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Guernsey – a keen spirit of enterprise

By Peter Niven, Chief Executive of GuernseyFinance

Looking back over the centuries we can see that Guernsey has always had a remarkable habit of identifying and capitalising on new business opportunities. This entrepreneurial spirit has been very much in evidence over the last forty years during the establishment and development of an international financial services industry in the Island.

Its inception can be taken as the mid-1960's when a clutch of merchant banks were opened. At that time horticulture and tourism were the primary drivers in the Guernsey economy but the subsequent four decades have seen the international finance industry become the dominant force behind the Island's prosperity.

Guernsey's international financial services industry has itself also changed markedly during this period. In its formative years during the 1960s and 1970s the industry mainly comprised the merchant banks who primarily provided deposit-taking services to their largely UK retail client base. Since that time the industry has:

- developed a broader and deeper array of providers, ranging from leading global players to independent, boutique operators across not just the banking but also the insurance, funds, investment management and fiduciary services sectors;
- grown a network of sophisticated support services, comprising accounting, audit, tax, legal and actuarial advisers;
- acquired an increasingly international and corporate (although still largely private client) consumer base;
- built up a wealth of experience and expertise, including a pool of specifically qualified non-executive directors;

- introduced a plethora of new products and innovations;
- added key infrastructure such as a stock exchange – the Channel Island Stock Exchange (CISX), bespoke professional development centre – the Guernsey Training Agency (GTA) University Centre and a financial services regulator – the Guernsey Financial Services Commission (GFSC);
- enhanced the regulatory environment to standards that have been commended by the likes of the International Monetary Fund (IMF) and Financial Action Task Force (FATF) whilst maintaining a pragmatic approach to doing business.

Guernsey's pioneering nature has been crucial not only in establishing but developing its financial services industry. Today the Island is at the forefront of international financial services centres. However, Guernsey's inclination for innovation means that it continues to enhance its infrastructure as a means to ensure that business flows are maximised into the future.

Banking

This sector continues to play a key part in Guernsey's finance industry. Deposits with banks in the Island had risen to £119bn by the end of 2007 – growing 6% during the fourth quarter and 29% year on year.

These deposits are held by the 50 licensed banks in the Island. Some of the most highly respected names in international finance from Switzerland, Europe, USA and UK have chosen to place their operations in Guernsey. The sector provides products ranging from retail banking and savings through international wealth management to institutional business and specialist lending. Importantly this includes servicing the other sectors of the Island's finance industry.

Insurance

Guernsey remains a leading international centre for risk management solutions.

The Island plays host to a wide variety of life assurance providers, with wide geographical ownership and ranging from independent operations through to leading multinational organisations. They are writing significant amounts of business, including servicing the life and health needs of high net worth individuals, managing employee benefit needs and utilising insurance policies for investment purposes.

However, it is captive insurance for which Guernsey is renowned. It remains Europe's leading captive domicile and fourth in the world in terms of premium written. Approximately 40% of the FTSE 100 companies have captives in the Island. Half of the captives established by UK companies are based in Guernsey, although the Island's client base is becoming increasingly global.

As a mature captive jurisdiction we are now exploring new markets and in particular have been engaging with the UK broker community to educate on how Guernsey's innovation of the cell company concept means that the potential benefits of captive insurance are now more accessible for their small to medium sized enterprise (SME) clients.

In addition, the Island has already this year built on its reputation for excellence in the field by introducing modernised insurance legislation.

Funds

The Island plays host to an extensive array of investment businesses who in combination offer a range of products and services for both retail and institutional investors from the general to the more specialised. The Island is growing a reputation as a centre of excellence for alternative investments like funds of hedge funds, private equity and property, as well as more esoteric asset classes such as fine wine, fine art and timber.

The value of funds under management and administration reached £178bn at the end of December 2007 – an increase of 8% over the final three months of the year and 37% on twelve months previously.

This vibrant sector has been boosted by last February's introduction of an innovative registered closed-ended funds regime, which was heralded at a specific Masterclass session in London. Guernsey has continued to promote its funds offering throughout the UK and this spring is hosting events in London and Edinburgh to showcase why leading figures in the industry are describing the Island as "the jurisdiction of choice for private equity."

Further changes to make it quicker and easier to domicile funds in Guernsey are expected to come on-stream later in 2008.

Investment management

Another area of expansion is the asset management sector. Subsidiaries of large groups as well as independent investment boutiques provide wealthy private clients, their advisers and the institutional marketplace with services, including stockbroking and dealing arrangements, for funds and discretionary investment management portfolios.

Fiduciary services

The Island plays host to some 140 licensed fiduciaries, ranging from large organisations to independent, boutique operations. Together they hold between £200bn and £300bn worth of assets in trust. The sector offers substantial expertise in using the innovative modern structures that are available on the Island for the preservation of both institutional and individual/family wealth and assets.

A new Guernsey Trusts Law was introduced in March. There will be a specific Masterclass in London to look at changes which include: the introduction of (non-charitable) Purpose Trusts; the removal of limits on the length of a trust's duration – allowing perpetual trusts; and the abolishment of the liability of directors of corporate trustees based in Guernsey or acting as trustees of Guernsey law trusts, particularly as a way to encourage greater use of Private Trust Companies (PTCs).

Work continues to work on the introduction of Foundations. Such changes ensure that providers based in Guernsey can continue to offer clients the very widest range of products and services.

Business-friendly environment

The Island's already business-friendly environment is also being enhanced in other ways: on 1 January 2008, the Island moved to a standard zero rate of corporate tax (and there is already no withholding tax on dividends paid, no capital gains tax, no inheritance tax and no value added or general sales tax); in July the company incorporation process will be streamlined when a new Companies Law comes on-stream in parallel with a modernised Company Registry; and also during 2008, a suite of IP-related legislation will continue to be introduced to the market.

The right conclusion

It is now more than four decades since what can be considered the birth of Guernsey's intentional financial services industry. It is testament to the Island's enduring spirit of enterprise that in a world of ever-increasing competition it remains at the forefront of international finance centres through its on-going development of attractive products and pragmatic regulation. In fact all the ingredients are in place for Guernsey to maintain its position as a jurisdiction where clients want to conduct business (and keep coming back for more) – long may that continue.

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