improve that position. For that reason, ensuring conditions remain supportive to the sector is very much key to government thinking.



As a government, we have set out an economic and fiscal path to preserve our stability and sustainability during these continuing uncertain times for the global economy. Whilst we are presently reviewing our corporate tax regime, we have made clear on numerous occasions that maintaining international competitiveness is at the centre of that review and in that respect maintaining the tax neutrality of products is key. We have recently restated our regulatory policy objective through the government's annual policy planning process, to ensure that our regulatory regime remains proportionate and pragmatic whilst meeting international standards and benchmarks.

January saw the publication of six International Monetary Fund evaluation reports analysing Guernsey. These reports recognised and commended the high standards of financial regulation, supervision and stability that we have developed and put in place. The IMF found that Guernsey's macroeconomic performance is generally excellent, that it has a highly developed legal system, and that financial sector regulation and supervision are of a high standard across all sectors. Shortly after that IMF report, the Global Forum on Transparency and Exchange of Information for Tax Purposes confirmed that we were meeting our long-standing commitment to meeting international standards, independently validating our assertion that we are a well regulated, transparent and co-operative member of the international community.

Our robust, yet pragmatic, regulatory environment has enabled us to build a wealth of experience and expertise across the finance sector in general and, in particular, a leadership position in providing management and administration of captives. Solvency II is not designed for captives. It is in fact designed for large commercial insurers and reinsurers with a very different risk profile to that faced by most captives domiciled in Guernsey.

Guernsey has chosen to continue to monitor developments in Solvency II and also focus on the evolving international standards being developed by the International Association of Insurance Supervisors. It may be that at sometime in the future there is a clear advantage for Guernsey in seeking equivalence under Solvency II. But until we are satisfied that there is a clear advantage, or at the very least no disadvantage, to

Guernsey, then we will not be seeking equivalence but will continue to adhere to international standards. This mirrors our approach to economic management of the finance sector in general; that is, combining economic and fiscal stability with a fiscally competitive environment and a well respected, proportionate, regulatory regime.



*Lyndon Trott is the Chief Minister of The States of Deliberation – Guernsey's unicameral legislative body.*

## **UK MARKET OVERVIEW: IS THE END IN SIGHT FOR THE SOFT MARKET?**

*By Willis Chief Placement Officer, Paul Maynard*

In many ways, this is one of the key questions facing the current insurance market. Globally, carriers have withstood the exceptional catastrophe losses of 2010 such as the Chilean earthquake, with an insured loss of \$11 billion. Despite an above average number of hurricanes in the Atlantic, none made serious landfall in the US. However, at the end of the year, North Eastern US was hit with some of the worst winter weather recorded in the past 100 years, with some cities seeing snowfall in excess of 10 feet. The UK also experienced very severe winter weather conditions resulting in larger than usual claims activity. The first of the recent New Zealand earthquakes struck in September as did the first of the Australian floods.



*The City of Christchurch after the New Zealand earthquake in September 2010.*

In 2011, we have so far seen cyclone Yasi strike in Australia causing severe damage, currently estimated at \$1.5 billion. Australia also suffered widespread flooding with losses to business and private individuals estimated at over \$4 billion. This was then followed by the 7.1 magnitude earthquake in Christchurch, which caused significant damage and resulted in a tragic loss of life. Current estimates are that the quake will result in insured losses of \$10 billion.

March saw the devastating impact of the 9.0 magnitude Japanese earthquake and subsequent tsunami. Estimates for the total insured losses are between \$21 billion and \$34 billion. The latest estimate of the economic damage suffered totals more than \$300 billion. The impact on the supply chain continues to develop.



*The burning remains after the 9.0 magnitude of the Japanese earthquake struck in March 2011.*

So, with such a devastating run of major catastrophe losses, where does this leave the insurance market and, in particular, insurance rates? Perhaps surprisingly, the effect remains fairly muted. Most sectors of the UK and International insurance markets remain relatively soft with the notable exception of UK Motor. The question, however is, for how long will this last? Let's consider some of the positive and negative factors that may have an effect.

From a positive perspective, UK economic activity continues to reduce. This, in turn, depresses the revenue and asset values of insurance buyers and drives a demand for greater competition and, as a result, lower rates. Furthermore, despite the events of the past year, insurer's results remain relatively buoyant with some posting quite exceptional returns. Some carriers such as RSA and Aviva were hit by the effects of last winters heavy snowfall and ice but, conversely, results are being boosted by the exceptional release of prior year reserves. That, according to most market observers, is a practice that must end soon.

Finally, the UK market is awash with capacity. New entrants continue to join already crowded SME, Middle Market and Global sectors with global reinsurer capacity reaching an all-time high of \$470 billion by the end of 2010, more than 17% up on the previous year. Capital continues to represent the dominant factor driving the continuing soft market.

With all these positive influences in play, what is likely to drive a change in the market?

Firstly, although some improvement has been seen since the depths of 2008, investment returns remain suppressed. Further major catastrophe losses during the remainder of 2011 may have a braking effect on the

continued downward trend in both the direct and reinsurance markets and may even cause moderate rate increases in certain sectors. Interestingly, although much airtime is given to claims that catastrophe losses are becoming more frequent and severe, conflating weather and earthquake losses is simply illogical. When both types of losses are adjusted for growth and inflation, and the fact that humans like living in dangerous places, there is simply no trend.



*Gridlock after heavy snowfall hits the UK in 2010.*

Whilst insurers and reinsurers capital currently remains strong, the insolvency of a major insurer would have a significant effect. At the moment, however, it is the surplus of capital in the marketplace that is causing the broader market to remain relatively soft, so this prospect might appear unlikely.

Claims inflation remains an issue for many insurers. In the liability market, estimates for increases in average bodily injury claims range between 8% to as much as 15%. In the Motor market, the number of claimants per accident is rising, despite a falling overall accident frequency.

And finally, there is the potential impact of Solvency II, the EU inspired harmonisation of insurers solvency which could have a big impact if it brings about a need for huge increases in insurers' capital. However, some of the most controversial measures have already been diluted with the German financial regulator, BaFin, now referring to a 10 year implementation period from the previously agreed start date of the beginning of 2013. The UK already has much higher solvency requirements than many EU countries and most UK based insurers would have seen little impact.

So, what is the outlook for the coming year? In the end, falling rates must lead to underwriting losses that will become unsustainable. Nikolaus von Bomhard, CEO of Munich Re, the world's largest reinsurer told investors at their annual general meeting that he was expecting rates to increase this year. Although von Bomhard believes that it is too early to comment on specific trends, he said he was anticipating "general price increases in the current year".

The Willis view is that:

- Abundant capacity should ensure that premiums for property and casualty business remain competitive through to 2012
- Securing adequate capacity for risks with catastrophe exposures may become more expensive whilst more and better quality data will become a prerequisite to getting the best cover and price
- Some trades continue to be challenging from a property aspect, with food manufacturing and waste risks specifically impacted
- Risks that have been heavily broked in the past 12 months may now be at their nadir in terms of rate
- Long-term agreements might now be considered dependant on the nature of the guaranteed rates and conditions
- Insurers will continue to seek rate increases of between 2% and 5%, especially in the SME sector

As a final comment, one clear lesson from the Japanese earthquake is the interconnected nature of today's business. The robustness of supply chains need to be examined carefully and insurance buyers need to be prepared to provide more detailed information than ever before in order to secure the very best deals.



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## UPDATE OF CORPORATE TAX REFORM

*By Financial Director, Karlene Wright*

Guernsey's corporate tax review commenced 18 months ago and what follows is an update based on the Chief Minister's statement issued in June 2011.

### **Objectives and current status:**

The stated objectives remain unchanged: any tax regime must:

- be internationally acceptable
- be competitive
- promote a sustainable economy in Guernsey
- be based on a simple, solid rationale (not over complicated)
- give rise to other reciprocal benefits

The Chief Minister noted: "Formal and informal consultation, and technical and economic assessment, has been ongoing since October 2009. That there has been no definitive conclusion of our review process to date is as a result of the protracted nature of the Code Group review of the Jersey and Isle of Man zero/10 regimes."

The EU Code of Conduct Group will formally consider the decision by Jersey and the Isle of Man to remove the deemed distribution and attribution provisions later this year.

**Feedback from Guernsey's consultation process (summer 2010):**

- A territorial regime (in which any tax liability is restricted to income arising in Guernsey) could form the basis of an alternative regime; but
- Consideration should be given to modifying the current regime to conform to the EU Code of Conduct on Business Taxation.
- Paramount that any revised regime was internationally acceptable and sustainable economically and fiscally in the long run.

**Guernsey's next steps**

The Chief Minister advised, "Events over the course of the next few months will provide a greater degree of clarity of the views of the Code Group on both the zero/10 and the Gibraltar territorial regime for that evaluation to be properly undertaken. Until that clarity is obtained, any decision and accompanying publication of any Green Paper would be premature."

We will briefing our clients as further information becomes available. However, it remains our expectation at this time that captives based in Guernsey will continue to pay tax at a zero rate.



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**MEET THE TEAM**

As a regular feature in the Guernsey Update we briefly introduce a member of the Willis team. In this edition we are pleased to introduce, **Claire Jehan**.

**What first attracted you to Willis and how long have you been with us?**

My friends Tim and Sarah Edwards (who kept their horse at the same yard as mine) worked at Willis and suggested that I apply for a job back in 1995. Apart from a 3 month break in 2004, I've been here ever since.

**What do you do with Willis and what do you like best about your job?**

I am an account manager and look after a variety of clients ranging from a global bank to a small single line captive, whose parent is in the Faroe Islands. The best bit about the job is the client contact and no two days being the same.

**Where did you go to school and/or university?**

I went to Blanchelande College, Guernsey but left school before university.

**Can you tell us a little about your family life?**

I've been married for 22 years, no children but I have a horse, a pony, a cat and several chickens! My sister also works at Willis as an account manager and my brother also worked here for a short time a while ago on IT - so who says nepotism is dead! Luckily for Willis all three of us weren't here at the same time.

**What, in your view, is the most important aspect of taking good care of your clients?**

Understanding their business and their pressures, listening to their requirements and providing a prompt service. Most importantly being considered part of their team.

**Do you have any hobbies?**

I used to be an active participant in the local Dressage scene, but since my horse retired and I took up studying for ACCA (rather late in life), this has had to go on the back burner for a while, but I hope to "pick up the reins" again in the not too distant future. I've also been known to enjoy the odd glass of red wine and a good book.

**What's the best thing about life in Guernsey?**

Having been born and raised here, I would have to say everything! Perhaps top of the list is despite having one of the longest commutes to the office, it still only takes me 15 minutes.

**Any anecdotes about your time with Willis?**

I couldn't possibly comment! Although I have fond memories of Richard Falla's impersonation of Mick Jagger, priceless.

**Any final thoughts to share?**

When I started here there were only 17 of us and now we are nearly twice that number, and there are still a few of us left from those days. Although many things have changed, what thankfully hasn't changed is the wonderful view from the office window - a view which is probably responsible for a few client wins.

**What are your views on the future of the captive industry in Guernsey?**

Despite many perceived threats over the years, Guernsey remains a strong domicile for captive insurance, and after a period of stability Willis is in a strong period of growth.



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## STOP PRESS...STOP PRESS....

### GFSC FREEZES FEES

Just as this edition of the Guernsey Update went to press, news was announced that, after two years of successive increases, the Guernsey Financial Services Commission intends to freeze licence fees for 2012. The welcome proposal was contained in a recently published consultation paper.

### LATEST SII ADVISORY REPORT OUT NOW

The Willis Global Captive Practice has issued its latest Solvency II advisory paper to outline what captive stakeholders should be thinking about in terms of next steps. The full report is available to read on the [publications page](#) of the Willis captive website.

### UK GOVERNMENT ISSUES CFC CONSULTATION PAPER

On 30 June 2011 the UK Government published a consultation document setting out proposals for a new CFC regime to be introduced in the Finance Bill 2012. The intention is to deliver a new regime which is competitive for business while providing adequate protection for the UK tax base.

The new regime will operate in a similar way to the existing CFC rules where an overseas company's profits are taxable in the UK and will be apportioned to the UK based parent unless one of several exemptions apply.

While there is an exemption from the proposed new CFC regime for insurance companies, it only applies to overseas subsidiaries of insurance Groups. Overseas insurance companies of non-insurance UK based Groups (ie Captives) would not be able to avail of this exemption and will therefore be subject to UK tax as is currently the case. The only remaining exemption applicable to captives is the "General Purpose Exemption" which is in effect a "motive test" similar to the current regime.

In summary following this review it is anticipated that the majority of captives will still be subject to UK tax under the proposed revised CFC rules.

## AND FINALLY... WILLIS ACQUIRES TWO NEW BOARDROOMS

After months of planning and preparation, we are pleased to announce the completion of our boardroom refurbishment project. As a result of our growing international client-base and increasing demand for video



*Herm boardroom with video conferencing and seating for 22 people*

conferencing facilities, Willis has stepped up to the mark to ensure we have the very best facilities to service our clients. Each boardroom contains state of the art technology including a 62" LCD screen, video conferencing, "spider" wireless conferencing phones and full wifi access throughout. The boardrooms are named after well-known islands in the Bailiwick of Guernsey, 'Herm' which seats up to 22 people and 'Sark' which seats slightly smaller groups. We look forward to welcoming clients to our new boardrooms and fully utilising the comprehensive facilities.

### CONTACTS FOR FURTHER DETAILS

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We **communicate** with you to **understand** your business, providing the **expertise** and **creativity** to develop and **deliver** excellent captive **solutions**, and we do so with **passion**.