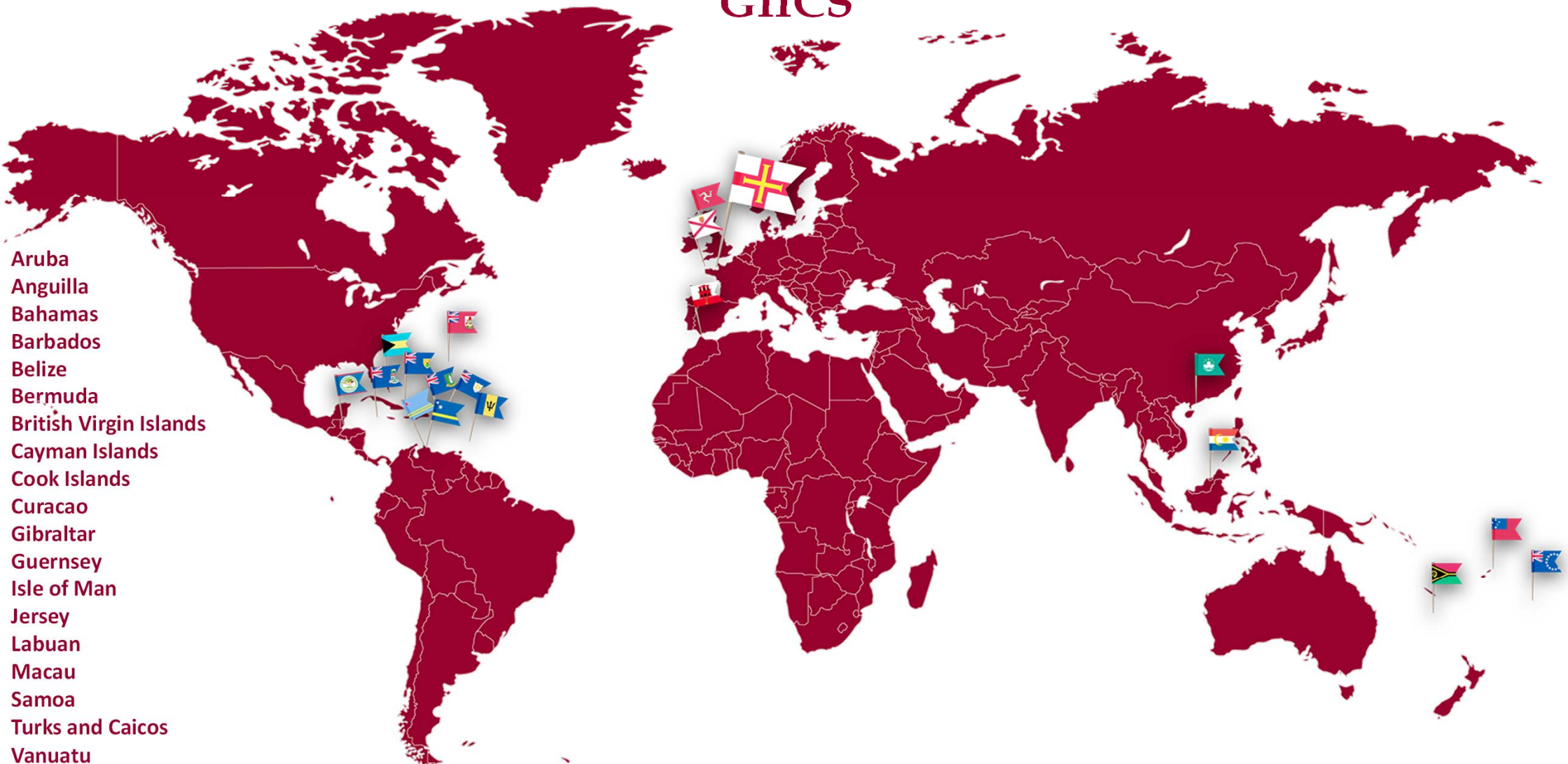




Jeremy Quick
Director of Banking and Insurance
Guernsey Financial Services Commission
Chairman of GIICS

Workshop for Heads of Insurance Supervision
Bank of England
4th July 2017

The Group of International Insurance Centre Supervisors GIICS



GIICS – Comparative Size

Total gross premiums written

GIICS

Bermuda -	£126.75bn (2015)
Cayman Islands -	£11.2bn (2016)
Isle of Man -	£7.93bn (2015)
Guernsey -	£5.54bn (2015)
Gibraltar -	£4bn (2015)

Comparators

United States -	£979.52bn (2016)
United Kingdom -	£202bn (2016)
Poland -	£11.44bn (2015)
Finland -	£9.36bn (2015)
Czech Republic -	£4.89bn (2015)

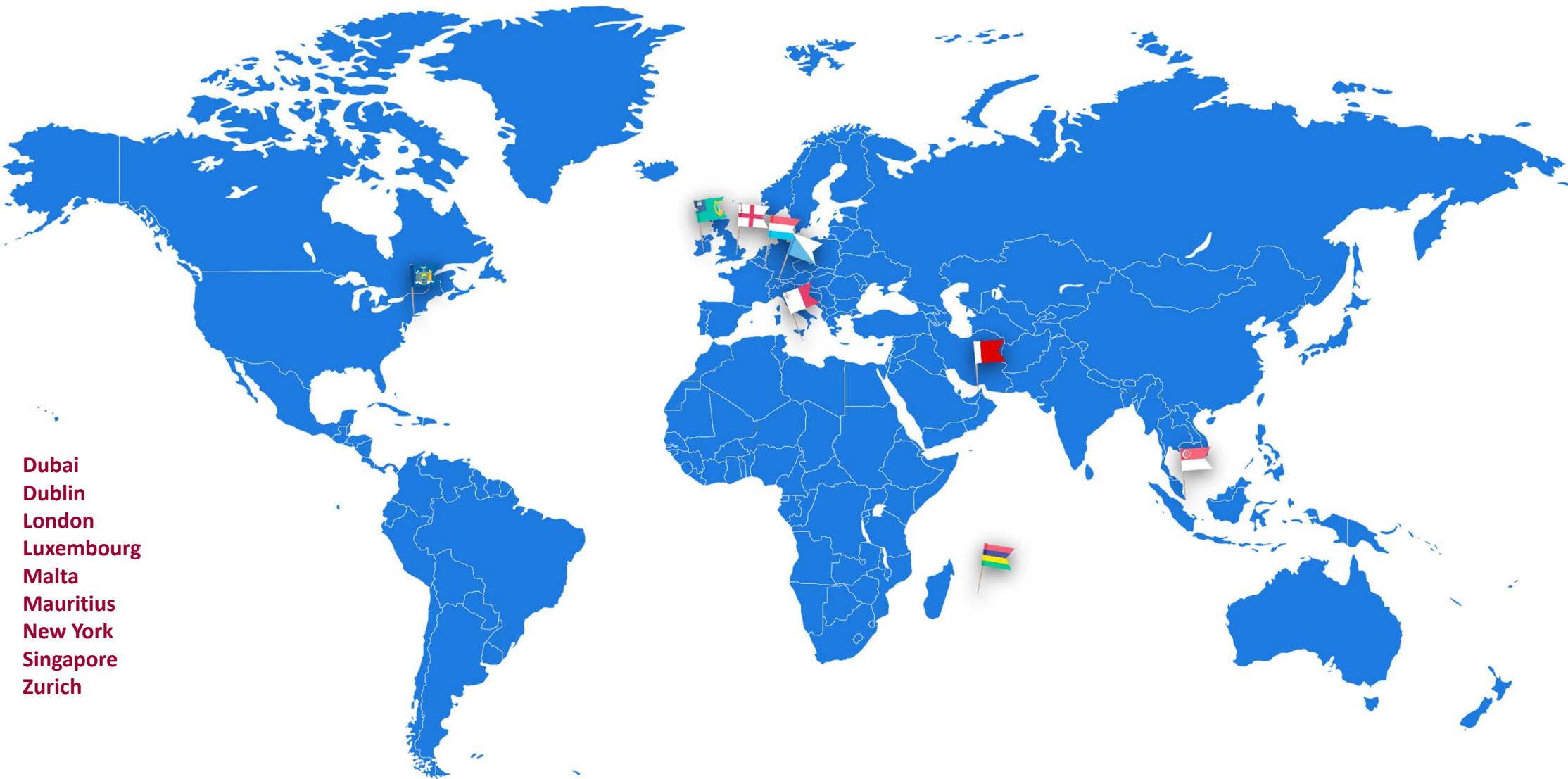
Offshore Financial Centre - Definition

“Centres where the bulk of financial sector transactions on both sides of the balance sheet are with individuals or companies that are not resident of OFCs, where the transactions are initiated elsewhere, and where the majority of financial institutions involved are controlled by non-residents.”
(IMF, 2000)

Countries and territories designated as offshore financial centres

- International Monetary Fund: **52** (*Not including the UK or USA*)
- Financial Secrecy Index (Tax Justice Network): **82**
- Organisation for Economic Cooperation and Development: **70** (*Not including the UK or USA*)

Other Offshore Finance Centres



Dubai
Dublin
London
Luxembourg
Malta
Mauritius
New York
Singapore
Zurich



FATF/Regional FATF Assessments

- The Financial Action Task Force evaluates jurisdictions based on compliance with the organisation's Forty Recommendations, applying to money laundering and terrorist financing.
- For each recommendation, a jurisdiction receives a rating of either Compliant (C), Largely Compliant (LC), Partially Compliant (PC), and Non-Compliant (NC).
- Below are the results of five FATF evaluations compared with the results of evaluations for GIICS members. For comparison purposes, a C rating equates to 3 points, LC = 2 points, PC = 1 point, and NC = 0 points.

Recent FATF Assessments (out of a possible 120 points)

Guatemala	83	(2017)
Sweden	79	(2017)
United States	75	(2017)
Hungary	63	(2017)
Malawi	51	

GIICS member's FATF Assessments

Guernsey	102	(2015)
Isle of Man	85	(2016)
Cayman Islands	85	(2007)
Samoa	58	(2015)
Vanuatu	38	(2015)

IAIS Insurance Core Principles Assessment

- The International Association of Insurance Supervisors evaluates jurisdictions based on compliance with the organisation's Insurance Core Principles, which is the framework for the supervision of the insurance sector.
- For each recommendation, a jurisdiction receives a rating of either Observed (O), Largely Observed (LO), Partially Observed (PO), and Not Observed (NO).
- Below are the results of four countries assessed by IAIS compared with the results of evaluations for GIICS members. For comparison purposes, a O rating equates to 3 points, LO = 2 points, PO = 1 point, and NO = 0 points.

IAIS Assessments

Mexico	71/84	(84.5%)	(2012)
Sweden	63/84	(75%)	(2011)
United States	55/78	(70.5%)	(2015)
Albania	37/78	(47.4%)	(2014)

GIICS member's IAIS Assessments

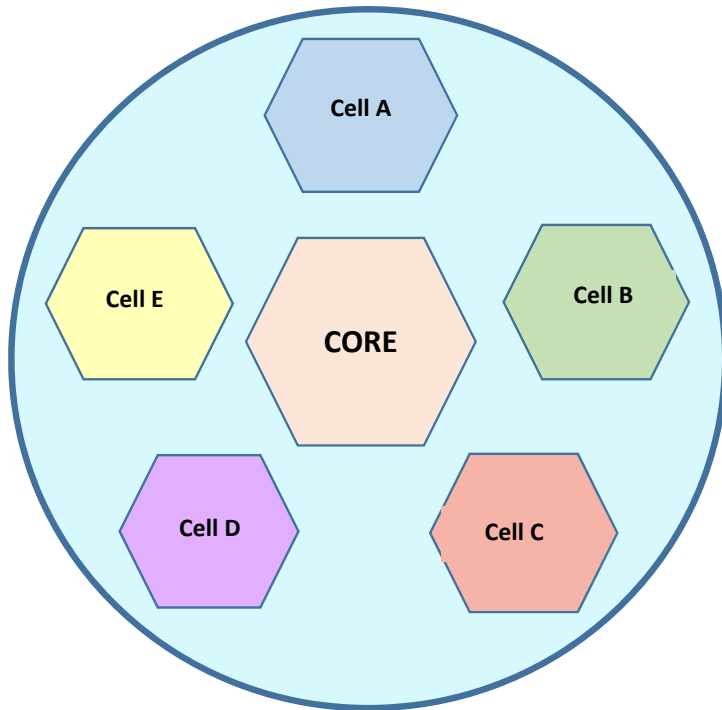
Guernsey	75/84	(89.2%)	(2011)
Isle of Man	72/84	(85.7%)	(2009)
Cayman Islands	79/90	(87.7%)	(2005)
Vanuatu	14/51	(27.5%)	(2003)

Key OFC Insurance Products

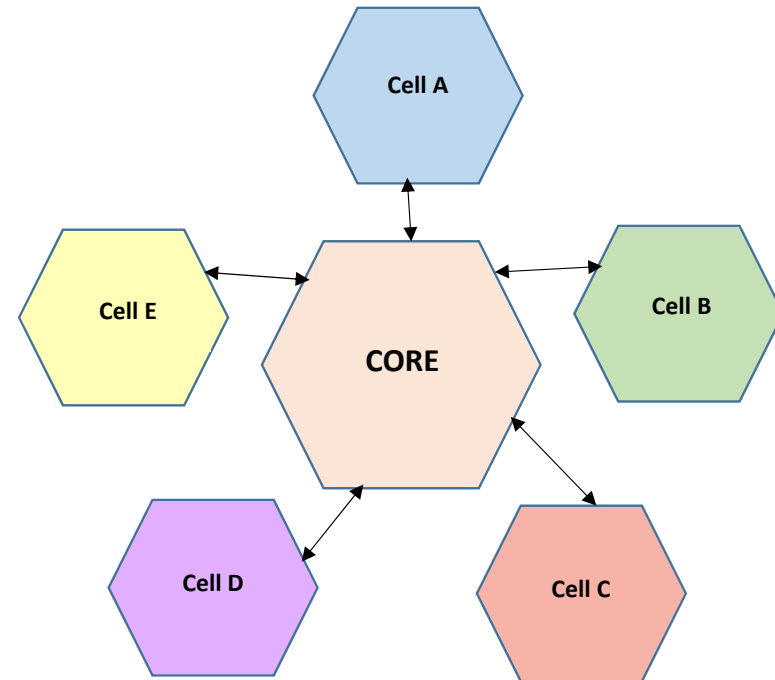
- Traditional Reinsurance (Bermuda) [Flat]
- Insurance Linked Securities (Cayman Islands, Bermuda, Guernsey) (UK?) [Growing]
- Captives (All) [Flat but growing in the US]
- Expatriate Life (Guernsey, Isle of Man) [Flat]
- Longevity Swaps (Guernsey-ICCs) [Growing]

Background to Key Products

Protected Cell Companies

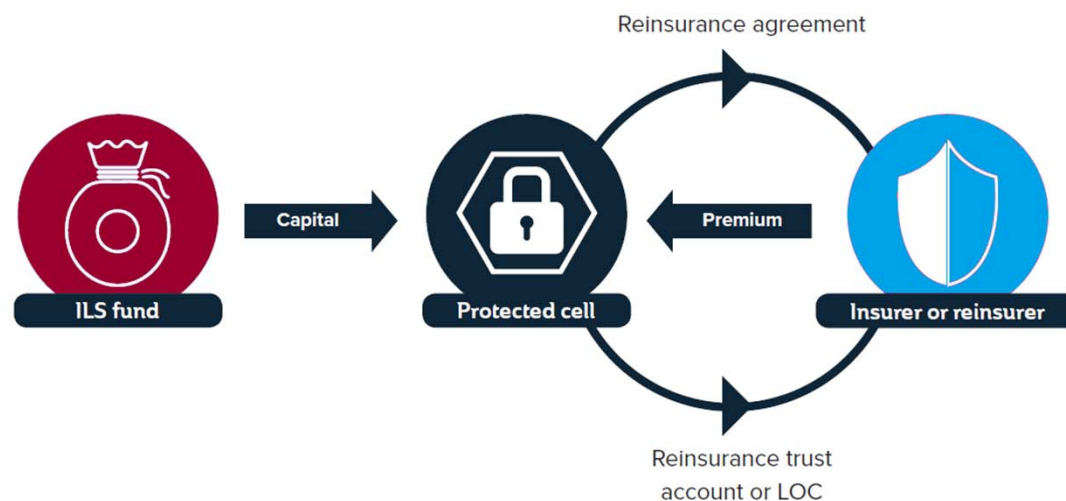


Incorporated Cell Companies



Background to Key Products

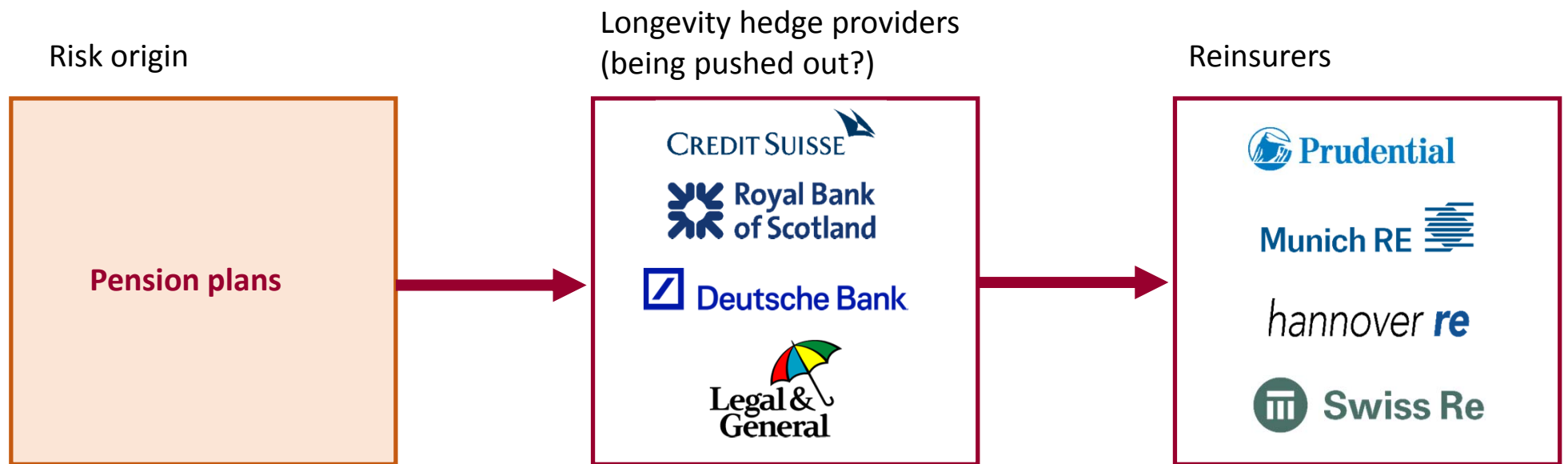
Insurance Linked Securities



- Usually cat and cash-collateralised
- Same pay-out triggers as normal insurance
- Size ILS market - \$75.1bn (June 2016)

Background to Key Products

Longevity Swaps



Longevity Swaps and Longevity Risk Transfer Transactions

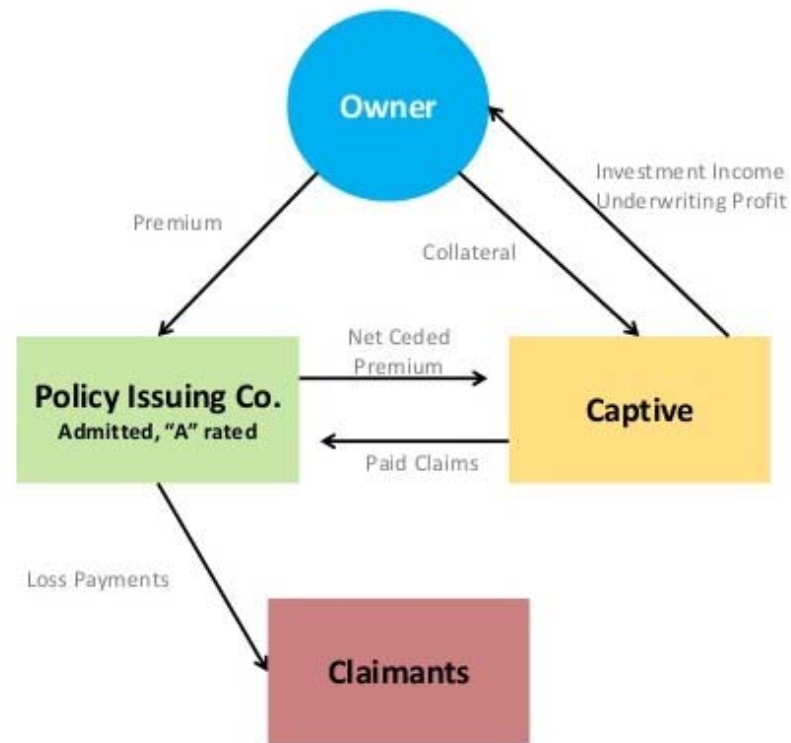
The below table shows five examples of longevity swaps and longevity reinsurance transactions that have taken place in the reinsurance and capital markets over the last five years.

Fund/Sponsor	Provider(s)	Solution	Size	Date	Domicile
Canadian Bank Note Company Ltd	Canada Life Assurance	Longevity swap & reinsurance	\$35m	Nov 2016	Canada
Aegon	Canada Life Re	Longevity swap & reinsurance	€6bn	Jul 2016	The Netherlands
Scottish Power	Abbey Life	Longevity swap	£2bn	Feb 2015	UK
BT Pension Scheme	Prudential Insurance Company of America	Pensioner bespoke longevity swap	£16bn	Jun 2014	Guernsey
BAE Systems	Legal & General	Pensioner bespoke longevity swap	£1.7bn	Dec 2013	UK

Background to Key Products



Captives

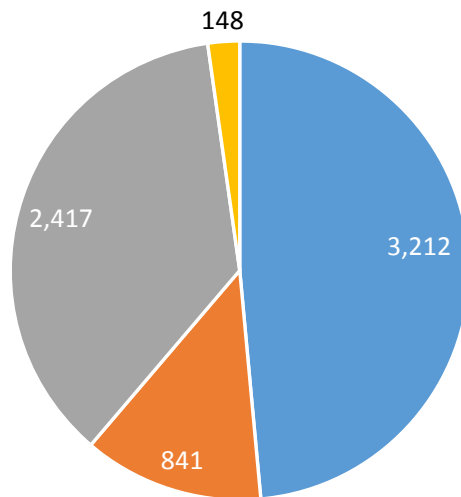


*Non-admitted insurance does not involve the frontier

Captives

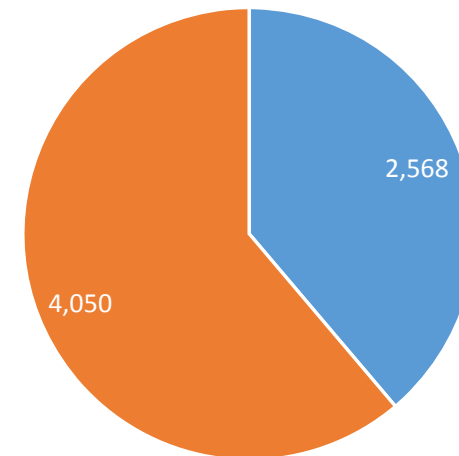
6,618 captives domiciled around the world in 2016

Breakdown by Region



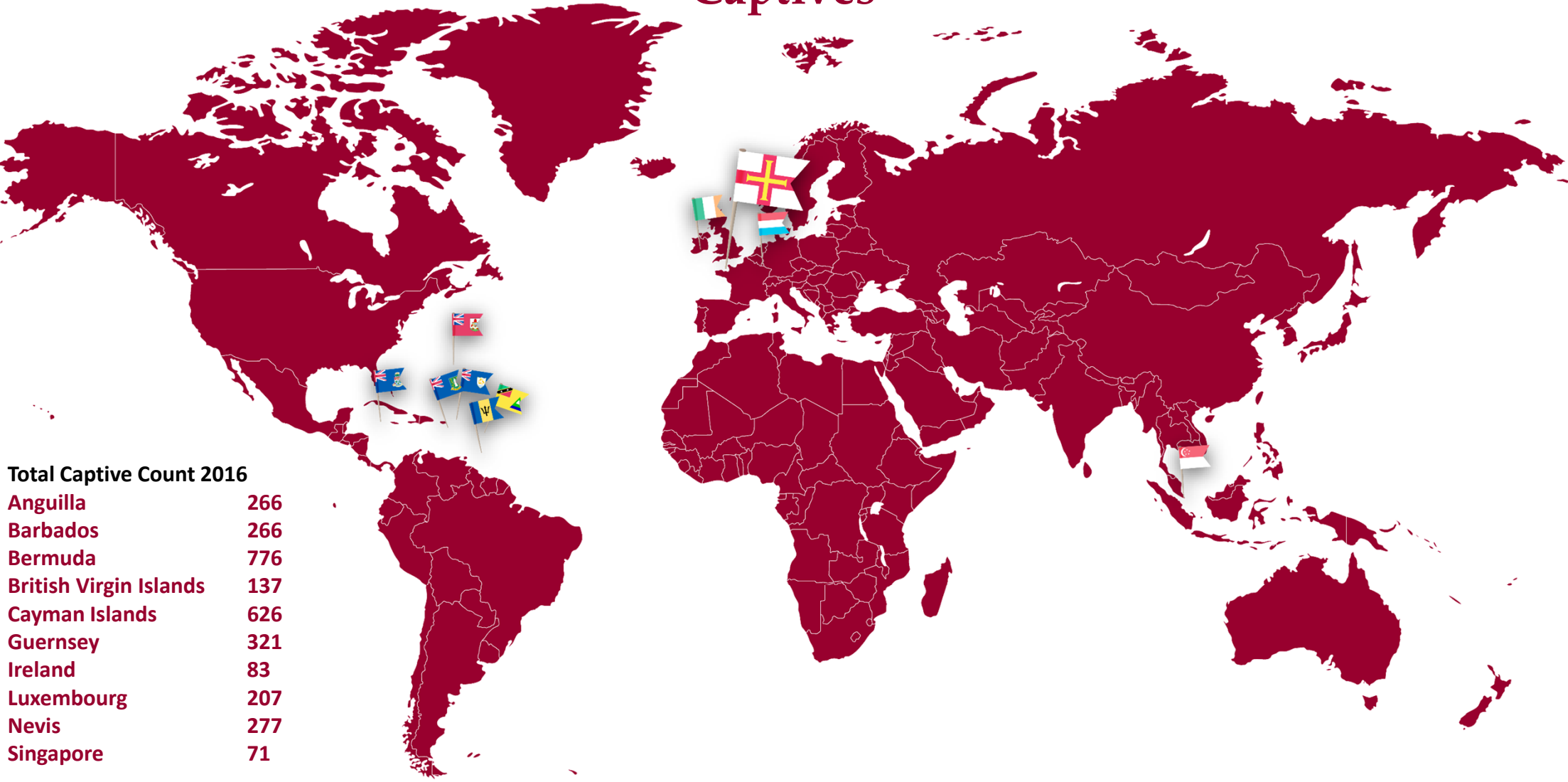
■ North America ■ Europe
■ Bermuda & Caribbean ■ Asia Pacific

GIICs v Non-GIICs Captives



■ GIICs Captives ■ Non-GIICs Captives

Captives



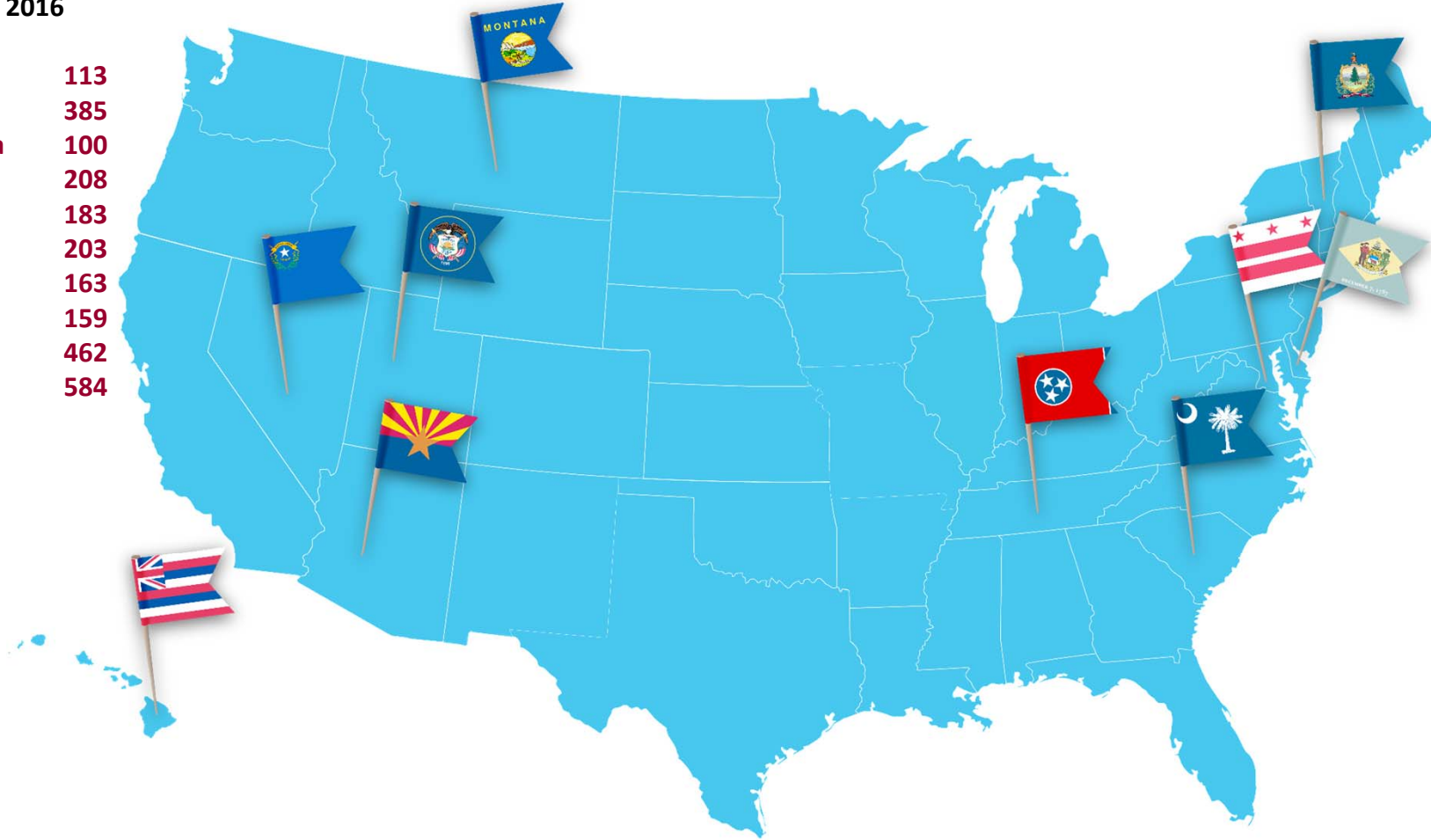
Total Captive Count 2016

Anguilla	266
Barbados	266
Bermuda	776
British Virgin Islands	137
Cayman Islands	626
Guernsey	321
Ireland	83
Luxembourg	207
Nevis	277
Singapore	71

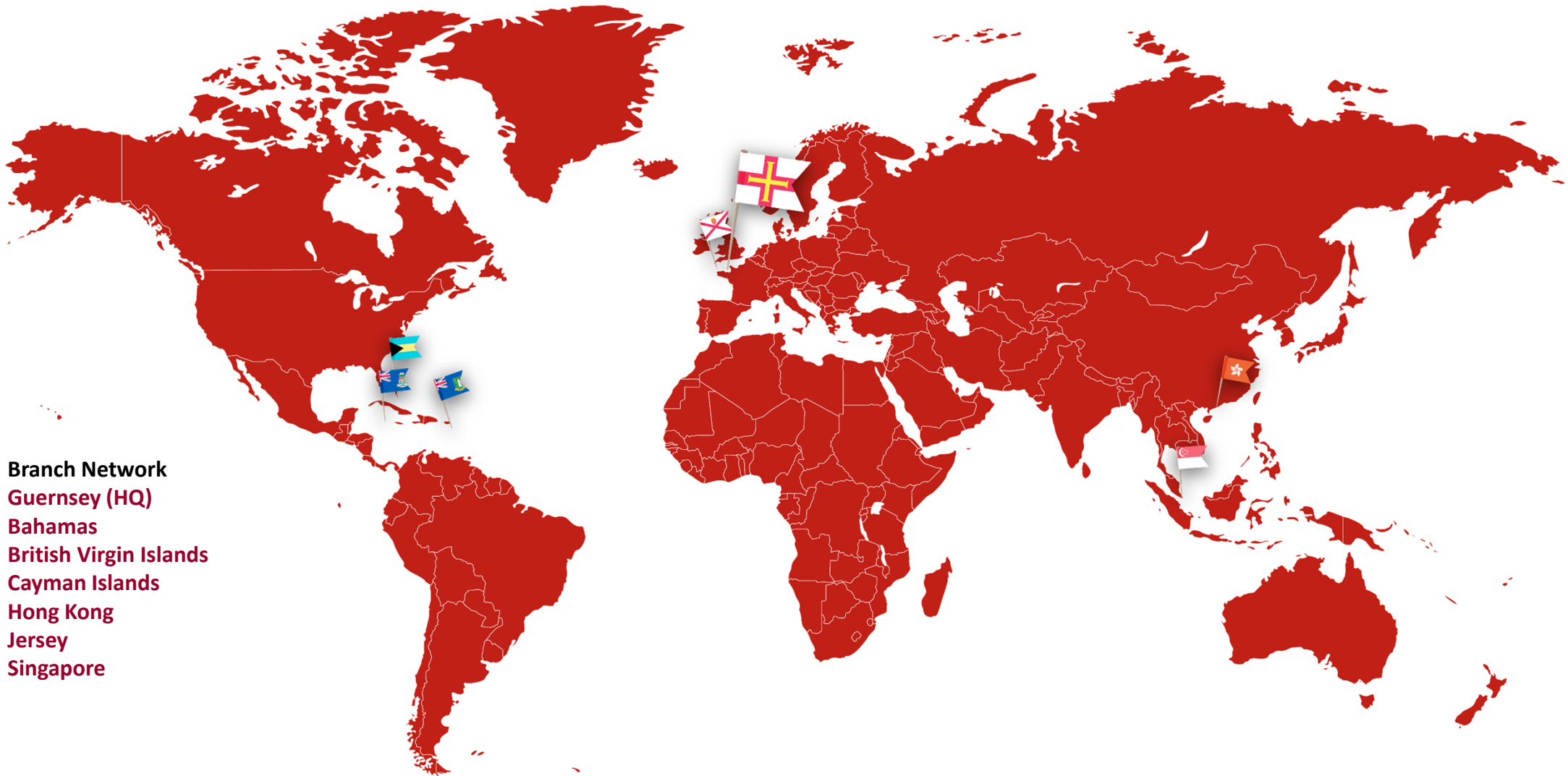
Captives in the United States

Total Captive Count 2016

Arizona	113
Delaware	385
District of Columbia	100
Hawaii	208
Montana	183
Nevada	203
South Carolina	163
Tennessee	159
Utah	462
Vermont	584



An Example of a Guernsey-based Life Insurer's branch network



Branch Network

Guernsey (HQ)

Bahamas

British Virgin Islands

Cayman Islands

Hong Kong

Jersey

Singapore

How Important are OFCs for these Key Products?

- Reinsurance (Traditional-ILS) (Bermuda had around 14% of the global reinsurance market in 2015)
- Captives (OFCs play a key role but, for instance, Bermuda's captive premium is \$19bn compared to Vermont's \$74bn)
- Expat Life (Mostly Isle of Man or Guernsey)
- Longevity Swaps (Started in 2007 with Swiss Re; Guernsey's unique selling point is the ICC)

OFC Product Risk

Insurance Linked Securities

1. Retail Risk
2. Basis Risk
3. Operational Risk

Expat Life etc.

1. Cross-border distribution
2. Capital
3. Financial crime

Longevity Swaps

1. Credit Risk
2. Asset Depletion
3. Legal Risk

Captives

1. Upstreaming
2. Tax Abuse
3. Third Party

Common OFC Insurance Supervisory Issues

- No policyholder protection fund
- Home/Host cooperation
- Insurance manager supervision
- Number of low impact firms
- Actuarial skills
- Intra-insurance group captives/US micro-captives
- Risk Based Solvency

OFC Competitive Advantages

- Niche (Captives, ILS, PORCs)
- Innovation (Cyber bonds, Block chain)
- Fast response to market (ILS)
- Deepen markets (Asia)
- Tax Neutrality/Conduit
- Competitive incentives

Current GIICS and IAIS Involvement

- Reinsurance Task Force
- Captive Application paper
- Financial Crime expert group/task force
- EXCO and small state representation
- IAIS Surveillance and assurance - Windsor



OFC Insurance

Pros

- Meets societal needs
- Diversification/globalisation
- Not systemic
- Channels wholesale funds into re-insurance
- Mostly wholesale

Cons

- Tax distortion – US? (BEPS)
- ILS the next CDO crisis? (Jarzabkowski)
- Mind the gap! – FATF/IAIS
- ILS under-priced

Conclusion

- Not a focus of global bodies
- Serves a useful societal role
- Risks exist
- Infrastructural support important

Thank you