

# REINSURANCE AND ILS

Guernsey is perfectly placed

INSURANCE

INVESTMENT FUNDS

TRUST & COMPANY

PENSIONS

INVESTMENT  
MANAGEMENT

BANKING



WE ARE  
**GUERNSEY**  
WE ARE CONNECTED

# WHY GUERNSEY?



## Close proximity to London and Europe

Regular daily flights to and from London Gatwick, Heathrow and Stansted. Convenient access to London and European insurance markets.



## Favourable time zone

Same time zone as London.  
-1 hour from European time zone.



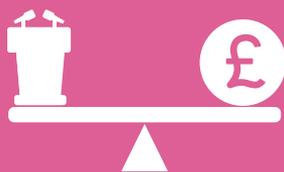
## 50 years' experience

Guernsey has been a specialist global finance centre for more than 50 years.



## Finance centre of substance

Guernsey boasts a breadth and depth of finance centre experience including insurance, investment and wealth management.



## Political and economic stability

Standard and Poor's AA- investment grade credit rating and AM Best Country Risk Tier (CRT-1) denote low levels of economic, political and financial system risk.

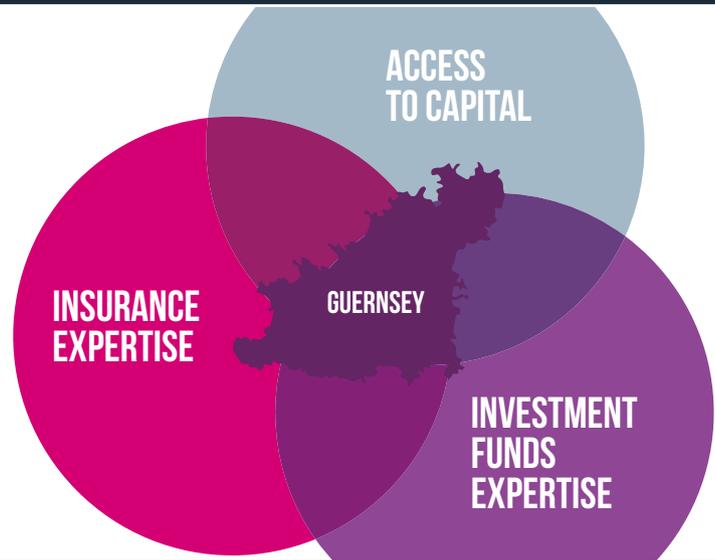


## Respected regulatory standards

Member of the OECD 'whitelist' of offshore jurisdictions since 2009. Commended by International Association of Insurance Supervisors (IAIS) in June 2019.

# CORE STRENGTHS

Guernsey's commendation by the IAIS for its recognition of international standards means that Guernsey's reinsurance offering remains eligible for EU-domiciled insurers to claim capital credit as there is no restriction provided the entity is rated BBB or above or collateralised.



## FLEXIBLE AND RESPONSIVE

The island's position of leadership in the structuring and execution of alternative risk transfer is due to its flexible, responsive regulatory regime which is quicker, less prescriptive and more flexible than under Solvency II or equivalent regimes.

While Guernsey observes the IAIS Core Principles – the global standard for international insurance supervision – it affords greater flexibility and responsiveness than elsewhere.

For example, Guernsey's regime distinguishes between different classes of insurers (e.g. commercial and captive insurance companies) and places proportionate regulatory oversight on each. Furthermore, Guernsey's regulator maintains the discretion to modify regulations on a case-by-case basis.

## INNOVATIVE

Guernsey's insurance sector is pioneering and innovative, boasting a position of leadership in the structuring and execution of alternative risk transfer.

1997

### First to introduce cell company legislation

Guernsey sets a precedent which has been replicated elsewhere since.

2014

### £16 billion longevity risk swap

Undertaken by a Guernsey incorporated cell company on behalf of the BT Pension Scheme.

2017

### First notes ever digitised on Blockchain

Issued by a Guernsey-domiciled reinsurance transformer.

Protected cell companies, pioneered by Guernsey, and incorporated cell companies provide legal segregation between assets and liabilities.

Guernsey has also made legislative advancements that have created a regulatory environment which allows for their flexible use. This combination of experience and creativity means Guernsey is leading the way in providing cutting edge solutions to meet clients' complex risk transfer needs.

The result is an environment perfect for start-ups, innovative operations and niche providers.

# RESPECTED REGULATION

Guernsey has operated risk-based insurance supervision since the mid-2000s. Being outside the EU, Guernsey chose not to adopt Solvency II but to continue to follow international standards.

Existing outside of Solvency II allows for a more flexible, responsive regulatory regime which distinguishes between different classes of insurer and places proportionate regulatory oversight accordingly.

Given Guernsey's commendation by the IAIS for its recognition of international standards, this means that Guernsey's reinsurance offering remains eligible for EU-domiciled insurers to claim capital credit, as there is no restriction provided the entity is rated BBB or above or collateralised.

## TRANSPARENCY, COMPLIANCE AND DEMONSTRABLE SUBSTANCE

Guernsey has introduced economic substance legislation, which meets the requirements of the OECD and EU and was whitelisted by both in 2019. The breadth of insurance and funds expertise, coupled with access to legal, accounting and banking professionals, ensures substance requirements are met.

Furthermore, the 2016 MONEYVAL assessment reported that Guernsey is compliant or largely compliant with 48/49 FATF recommendations on AML and CFT – the highest standard of any jurisdiction assessed so far.

Guernsey's commitment to its standing as a well-regulated, co-operative and transparent international finance centre has been endorsed by its placement on the OECD 'whitelist' of approved offshore jurisdictions since April 2009.



COMPLIANT OR LARGELY COMPLIANT WITH

**48/49**  
RECOMMENDATIONS  
ON AML & CFT

# RESPONSIVE REGULATION

## 30-DAY ROLLOVER FOR SPECIAL PURPOSE INSURERS



Guernsey's regulator, the Guernsey Financial Services Commission (GFSC), has formalised the collateral rollover rules for SPI cells by consenting to a 30-day rollover period for the application of collateral at both the formation of new SPI cells and renewal of deals in SPI cells. An SPI cell will not be considered to breach the fully-funded requirements if collateral is not in place for up to 30 days during contract negotiations.

The GFSC has taken a pragmatic approach recognising that the timing difference between commitment by an SPI cell to a collateralised reinsurance transaction and the point at which the trust account is fully funded is influenced by a range of commercial factors with full knowledge and acceptance of the cedant.

This innovative move, which has been welcomed by the insurance industry, alleviates the concerns of fund managers, investors and cedants, and makes Guernsey even more attractive for ILS business.

## CASE STUDY

### KELVIN RE

Kelvin Re Limited is a privately-owned, Guernsey domiciled and regulated reinsurer providing short-tail property and specialty lines reinsurance.

Kelvin Re was launched in 2014 by Credit Suisse Asset Management (CSAM). The structure offered Kelvin Re's investor a twist on its ILS commitment, with half its investment portfolio to be invested in hedge fund strategies.

AM Best has affirmed the financial strength rating of A- (Excellent) and the Long-Term Issuer Credit Rating of A- to Kelvin Re in 2018 despite global catastrophe losses in the second half of the year. The outlook assigned to each of these ratings remains stable and reflects Kelvin Re's strong capitalisation, diversified projected business profile with the natural catastrophe reinsurance market, experienced management and well-designed risk management function.

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**Kelvin Re was the first rated commercial reinsurer choosing Guernsey as its domicile. Guernsey was selected following detailed analysis of the options. Some of the factors identified were political, fiscal, legal and economic stability, experienced professionals and regulator, and a convenient time zone and location – close to Zurich and London where the underwriting and risk modelling team of CSAM is located. Guernsey's financial strengths versus other potential domiciles was also a key consideration.**

**Niklaus Hilti  
Director, Kelvin Re**

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# BERMUDA VS GUERNSEY

	LINKS	
	GUERNSEY	BERMUDA
Flights to London	Daily flights to London Flight time 1 hour	Daily flight to London Flight time 7 hours
Time zone London	Same	-4 hours
Time zone Zurich	-1 hour	-5 hours
Telecommunications	Satellite plus cable links to UK, EU and USA	Satellite plus cable link to US and Caribbean

	ECONOMY, PUBLIC FINANCES	
	GUERNSEY	BERMUDA
Currency	Guernsey Pound = GBP 1.00	Bermudian Dollar = USD 1.00
Gross domestic product	£3.05 billion (2017)	B\$4.88 (£4.01) billion (2017)
Unemployment rate	1.0% (2018)	6.0% (2018)
Fiscal stability	No net public debt (2018)	B\$2.42 (£1.99) billion (2018)
Credit rating	AA- Standard & Poor's (2018)	A+ Standard & Poor's (2018) A2 Moody's (2016)
Country risk tier	CRT-1 low economic, political and financial system risk – AM Best (2018)	CRT-2 low economic, political and financial system risk – AM Best (2018)

	TAXATION	
	GUERNSEY	BERMUDA
Corporation tax	0% standard rate of corporation tax	None
Income tax	Income tax – 20% on income after personal allowances (subject to caps)	None
Payroll tax	None	Payable by employer and employee – employer marginal rates up to 10.25%; employee at marginal rates up to 8.75%
Sales tax	None	None

	SECURITY AND BUSINESS INTERRUPTION RISK	
	GUERNSEY	BERMUDA
Hurricane risk	No	Yes
Cyber security	Government cyber security strategy in place. Cyber Information Sharing Partnership (CISP) with UK/Jersey to share cyber threat information, reducing impact on business	BMA Report 2018 highlights a number of areas requiring significant enhancement to mitigate the possibility of large scale cyber attacks and risk of financial and reputational loss
Data protection/ GDPR equivalence	GDPR equivalent	No

	LEGISLATION	
	GUERNSEY	BERMUDA
Insurance law	Insurance Business (Bailiwick of Guernsey) Law, 2002	Insurance Act 1978
Company law	Companies (Guernsey) Law, 2008	Companies Act 1981
Company types, incorporation fees and time to incorporate	Standard Limited Company within 24 hours for £100 Standard Limited Company within 2 hours for £350 Incorporated Cell registration within 24 hours for £100	Exempted Company within 5-7 working days for B\$9,255/£7,560
Cell companies	Protected Cell Company (PCC) Incorporated Cell Company (ICC) Hybrid PCC/ICC Vehicle – mixed purpose PCC/ICC which is both licensed insurance company and regulated investment fund	Segregated Accounts Company (similar to Guernsey PCC)
Special Purpose Insurer Framework	30-day rollover period for the application of collateral at formation of new SPI cells and renewal of deals in SPI cells  No restrictions on cedant	Must be fully funded at all times  Cedant must be non-affiliated and rated A- or higher

	FINANCE INDUSTRY	
	GUERNSEY	BERMUDA
Licensed banks	23 (Q3 2019)	4 (Q3 2019)
Licensed insurers	955 (Q4 2018) Includes authorised cells	1516 (Q4 2018)
Investment funds	813 (Q3 2019)	385 (Q3 2019)

	REGULATION	
	GUERNSEY	BERMUDA
Compliance with FATF standards on AML/CFT	Compliant or largely compliant with 48/49 FATF Standards per MONEYVAL 2016 Assessment	Compliant or largely compliant with 19/49 FATF Standards
Observance of IAIS insurance core principles	Commended in 2018 assessment	Not yet assessed
On EU whitelist of co-operative tax jurisdictions	Yes	Moved from EU blacklist to greylist in May 2019

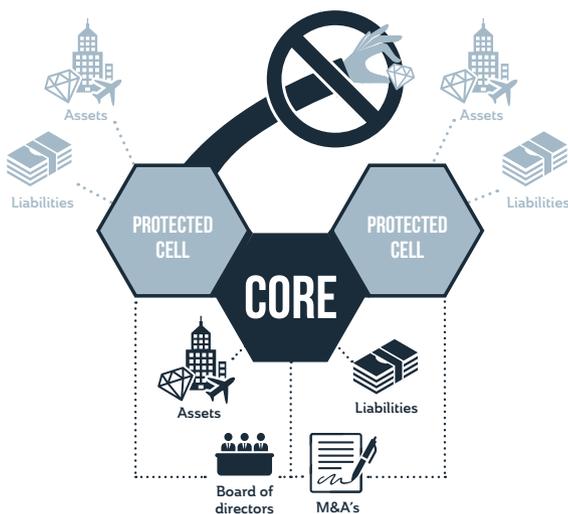
# INNOVATIVE STRUCTURES

Guernsey has been at the forefront of innovation of its legislation, having pioneered PCCs in 1997, ICCs in 2006 and in 2019, the world's first mixed purpose PCC/ICC, which is both a licensed insurance company and a regulated investment fund. The new hybrid PCC/ICC structure provides a unique opportunity for significant cost savings, speed to market and simplified regulation.

## PCCs

A PCC is a single legal entity which is subdivided into the core, which contains some or all of the capital of the company, and individual cells, which can be separately capitalised. The key benefit of a PCC is the legal segregation of the assets and liabilities of each cell which ensures that no claim against one cell can be covered by the assets in another cell. As a single legal entity, it is the PCC not the individual cell which is the contracting party.

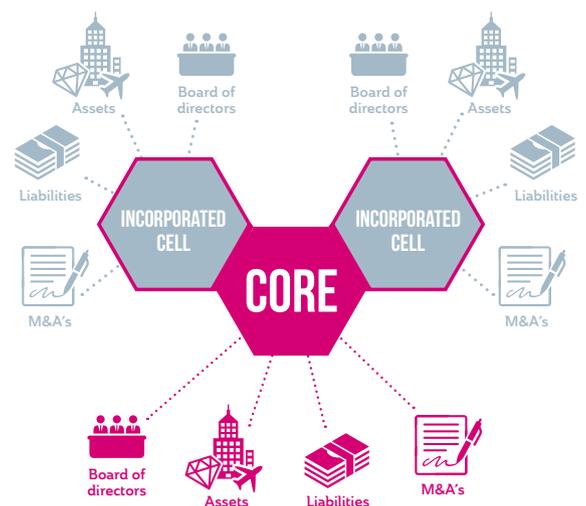
PCCs have been established in Guernsey across different platforms and have been used in many ways including writing fully collateralised reinsurance, primarily covering property catastrophe risks, marine, crop and other classes such as premium reinstatement or prize indemnity.



## ICCs

An ICC has similarity to a PCC in that it is a single incorporated entity consisting of a core and separately incorporated cells for the purposes of legally segregating and protecting assets.

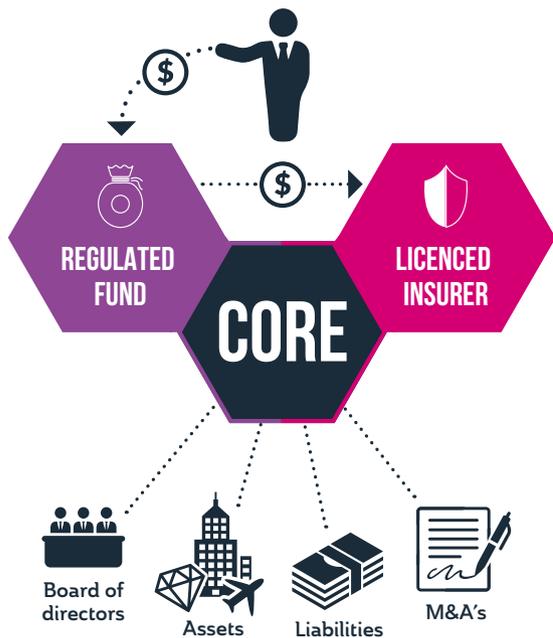
The principal difference is that, unlike a PCC, each incorporated cell (IC) is a separate legal entity, distinct from the ICC, with its own company registration number, memorandum and articles of incorporation, and board of directors. This means that an IC can contract in its own name as a separate and distinct entity from the ICC. This legal standing provides greater protection for investors in foreign courts where the cellular company concept does not exist.



## HYBRID PCC/ICC

The Guernsey hybrid is a PCC or ICC which is both a licensed insurance company and a regulated investment fund, bringing a new level of simplicity and efficiency for ILS managers. No other jurisdiction in the world offers such a unique combination.

The Guernsey ILS hybrid vehicle comprises:



### Investment cells

Raise money from third-party investors through the offer of shares or other securities. The hybrid can fund raise through any number of investment cells. Each investment cell can issue its own offering document describing its own investment strategy.

### Insurance cells

Write (re)insurance contracts. The funds raised in the investment cells can be used to collateralise (re) insurance written by the insurance cells through regulation 114A trusts, letters of credit, funds at Lloyd's etc. Each investment cell may collateralise any number of insurance transactions or cells.

### The core

Houses the regulatory capital required of a licensed insurer.

The hybrid has a single board of directors with overall responsibility for the operation of the hybrid. Naturally, the board may appoint an external ILS fund manager or adviser, if desired.

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For the first time, the Guernsey hybrid provides managers with the opportunity to operate an investment fund and any number of sub-funds and SPIs in one place, supervised by one regulator, governed by one board of directors with one set of service providers and one auditor. No other jurisdiction in the world offers such a unique combination.

**Christopher Anderson**  
Partner, Carey Olsen and creator of the ILS hybrid

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# KEY PARTNERS



A significant factor in Guernsey's success is a stable government that enables and encourages business. As a self-governing jurisdiction, the Island has created a competitive tax regime for both individuals and businesses. Corporate taxes start from 0% and personal taxes are set at a flat 20% with caps available. There are no taxes on inheritance, capital gains or goods and services. The open and transparent tax system is compliant with international standards and the Island has a host of double tax treaties and information exchange agreements in place.

Locate Guernsey provides a single point of contact within the Island's government for those considering relocating; facilitating access to key decision makers within the States of Guernsey and providing free information and advice to assist with business and personal relocation enquiries.

**T:** +44 (0) 1481 743 834

**E:** [enquiries@locateguernsey.com](mailto:enquiries@locateguernsey.com)



A key part of Guernsey's offering to the reinsurance industry is its ability to provide access to global capital markets, including The International Stock Exchange (TISE), as well as stock exchanges in Hong Kong, Toronto, Dublin and Amsterdam.

Guernsey is the global leader for London Stock Exchange Listings (other than the UK) with more than 100 entities listed on the London Stock Exchange at 31 December 2018, including more than £250 billion of alternative fund assets.

TISE, which is headquartered in Guernsey, provides a responsive and innovative listing and trading facility for companies to raise capital from global investors.

In summary, TISE meets an extremely wide range of the capital market needs of the global reinsurance community.

**www.tisegroup.com**

**E:** [info@tisegroup.com](mailto:info@tisegroup.com)

## TISE CASE STUDY - ILS

In 2018, TISE became the venue for what is believed to be the first ever listing on a regulated exchange of notes digitised on a blockchain. Dom Re IC Limited, which is a cell of Solidum Re (Guernsey) ICC Limited, issued notes digitised on a private blockchain. Referred to as 'ILSBlockchain', the mechanism replaces the role of a traditional settlement system for the note issue.

## TISE CASE STUDY - ILS FUNDS LISTINGS ON TISE

ILS Funds can list on TISE. For example, Securis has two funds listed on TISE; Securis I Fund and Securis Non Life Fund, which are both feeder funds of master funds with the objective of investing into ILS.

# SUBSTANTIVE FINANCIAL COMMUNITY

## LAWYERS

Guernsey is well served by several practices with international offices who are highly ranked in legal directories including Chambers & Partners, Legal 500 and IFLR. Many of the lawyers within Guernsey practices are listed as leading individuals in their fields.

Legal firms include:-

Appleby, Bedell Cristin,  
Carey Olsen, Mourant,  
Ogier and Walkers.

## ACCOUNTANTS

As well as representation by the Big Four accountancy practices, Guernsey is also home to many other global professional service practices including BDO and Grant Thornton.

## BANKS

Guernsey is home to 23 licensed banks including Barclays, Butterfield, Credit Suisse and HSBC.

## FUND AND INSURANCE MANAGERS

Global fund and insurance managers have offices and experienced staff in Guernsey including:

### **Fund managers**

J.P. Morgan, Northern Trust and State Street

### **Insurance managers**

Aon, Artex, Marsh, Robus and Willis Towers Watson.

**FIND A PRACTITIONER TODAY!**

To find a service provider in Guernsey, visit the business directory at [weareguernsey.com](http://weareguernsey.com)



## CASE STUDY

# ROBUS

### Fee Income Securitisation

A large life assurer chose Guernsey to establish an SPI which securitised the future income from policyholders' investment fees to raise finance from the ILS capital markets. In a series of tranches issued, totalling hundreds of millions of pounds, the life assurer was able to raise capital and expand their operations into new territories, winning market share by rewarding Personal Advisers with the upfront commissions common in the market.

The GFSCs regulatory approach, the on-Island insurance management, legal and accounting expertise and Guernsey's proximity to Europe were behind the choice of domicile.

## SOLVENCY II SOLUTIONS

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It is perfectly possible for a European domiciled insurance entity to buy reinsurance from Guernsey-based reinsurer, a non-Solvency II entity, and for this to be fully recognised in their Solvency II calculation.

“The rules are complex, and there can be different interpretations. But get into the detail and it is perfectly possible to take credit for that reinsurance, and there is no explicit restriction on the use of reinsurance from non-equivalent domiciles, subject to the relevant requirements being met.

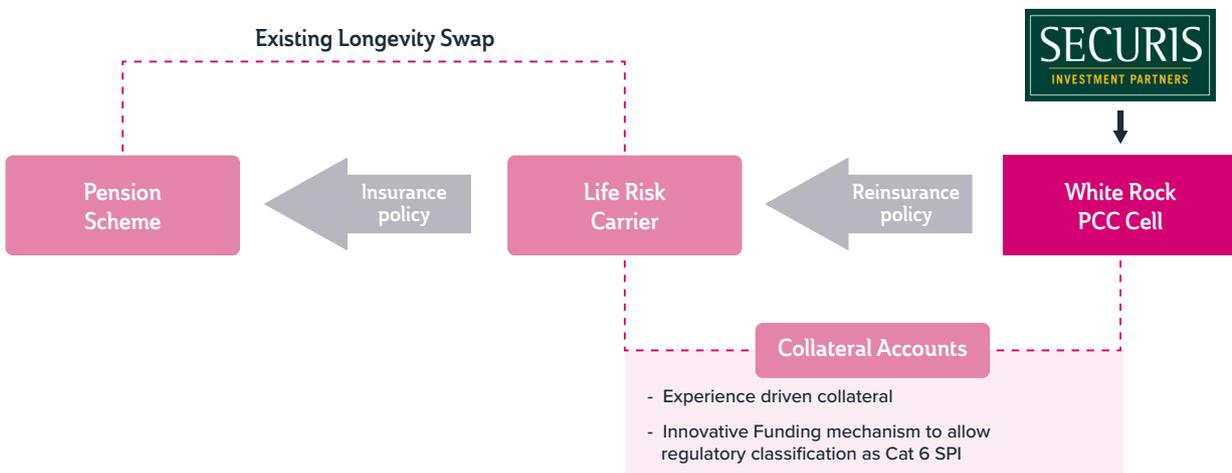
**Jason Noronha**  
Head of Actuarial and Analytics, Aon

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## CASE STUDY

Aon Insurance Managers (Guernsey) Limited, (“Aon”) has recently been involved, through its transformer company White Rock Insurance Company PCC Limited, (“White Rock”), in a landmark transaction in the longevity space between Securis Investment Partners LLP (“Securis”), a leading ILS Investment Manager, and a large well-known life carrier.

The transaction involves the transfer of structured longevity risk from an existing longevity swap transaction to an ILS Fund via a White Rock Protected Cell, in doing so providing the life risk carrier with capital relief by taking tail liability risks.



This represents the first Longevity/ILS transaction to be written through a Guernsey-based protected cell and the first to be recognised as a SPI under the provisions of the Insurance Business (Special Purpose Insurer) Rules, 2016.

This was achieved through an innovative funding mechanism which allowed the cell to meet the criteria as a fully-funded entity at all times.

Guernsey was selected as a jurisdiction due to the ILS Manager’s relationship with existing locally-based service providers along with island’s well-respected and proactive regulatory regime.

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This transaction is another testament of both our track record and commitment to provide the global insurance industry with private, innovative and tailor-made solutions that meet its needs, especially in a volatile environment like the one we are currently seeing. We thank the AON White Rock team for their strong support in closing this innovative deal.

**Luca Tres**  
Partner, Securis

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