



States of
Guernsey



WE ARE
GUERNSEY
WE ARE CONNECTED

Financial services policy framework 2021



Post–Covid strategy



Committee for Economic Development
and Guernsey Finance



Image: St. Peter Port harbour, Guernsey

Contents

5	● Foreword
6	● Case studies
8	● Introduction
10	● Strategic summary
12	● General jurisdictional positioning
13	● The regulatory environment
14	● Green and sustainable finance
16	● Private wealth and family office services
18	● Funds
20	● Wealth management, investment management and brokerage
21	● Insurance
22	● Pensions
23	● Banking
24	● Fintech
26	● Conclusion



Image: View of Castle Cornet over St. Peter Port, Guernsey

Foreword

Lyndon Trott

People's Deputy, States of Guernsey and Chairman, Guernsey Finance

In 2018 the States of Guernsey and Guernsey Finance jointly published the Financial Services Policy Framework. The document was the result of close cooperation between government and the agency.

Guernsey's financial services industry has maintained its recognised and justified position of providing solutions rather than problems for the global economy. Whether through the absence of "casino banking" witnessed elsewhere at the time of the global financial crises, or the stability of our jurisdiction from a third country perspective following the UK's departure from the EU, Guernsey is rightly considered to be well regulated, innovative and a jurisdiction of choice for national and international clients.

It is now three years since that Framework was published and the world has become an even more challenging place. Since early 2020 the world has been in the grip of a global pandemic and its full impact on wider society – notably the economy – remains to be seen.

Nevertheless, we continue to see the various financial services provided in Guernsey – fund services, banking, insurance, and private wealth services to name but a few – as a bulwark of economic stability for the island during what has been, and continues to be, a period of great uncertainty. For several decades Guernsey's financial services sector has been pivotal to the island's economy and in a post-pandemic world, particularly under the 'revive and thrive' strategy deployed by the States of Guernsey, we believe the sector will have an even greater part to play.

As the world moves beyond the pandemic, the island will not only continue to offer world-class financial services but will maintain its crucial role as a force for global good. The island is fully aligned with international standards and best practices and is a key fighter against the major issues of our time – notably addressing base erosion and profit shifting (BEPS), preventing the financing of terrorism and being a key player through our green finance protocols in helping to tackle climate change.

Case Studies

Our place in the world

Decades-long commitment to, and a deservedly strong reputation for, the application of international standards: regulatory; tax transparency; AML; anti-BEPS and economic substance; and many others enable Guernsey to hold its head high on the international stage.

Never part of the EU, separate from the UK but part of the British family, a member of the WTO and applying the OECD convention through the UK's membership, Guernsey's constitutional autonomy has enabled us to become a significant specialist global finance centre.

Our strengths, tax neutrality, and this status allow Guernsey to play a powerful economic enabling role for the global economy – facilitating capital flows across borders in a cost effective manner, a role that complements the UK's competitive position, recognised by reports from a wide range of organisations including the Institute of Economic Affairs; Frontier Economics; KPMG; and Her Majesty's Treasury.

At the forefront of the development of sustainable finance

As a result of significant, early commitment - the creation of Guernsey Green Finance, a dedicated body to develop sustainable finance - and working to a clear strategy, Guernsey has secured a clear leadership position in the sustainable finance sector.

As a recognised figure on the global stage – a member of the UN's Finance Centres for Sustainability Network, the Network for Greening the Financial System and the UN's Sustainable Insurance Forum – Guernsey Finance publicly collaborates with major players in this space, including the UK Green Finance Institute, the Swiss Sustainable Finance Association, Hong Kong Green Finance and the US Sustainable Finance Forum over the last two years.

Guernsey Green Finance has developed a broad advocacy and educational role - in the last year, publishing green principles for private equity and sustainable finance guidance for family offices. Over the last 12 months our advice and guidance has been sought by TheCityUK, STEP Global and the CISI Board in the development of sustainable finance strategy and educational programmes – testament to our claim to be a force for global good.



Introduction

Following a comprehensive consultation and review with the finance sector, in December 2018 the States of Guernsey and Guernsey Finance jointly published the financial services policy framework. This set out a jurisdictional approach to support the long-term sustainable growth of Guernsey's finance sector. Entitled 'Growing global specialisms', it set out a series of principles, priorities and objectives for the development of the sector. The foundations of this approach were **a pivot to private wealth, concentration on key markets, and positioning as a force for global good, through the development of a sustainable finance specialism.**

Having drafted the strategy, Guernsey Finance then took on a new strategic role coordinating its implementation and continual review, doing so through various working groups and with the support of a strategy steering group made up primarily of industry representative associations, with representation from the States and the Guernsey Financial Services Commission (GFSC).

Today, we find ourselves in the throes of a global pandemic. The world has changed – and we are all still trying to absorb and come to terms with what the world might look like once the pandemic has abated. How will we change and adapt? What will recovery look like?

Guernsey Finance has sought to review the policy framework in conjunction with each of the industry sectors to determine if it remains appropriate, and what near-term measures might be put in place as we learn from our experiences of the pandemic.

The following three assumptions framed our thinking:



There is a need for the finance sector to drive Guernsey's economic recovery.



There is a high probability that the global economic recovery is very long and very slow, and that global economic policy actions result in unfavourable conditions for the global finance sector.



Despite recent improvements in economic performance coming into 2020, with momentum created following the establishment of the policy framework, maintaining Guernsey's global market shares in the priority sectors of private wealth and funds has been challenging.

Through May to September 2020, Guernsey Finance held sessions with representatives of various firms, industry associations, and its own strategy working groups, to review the current strategy.

Strategic Summary

In general terms, there was strong support for the current strategic approach of pivoting to private wealth, concentration on priority markets, and positioning Guernsey as a force for global good through the development of a sustainable finance specialism. The consensus was that product development and positioning needed to be strongly aligned and coordinated and priorities focused, recognising limited financial resources.

Guernsey's competitive offer and position is seen as strong, with substance being viewed as a source of strength to be built upon, with product development now better aligned with priorities, and with a strong recognition of the need for a similar alignment of messaging. There is also a consistent recognition of the need to further boost jurisdictional and sector promotion through Guernsey Finance.

Other points include:

- ▶ We must continue to make the case for mainstream finance centres such as Guernsey, emphasising the contribution to the global economy and the adherence to international standards;
- ▶ We must continue to emphasise to UK stakeholders that Guernsey is competitively complementary to City plc and has a positive impact on the UK economy;
- ▶ There is a pressing need not to lose our competitive edge in the sustainable finance space;
- ▶ We have the opportunity of leveraging our resilience and stability through the pandemic to make Guernsey a more attractive jurisdiction for private wealth;
- ▶ Greater resources need to be deployed to be able to focus on the US market, which continues to be seen as important, particularly for funds;

- ▶ Our offer to Asia must be better defined and the Middle East market needs to be appropriately resourced;
- ▶ Greater resource and better penetration of marketing is required to be able to focus on US markets and competitor jurisdictions such as Bermuda, Cayman and Luxembourg;
- ▶ Ensure that overall the Guernsey cost base is contained, particularly on the application of AML and electronic CDD;
- ▶ Our messaging might better reflect our specialist and sophisticated offer, service and skills base; and
- ▶ In time, a further fundamental review would be prudent as the long-term impact of the pandemic on the global economy becomes more apparent.

This review and refresh of the policy framework presents a summary of objectives and priorities. It does not reference the supporting environmental factors necessary for the delivery of these priorities, contained in the full policy framework published in 2018, which remain broadly the same.

One strategic environmental factor does warrant reference, namely that the delivery of the priorities set out here in terms of products, services and markets is based on an assumed strategic risk tolerance, but still must be set and stated clearly by government.

General jurisdictional positioning

“ There is a huge lack of information out there about why having places like Guernsey is helpful, useful and good.

FTI Stakeholder Audit for Guernsey Finance, 2017

”

One point remains clear, Guernsey needs to continue to make the case for Guernsey. The absence of a positive consistent narrative about the economic role of mainstream international finance centres such as Guernsey does impact on inward business flows. In the post-pandemic global environment, efforts must be redoubled to develop that narrative and to ensure that it is understood and acknowledged by global stakeholders.

Our public position and reputation is now so fundamental to our continuing ability to trade that promotion is a necessary condition for development and growth.

To support this approach, Guernsey Finance will:



Establish a strategic communications, PR and research programme to create positive profile of Guernsey's finance sector among audiences outside our historic limited business-to-business communication channels;



Ensure the resources are in place to build on the success of the co-ordinated approach of the policy framework over the past 24 months, to ensure product development aligns with strategic competitive priorities; and



Place sustainability and sustainable finance at the centre of our positioning and continue to develop the strategy to lead the development of green finance strategy, to make Guernsey a genuine global leader in sustainable finance;



Establish a global PR and contacts programme to support improved profile and positioning across our key geographical markets and to provide increased emphasis on the private wealth markets.

The Regulatory Environment

Guernsey remains committed to international standards and continues to enjoy a strong reputation as a jurisdiction with an excellent reputation for both countering money laundering and ensuring tax transparency.



International standards



Strong jurisdictional reputation



Countering money laundering



Ensuring tax transparency

The regulatory and supervisory environment will continue to play a key role in differentiating Guernsey from its competitors. Employing a modern, risk-based enabled approach, the GFSC ensures there is clarity, confidence and certainty for firms and market operators.

Guernsey's approach to authorising financial services business provides for discussion between applicant and

regulator about novel applications, thereby supporting the overall competitiveness of the economy. In the last few years in particular, the GFSC has made a significant contribution to the development of regulatory products to enhance Guernsey's market offer and has played a pivotal role in placing the jurisdiction at the forefront of sustainable finance.

Green and sustainable finance

The Policy Framework set out to create a position of leadership in sustainable finance as a keystone of the finance sector strategy, through the following:



1) Build on a global green taxonomy



2) Rapidly develop a flexible and comprehensive product offer



3) Develop a programme of engagement to promote green and sustainable finance



4) Seek to develop partnership opportunities



5) Work with global public policy groups

Post Covid-19, everyone is now a disciple of sustainability and it will be tougher to maintain competitive advantage. A common theme of the pause and review strategy sessions has been that sustainability and sustainable finance is even more fundamental to our overall positioning as a finance centre, and should to be front and centre of our promotional efforts.

Guernsey is fortunate to be in a position that it can point to genuine commitment to sustainable finance over recent years and has managed to secure a reasonably well recognised position of leadership. The specific funding earmarked by the States reflected the high level of political support and was provided to look to positively exploit this position of leadership before competitors mimicked the strategy. Now that Jersey Finance is following our strategy, we will have to work even harder to maintain a competitive edge and to own the issue, given their likely deployment of greater resources.

Strategy

Objective: to be at the forefront of the development of green and sustainable finance – to be a true leader in the field and develop a thriving sector and drive growth in Guernsey's finance sector.

Positioning: A force for global good, a leading centre of sustainable finance, at the forefront of its development.

Priorities:

- ▶ Establish Guernsey as a clear leader in private wealth territory in sustainable finance.
- ▶ Continue to build out from the green to the sustainable finance, impact and ESG space in terms of services and products.
- ▶ Develop thought leadership proposition in the private capital and equity sectors.
- ▶ Exploit the support for green finance in Far East and US markets to develop business.
- ▶ Transpose this positioning across to the insurance sector.
- ▶ Establish a sustainable finance institute to develop research, policy and product.

Products:

Continued development of a comprehensive and flexible product range, including:

- ▶ Flesh out the private wealth offer.
- ▶ A green and sustainable finance framework for insurance.
- ▶ Expansion of sustainable finance ESG products through fiduciary guidance, standards and frameworks, and a voluntary ESG wrapper for funds.

Messaging:

- ▶ Centre of sustainable finance.
- ▶ Genuine commitment to sustainability.
- ▶ Global leader in sustainable finance for private wealth.

Markets:

- ▶ London.
- ▶ New York.
- ▶ Switzerland.
- ▶ Hong Kong.

Private Wealth and Family Office Services

“ Some trends are so powerful that even a global recession triggered by a pandemic does very little to change their course... Many may dislike the reasons and fear the consequences, but it seems more likely that we are on the cusp of a new era of growth for private capital, than at the start of its demise.

FT, June 29, 2020

”

The policy framework published in 2018 placed pivoting to private wealth as the central pitch of the financial services strategy. Statistics published by the States of Guernsey demonstrate that private wealth services account for more than 50% of financial services business of the Bailiwick.

As a strategic approach, pitching ourselves to the top of the food chain was a deliberate move, the rationale being that achieving recognition of a jurisdiction for family office will play positively for other specialist private wealth services and overall for our reputation as a private wealth centre.

Strategy

Objective: Cement a position among the global financial community as a respected, stable jurisdiction of choice for the provision of specialist family office and private wealth services and a global leader for sustainable finance in private wealth.

Positioning: Foremost in family office services, market leader in sustainable private wealth.

Priorities:

- ▶ Develop our family office services offering to broaden our appeal to the private wealth community.
- ▶ Enhance our legal and regulatory approach to provide the most supportive global environment and ecosystem for servicing private capital and wealth.

- ▶ Exploit our jurisdictional resilience and business continuity during the Covid-19 pandemic and our continuing stability to make Guernsey the most attractive jurisdiction for private wealth.
- ▶ Leverage green and sustainable finance to develop a market leading position in private wealth services.
- ▶ Establish a clear Asian product and concentrate resources in Hong Kong to maximise opportunity.
- ▶ Increase focus on the US and Middle East in the private wealth and family office space.

Products:

- ▶ A family investment company targeting, in particular, the Far East market.
- ▶ A standardised exemption and notification regime for PTC application.
- ▶ A bespoke regime for family offices for those seeking a regulatory wrapper.
- ▶ Sustainability guidance on fiduciary duty.
(In line with the UN's 21st century fiduciary duty).
- ▶ Development of private wealth sustainable finance services.

Messaging:

- ▶ Stability.
- ▶ Security.
- ▶ Substance.
- ▶ Specialist.
- ▶ Responsible.
- ▶ Sustainable.

Markets:

- ▶ **Target Hong Kong as a priority.**
- ▶ London.
- ▶ Middle East.
- ▶ New York.
- ▶ South Africa.

Funds

In 2018 the Policy Framework identified the US, Far East and Middle East as strategic priorities. The US is the single largest market for the funds sector, with US investors accounting for around 24% of the investor base.

Across the last decade, Guernsey's fund sector has lost market share against key competitor jurisdictions of Luxembourg and Jersey.

A common feedback from the recent 'review and refresh' finance strategy sessions concerning funds was the lack of penetration of Guernsey's messaging in London, particularly with respect to Luxembourg, Cayman and Jersey.

Strategy

Objective: To be the trusted go-to jurisdiction for sophisticated global private capital clients seeking the combination of quality, service, security and stability that Guernsey provides. Also continue to develop and grow the existing Listed funds sub-sector.

Positioning: Whitelisted specialist private equity and alternative funds centre of genuine economic substance with global products, proven market access and a significant sustainable finance offering. Prepare and solidify positioning, messaging and an offer in the growth areas of crypto and medicinal cannabis.

Priorities:

- ▶ Leverage substance and AML issue to attract Cayman funds and managers.
- ▶ Re-establish our recognised leadership in PE with more aggressive marketing and PR including:
 - ▶ Better understanding of our higher quality offer.
 - ▶ Greater awareness of our cost competitiveness in relation to Luxembourg and Cayman.
- ▶ Leverage private fund regime and sustainable finance product in Asian markets to market position, particularly for those migrating from Cayman.
- ▶ Concentrate greater resource on US market for private equity.
- ▶ Seek to improve international access - and access to the UK - for our funds through dialogue and international engagement.
- ▶ Continue to enhance regulatory regime to improve competitive product.

- ▶ Continued, proven market access to the EU and UK for US investment managers

Products:

- ▶ Finalise LLC offering to appeal to the US market.
- ▶ Revised private fund regime.
- ▶ Explore development of bespoke rules to support market access agreements.
- ▶ Consideration of more standardised exemption regimes.
- ▶ Voluntary ESG wrapper for funds.

Messaging:

- ▶ Global funds leader.
- ▶ Simple, flexible funds regime.
- ▶ Leading centre of substance, with a developing sustainable finance sector.
- ▶ Continued, proven market access to the EU and UK for US investment managers.
- ▶ Certainty of market access into the UK and EU after Brexit.

Markets:

- ▶ London and wider UK.
- ▶ USA.
- ▶ South Africa.
- ▶ Switzerland.
- ▶ Middle East.
- ▶ Hong Kong.

Wealth Management, Investment Management and Brokerage

As well as complementing the fund sector by leveraging the substance thematic and stability of the jurisdiction to attract greater numbers of fund managers, there is a strategic opportunity to build upon the discretionary management and brokerage community to provide direct servicing of the family office and provide wealth administered by Guernsey corporate services providers.

Strategy

Objective: Develop the wealth management offer and attract more managers both fund and discretionary to the island.

Positioning: A white-listed, specialist centre of real economic substance with proven global market access and a long tradition of servicing global clients.

Priorities:

- ▶ Exploit our competitive position in substance to appeal to managers seeking a specialist location which also offers proven global distribution and client servicing.
- ▶ Promote wealth management services as a specific offer of the jurisdiction.
- ▶ Seek to attract further boutique discretionary managers to the jurisdiction
- ▶ Develop greater lines of business development and marketing to the Swiss private wealth sector
- ▶ Exploit interest in sustainable finance to nurture a capital-raising environment.

Insurance

It is noted that an insurance sector review has been commissioned and is due for publication later this year, and it is anticipated that the findings from the review will feed into the development of these objectives and priorities.

Strategy

Objective: Maintain position as Europe's leading captive insurance domicile, while developing direct writing capabilities in both the life and general sectors that enable niche and entrepreneurial capital to establish new insurance in a transparent and reliable jurisdiction.

Positioning: An unrivalled centre of alternative insurance knowledge and know-how.

Priorities:

- ▶ Take advantage of the short-term benefits of the hard insurance market to maximise growth of the captive sector in the coming 24 months.
- ▶ Review market access requirements for the UK market.
- ▶ Ensure preference for policyholder creditors is enshrined in company law.
- ▶ Consider potential requirements of CIFO; potential for a local compensation scheme; potential for reciprocity with the UK.
- ▶ Agree fast-track for protected cell captive formations with the GFSC.
- ▶ Finalise the green insurance kite mark.

Products:

- ▶ Captive insurance.
- ▶ Direct insurers.
- ▶ Pensions de-risking structures.
- ▶ ILS.
- ▶ Rated reinsurers.

Messaging:

- ▶ Stability.
- ▶ Innovation.
- ▶ Substance.
- ▶ Specialist.
- ▶ Sustainable.

Markets:

- ▶ UK.
- ▶ South Africa.
- ▶ Australia.
- ▶ USA.
- ▶ Switzerland.

Pensions

Strategy

Objective: To extend our position as the clear market leader for servicing international retirement benefit schemes and innovative personal pension solutions in parallel with internationally recognised good governance and sustainability.

Positioning: Reputable cost competitive centre of global expertise, innovative, trusted products and good governance with international standards of regulation.

Priorities:

- ▶ Develop servicing opportunities for international clients, concentrating resources in London to reach international consultants.
- ▶ Prioritise marketing resources in the Middle East.
- ▶ Exploit demand for ESG products

Products:

- ▶ Development of guidance for incorporating ESG into pensions.

Messaging:

- ▶ Guernsey is a global leader in the international retirement benefit plan market.
- ▶ Guernsey has a modern regulatory regime which conforms with international standards.
- ▶ Guernsey firms provide specialist pension services and a full range of retirement benefit solutions.

Markets:

- ▶ UK for multinational companies, personal pension planning, including QNUPS and contract-based arrangements.
- ▶ Far East for personal and corporate International Pension Plans and International Savings Plans.
- ▶ Middle East for defined contribution pensions.
- ▶ USA.
- ▶ Central and South America are potential new markets to assess.

Banking

Guernsey has a strong tradition of private and fiduciary banking and the sector remains the backbone of the financial services ecosystem. The Association of Guernsey Banks in general confirmed the previously-held view that the banking sector's priorities and objectives was a healthy financial sector to service.

Key take-aways from the meeting held with the Banking Strategy Refresh Group are as follows:

- ▶ Questions were raised about Guernsey's continued commitment to China in the light of the politicisation of China and the potential for a reset of the UK relationship arising post Covid-19.
- ▶ Concerns also expressed about the growth of anti-offshore sentiment in post Covid-19 recovery.
- ▶ Private banking has a role to play in unlocking the global economy.

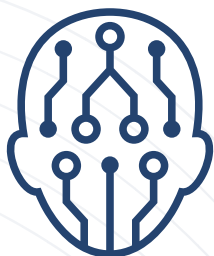
The number of banking groups continues to fall, reflecting the changed economics of banking post-Global Financial Crisis and also political risk for various EU-parented groups particularly. Identifying preferred characteristics of banking groups and actively targeting such institutions should be a priority.

Among other stakeholders, perennial concerns were raised during the review about the ability to bank higher-risk business.

Fintech

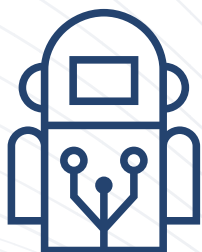
The Policy Framework set out an objective of a technology landscape that provided an efficient environment for the delivery of financial services. This was soon honed to ‘to enable the widespread adoption and application of technology in financial services within a safe and secure environment’.

The immediate priorities chosen were:



(1) Electronic agents

To provide legal certainty with respect to the treatment of electronic agents in Guernsey and then provide the regulatory confidence in their application in the financial services context.



(2) Digital identity

To set out a clear plan to achieve a widespread adoption of current and future electronic due diligence technologies through a market-based approach, and provide clear guidance on the permissible approaches to the market.



(3) Digital assets

To lay out clear guidance covering the general approach to the future application of digital assets, including cryptocurrency, and enabling technologies such as distributed ledger technology.

With the chosen approach being:

- ▶ To provide legal and regulatory certainty with respect to the application of technology to financial services businesses:
- ▶ To provide the necessary guidance to enable the widespread adoption and application across financial services:
- ▶ To set out through a clear communication programme a commitment to a common goal of the widespread adoption and application of new technology:
- ▶ To develop a programme of engagement and education to ensure the safety and security provided by Guernsey is well understood and well respected:
- ▶ To develop partnership opportunities to exploit our leadership position in financial technology.

Significant progress was made against the first two objectives, and during the review process the feedback was that this overall objective was still sound and, albeit recognising the acceleration that the Covid 19 pandemic has catalysed, more progress on the deployment of technology in AML would be welcome.

Compliance remains a source of cost burden, making us uncompetitive as a jurisdiction, particularly in the fiduciary space. The objective of creating efficiency and reducing cost remains paramount.

In 2019 the States appointed Agilisys as its technology partner and as part of that contract it has appointed Blenheim Chalcott to undertake a review of its overall digital and fintech strategy. Arising from that will be structural changes on the implementation of fintech strategy and Guernsey Finance will be included in those arrangements and the objective for fintech will reside within those arrangements going forward.

Taking the temperature on strategy as part of the pause and review process, Guernsey Finance sent a survey on fintech to a cross section of financial service firms. Responses were received from 40 firms comprising 30% of employment. As well as providing useful evidence to promote Guernsey's resilience during lockdown, published as a factsheet in July, it also reconfirmed support for the overall objective and priorities above.

Conclusion

There is overwhelming support from all sectors of the financial services industry to continue the current strategic approach of pivoting to private wealth, focusing on private capital/private equity and concentration on key markets, and for our jurisdictional positioning as a global financial specialist, and a force for global good, through developing green and sustainable finance specialisms.

The cornerstone of our positioning as a specialist green and sustainable finance centre will be key to fending off anti-offshore sentiment, a concern echoed by all sectors. In defending our business model as a tax neutral and transparent jurisdiction we have the opportunity of exploiting our competitive position as a jurisdiction of substance, but the scale of this challenge should not be underestimated.

Recognising limited financial and human resources, the consensus is that priorities must be kept to a strategic focus and that product development, positioning and messaging need to be closely aligned.

We therefore have a clear way forward for the immediate term which will require a collaborative spirit now, more than ever.



Image: St. Peter Port seafront, Guernsey



States of
Guernsey



WE ARE
GUERNSEY
WE ARE CONNECTED



Learn more at:

GOV.GG and WEAREGUERNSEY.COM

