

# Widening the net

Crown Dependencies Guernsey and the Isle of Man look to embrace changing accounting standards and increased interest from India and China

by Elizabeth Goodwin

The Crown Dependencies of Guernsey, Isle of Man and Jersey have weathered the financial crisis well by sustaining stable growth. They remain bullish about future growth and plan to attract more captive business from businesses in India and China.

The Isle of Man hopes to bolster its captive industry by implementing new accounting standards and cell legislation, while Guernsey looks to implement a new Finance Sector Code of Corporate Governance.

However, regulatory dilemmas such as Solvency II third-country equivalence continue to breed uncertainty.

## The Solvency II question

Without final details on what Solvency II equivalence would entail, the Crown Dependencies are faced with a difficult decision as how to best serve their clients' current and future needs.

Guernsey, the largest captive domicile within Europe, and the fourth largest in the world by number of captives, recently announced that it will not be seeking Solvency II equivalence.

"The fact is that within the EU there is still quite a lot of uncertainty around what Solvency II will end up looking like and how proportionate it will end up being for captives," says Martin Le Pelley, chairman of the Guernsey International Insurance Association (GIIA). He adds: "I think making it absolutely clear that we are outside the Solvency II regime altogether is attractive because it means that clients don't need to worry about how far proportionality within Europe will go with Solvency II. As far as Guernsey is concerned there is certainty around the fact that our regulations will stay proportionate and appropriate for captives."

## CROWN DEPENDENCIES STATISTICS

### Guernsey

**Captives:** 265

**Cell companies (incorporated, protected and life policy cells):** 344

**Total captive premium written:** \$5.47bn

**Assets under management:** \$37.27bn

### Isle of Man

**Captives:** 142

**Cell companies:** 5

**Total captive premium written:** \$2.56bn

**Assets under management:** \$9bn

Peter Niven, chief executive of promotional body Guernsey Finance, echoes this sentiment. "We've found that our existing clients have breathed a huge sigh of relief in that we've made the decision." Guernsey's stance on Solvency II equivalence has even been a draw for new business, argues Niven. "People who have been looking at their captive requirements are now looking even more closely at Guernsey to potentially bring their business here; we've seen an upturn in the amount of enquiries both from captives and also from some other parts of the insurance business such as reinsurance firms," he says.

Despite Guernsey's stance on equivalence, Jersey and the Isle of Man remain undecided, at least for the time being. David Hart, deputy director of the insurance division of the Jersey Financial Services Commission (JFSC), says: "No decision to adopt is to be taken at this stage, although the issue of third-country equivalence remains under consideration."

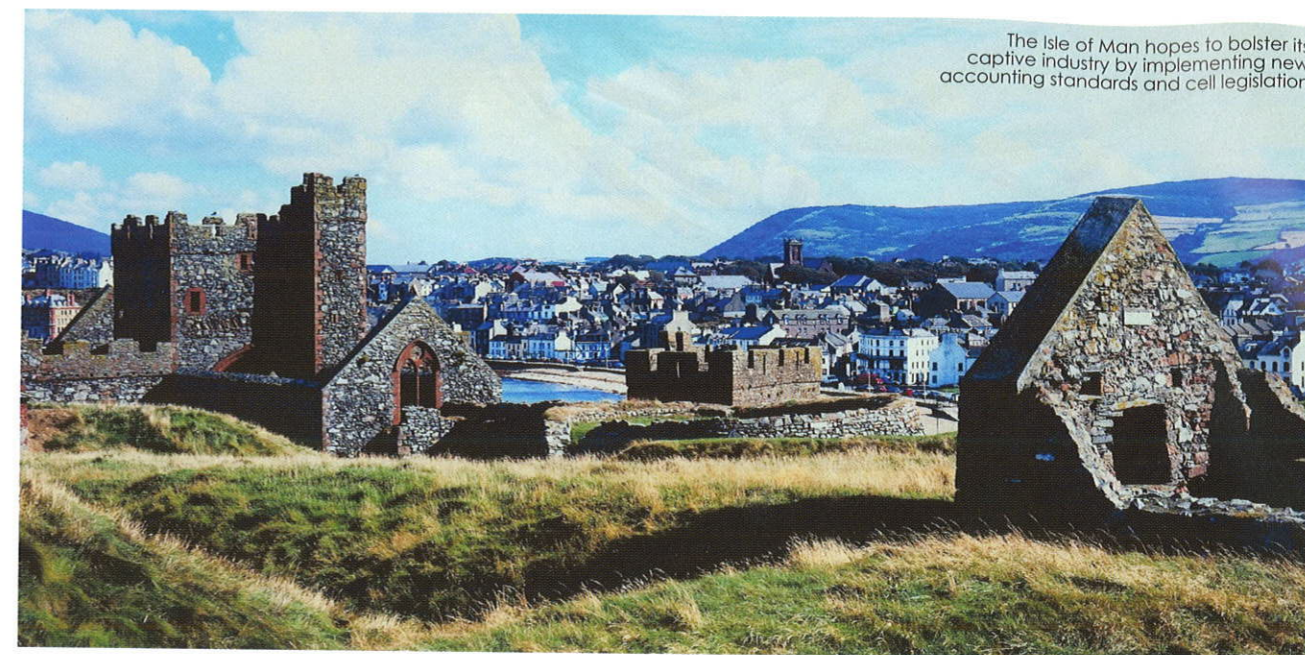
However, the Isle of Man is absolutely committed to continuing to implement the International Association of Insurance Supervisors (IAIS) standards, according to Gaynor Brough, chair of the Isle of Man Captive Association. "We see the standards moving more towards a Solvency II-type model; there's going to be a more prescriptive risk-based capital approach introduced over time under IAIS and clearly the Isle of Man is committed to moving with that and following those standards," she says.

With Guernsey and Jersey also adhering to the IAIS standards, those working within the domiciles can be certain of preparations for adherence to the standards, which are due to take effect from October 2011.

## Regulatory changes

The Isle of Man's long-awaited Incorporated Cell Company (ICC) legislation came into force in June 2011. This change will bring the island's offering more in line with Guernsey and Jersey who already allow for the creation of incorporated cells. "The Isle of Man certainly wants to make sure that it is at the cutting edge of captive legislation, providing innovative approaches and solutions for its clients and prospective clients, and we need to operate on a level playing field with our nearest competitors", says Brough.

Meanwhile, Guernsey is looking to implement a new Finance Sector Code of Corporate Governance, which will not apply directly to captives but will apply to insurance managers. "It is good news for captive owners as it means they will have another level of comfort; it will encourage better quality management and decision making at the manager



The Isle of Man hopes to bolster its captive industry by implementing new accounting standards and cell legislation

level," says Le Pelley. Currently out for consultation on the GFSC website, the new code is due to come into effect from January 2012.

## Sector trends

While the Isle of Man introduces ICCs, Guernsey is finding that its PCC offering is more popular than ever, says Niven. "One of the main trends is the increased use of the protected cell company for captives as opposed to a pure captive company. We are certainly seeing more cells being set up for this type of business because it is a more cost-effective means of doing that business."

Although specialists from both Guernsey and the Isle of Man suggest that growth has been general and across the board, the domiciles have seen most growth occur in different sectors. Le Pelley emphasises the importance of growth in the property sector. "Companies with large property portfolios are attracted to setting up captives at the moment for a number of reasons. Property rates are hardening, but also there are opportunities for managing risks in terms of engineering more effective bulk buying of insurance for a wide portfolio of tenanted properties in particular. From a Heritage point of view, this seems to be flavour of the month."

The Isle of Man presents a different picture, however. "Some of the trends that we have identified are a move away from the traditional property and casualty covers, and moves to risk benefits for employees. This is beginning to extend into long-term pensions, and we've also seen growth in

“Companies with large property portfolios are attracted to setting up captives”

Martin Le Pelley

areas like trade credit and environmental impairment liabilities," says Brough.

## Looking forward

Though current growth is stable, both Guernsey and the Isle of Man are confident about future growth. "The Isle of Man had a good year last year, and a healthy growth of 4% despite adverse market conditions, but we are bullish about where we're going to get to over the next three years," says Brough. "For the past six months we've been working on a strategy in terms of identifying countries that are a very good fit with the Isle of Man in the current environment, and also identifying particular trade sectors where there has been growth in captives over the past three years and highlighting those," she adds. In particular, Brough says the Isle of Man is anticipating growth in Asia, with a longer-term view on India and China.

Guernsey is also looking to target new markets, says Niven. "We're always looking at new markets, places where the captives concept is not fully established, but where

we have the opportunity to give the benefit of our expertise, such as China, India and to an extent Latin America. Certainly in those three areas we are looking to expand the knowledge of the captive concept through our marketing activities."

In terms of strategy, Guernsey is keen to hold on to its European top spot, says Niven. "Our strategy is to maintain our pre-eminence. There are a lot of competitors out there who like us have been in the market for a number of years, and there are also a number of newer competitors coming in, such as Malta."

Looking at the industry as a whole however, the captive sector has one primary and most formidable competitor, claims Le Pelley. "The biggest competitor for the captive insurance industry is the 'do nothing' brigade who continue to insure in the traditional market at an overpriced premium when they really should be setting up a captive and saving themselves some money. There's a huge inertia still within the insurance market, which I think it is the biggest barrier and threat to our growth."