Guernsey Financial Services
A Strategy for the Future
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<tr>
<td>FSDU</td>
<td>Commerce and Employment Department – Finance Sector Development Unit</td>
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<tr>
<td>Department / Commerce and Employment</td>
<td>Commerce and Employment Department</td>
</tr>
<tr>
<td>T&amp;R</td>
<td>Treasury and Resources Department</td>
</tr>
<tr>
<td>FEPC</td>
<td>Fiscal and Economic Policy Group (a sub group of Policy Council)</td>
</tr>
<tr>
<td>PC</td>
<td>Policy Council – States of Guernsey</td>
</tr>
<tr>
<td>Government</td>
<td>the States of Guernsey (the States) and Departments</td>
</tr>
<tr>
<td>GFSC/Commission</td>
<td>Guernsey Financial Services Commission</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>EEA</td>
<td>European Economic Area</td>
</tr>
<tr>
<td>AML/CFT</td>
<td>Anti-Money Laundering and Countering Financing of Terrorism - Legislations and Policies</td>
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Chapter 1: Executive Summary

The Challenge
The success of the financial services industry is critical to Guernsey’s on-going economic performance. Only by stimulating growth in the finance sector can Guernsey make any short to medium term progress in returning to strong and sustained economic growth. Without growth in the finance sector, and growth in the economy as a whole the Island may be faced with falling employment and tax revenues and persistently higher unemployment than has historically been the case. The most effective way to boost short and medium term growth is to focus on the financial services industry where Guernsey has a clear competitive advantage and a high Gross Value Added (GVA) per employee.

The Goals
The main goal is to ensure Guernsey remains in the top tier of comparable international finance centres with a strong core of traditional business but with the capacity to adapt to new and emerging business models and innovations. The focus should be on professional and institutional investors and accepting that higher levels of risk may be appropriate for those types of businesses. Increasing the numbers employed in the sector is important and a return to the employment levels of 2009 is desirable. In addition new business in emerging and developing markets will be targeted with a goal of between 5% and 10% of all new business being sourced from non-traditional markets within the next decade.

The Strategy
Growth in the financial services industry shall be achieved through the implementation of the following key work streams:

- Maintain a competitive tax regime,
- Maintain a tax neutral environment for international financial services businesses,
- Retain an internationally acceptable regulatory regime for the financial services industry that is capable of dealing with and facilitating innovation in the financial services industry,
- Develop a proportionate regulatory approach focussed on systemic risk that accommodates professional and institutional investors as well as high net worth individuals,
- Introduce new legislation for the financial services sector which can facilitate innovation and develop new products for the industry (more detail is provided in the sector specific strategies),
- The Commerce and Employment Department (the Department) to work, over time, to increase resources available for the development of policy and legislation for the financial services sector,
- Continued development and promotion in new and emerging markets to grow the volume of business that originates from those markets,
- The expansion of a “red-carpet” approach to potential inward investors ensuring that those investors can obtain all necessary information and meet key decision makers,
- Support the development of necessary skills through the Skills Guernsey group and supporting imported expertise and skills where appropriate,
- Maintain and improve physical and virtual connectivity to the Island and preserve a reliable and regular service to a major London airport,
Facilitate the supply of appropriate levels of office accommodation in accordance with the policies of the States approved Strategic Land Use Plan,

Within the existing departmental mandates reviewing government operations and civil service structures to streamline policy development and ensure key stakeholders are included in policy formulation and decision making,

Clarify the regulatory objectives of the Guernsey Financial Services Commission (the Commission or the GFSC),

Develop and implement sector specific strategies as outlined in this report.

Some of these work streams are already underway whilst others will require prioritisation and potentially additional resources, and further investigations will be required in sourcing and allocating those additional resources within current constraints. It will also be necessary for the financial services industry to consider how it engages at a policy level to ensure greater levels of communication with policy makers. This may necessitate a consideration of how the finance industry represents itself and responds to policy developments in Guernsey and elsewhere. A strong commitment should be shown to developing a partnership approach to policy development with the private sector being actively involved in supporting the development of policy and in the delivery, drafting and critique of policy and legislation where appropriate. Only through good dialogue and communication can this strategy be effectively implemented.

It will also be necessary for Government to allocate additional resources to policy development, legislative drafting, and promotion for the financial services sector. Present resources will be unable to deliver this strategy in a meaningful and timely manner. Effective and rapid implementation followed by regular review and refining will be necessary to ensure that Guernsey retains its competitive advantage for the next decade and beyond. The Government and the Department should actively consider the level of resourcing for financial services policy and development in order to deliver this strategy in a realistic timeframe.

Structure of document
This document sets out in the following order:

- the overall economic and financial services strategy for Guernsey: the outcome and the strategy for the future;
- a separate strategy for each sector of the financial services industry;
- proposed changes to government structures;
- analysis of the importance of the financial services industry to the local economy.
Chapter 2: The Outcome

States of Guernsey Fiscal and Economic Plan

1. The States of Guernsey has set a range of targets which it aims to achieve through its Fiscal and Economic Plan. Those key objectives are:
   - Average economic growth of 2% or more per annum,
   - Stable and low inflation: RPIX 3%,
   - Continuing full employment,
   - Diversified, broadly balanced economy,
   - Skilled and flexible labour market,
   - Continuing OECD Tier One Status,
   - Well regulated, competitive domestic markets,
   - Maintenance of an internationally respected financial services regulatory regime, adopting and applying international standards.

2. Maintaining a diversified economy is a strategic objective for the States. Retaining a strong and internally diverse financial services industry is a key aspect of meeting that objective. The Department has also developed a broader economic development strategy which looks beyond the financial services industry and seeks continued diversification of the broader economy.

3. This financial services strategy is intended to assist in meeting those broader goals by developing a vision for what a successful and diversified Guernsey financial services industry should look like. Defining success is the first step, the strategy is about how the Island goes about achieving sustained economic success.

Guernsey: A Competitive International Finance Centre

4. Guernsey must remain a competitive and attractive jurisdiction for international financial services providing specialist and niche products to professional investors, high net worth individuals, and institutions. As a goal Guernsey should aim to remain in the top tier of comparable international finance centres.

Return finance sector employment to 2009 levels or greater

5. Employment numbers in the financial services industry peaked in the middle of 2008, just prior to the financial crisis which occurred in the summer of that year. At that time Guernsey was experiencing a seriously overheated labour market with significant wage pressures. It also led to significant demands for imported labour. Employment numbers fell in 2009 although the total level of unemployment remained largely stable. There was also much more stability in the employment market and wage pressures normalised leading to more moderate wage increases and the consequent stabilisation of inflation which developed following the financial crisis. In many respects the labour market in 2009 represented a more normal environment for business to operate. However since 2009 there has been a steady fall in the number of people employed in the finance sector, with total employment in that sector being some 5% lower than it was in 2009.
Employment by economic sector at March each year

<table>
<thead>
<tr>
<th>Sector</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>Agriculture, horticulture, fishing &amp; quarrying</td>
<td>483</td>
<td>448</td>
<td>461</td>
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<tr>
<td>Manufacturing</td>
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<td>716</td>
<td>714</td>
<td>698</td>
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<tr>
<td>Electricity, gas, steam &amp; air conditioning</td>
<td>328</td>
<td>333</td>
<td>331</td>
<td>310</td>
<td>312</td>
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<tr>
<td>Water, sewerage, waste &amp; remediation</td>
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<tr>
<td>Construction</td>
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<td>3,051</td>
<td>3,151</td>
<td>3,030</td>
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<td>1,874</td>
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<td>Transport &amp; storage</td>
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<td>955</td>
<td>1,016</td>
<td>1,022</td>
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<td>Information &amp; communication</td>
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<td>Finance</td>
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<td>213</td>
<td>230</td>
<td>227</td>
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<td>Professional, business, scientific &amp; technical</td>
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<td>1,928</td>
<td>2,027</td>
<td>2,010</td>
<td>2,012</td>
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<td>Administrative &amp; support services</td>
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<td>1,273</td>
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<td>5,480</td>
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<td>Education</td>
<td>468</td>
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<td>485</td>
<td>516</td>
<td>512</td>
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<tr>
<td>Human health, social &amp; charitable work</td>
<td>1,510</td>
<td>1,590</td>
<td>1,641</td>
<td>1,695</td>
<td>1,731</td>
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<td>Arts, entertainment &amp; recreation</td>
<td>383</td>
<td>384</td>
<td>410</td>
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<tr>
<td>Other services</td>
<td>499</td>
<td>520</td>
<td>567</td>
<td>568</td>
<td>612</td>
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<td>Activities of households as employers</td>
<td>152</td>
<td>151</td>
<td>138</td>
<td>117</td>
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<td>16</td>
<td>6</td>
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<tr>
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<td>31,981</td>
<td>31,605</td>
<td>32,186</td>
<td>32,109</td>
<td>31,646</td>
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6. In order to continue to prosper as a financial services centre it is important to see growth of employment in the finance industry in order to return to the total levels of employment which existed in 2009. That requires the creation of more than 350 jobs in the sector. That would correlate to an increase in ETI receipts of more than £2 million per annum. The number of employers in the sector has also fallen from an average of 346 in 2009 to 315 in 2012, a fall of almost 10%. Ensuring that new businesses establish in Guernsey is critical. These figures demonstrate that while Guernsey has shown its resilience in the global economic conditions, it has been affected by global events and has fewer people working in financial services than was the case five years ago.

7. Implementation of this strategy will deliver increased business flows to the financial services industry and create additional employment opportunities as a result.
Diversity of Businesses

8. Guernsey’s strength is its diversity with a range of different and interrelated sectors all forming part of the financial services industry. It is generally considered that Guernsey has four distinct parts of its finance industry: Banking, Fiduciary, Insurance and Investment Funds. There are a multiplicity of variations within each sector with different business models, clients, and target markets. However those four sectors remain the core of Guernsey’s financial services business and the maintenance, growth and development of those four sectors is a key objective of this strategy.

Innovation and Development

9. In addition to that core of long established and key businesses this strategy is also aimed at developing and expanding the range of financial services that are provided from Guernsey. It is through constant adaptation, evolution and development that Guernsey’s finance industry has grown, often through identifying emerging trends and capitalising on those opportunities and preparing innovative products, rules or legislation. For example the captive insurance and private equity sectors developed because Guernsey was able to provide the right environment and gain a competitive advantage as those businesses emerged.

10. In order to remain a competitive international finance centre Guernsey must have in place all the necessary elements to facilitate innovation, introduce new business models, and see new business evolve and flourish.

Continuing growth in new and emerging markets

11. Guernsey has been highly dependent on the City of London for the past 50 years. This is unlikely to change as London will remain a major European and International hub for financial services. Accordingly it is almost certain that the bulk of Guernsey’s business will come through London, although not necessarily originating in the UK as London serves a global market. However it is important that Guernsey seeks to attract new business from new and emerging markets in order to add diversity and resilience to the economy. Guernsey has had some success in this as is evidenced by recent statistics released by the Commission which show that 3% of all new fiduciary business is now originating from China when it was less than 1% as little as five years ago.

12. Guernsey should aim to attract between 5 and 10 per cent of new business from new and emerging markets within the next ten years.
Chapter 3: A Strategy for the Future

13. As part of setting the strategic direction for the financial services sector it is important to define the key competitive advantages and how to protect and strengthen those competitive advantages. The Department’s key objectives are:

- Creating an internationally respected regulatory environment that facilitates professional and institutional business which may require an acceptance of a relatively greater level of risk than would be accepted for retail consumers.
- Supporting innovation through the creation of new legislation, as well as having a regulatory framework which is sufficiently flexible to deal with emerging private sector innovation for example: new markets, products and services.
- Working with Treasury and Resources (T&R) to keep taxes low and maintaining a tax neutral product for international financial services business.
- Promoting the Island as an international financial services centre, by maintaining a high profile in traditional markets while aggressively developing two or three key emerging markets.
- Supporting the development of necessary skills through the forum of Skills Guernsey.
- Supporting business by encouraging immigration for individuals with high level skills and experience in financial services through housing licences and immigration permits.
- Maintaining physical connectivity to London and in particular Gatwick Airport whilst providing appropriate support for air links to other financial centres where there is proven demand.
- Supporting virtual connectivity by ensuring competitive data links and storage.
- Supporting the development of appropriate office accommodation.
- Ensuring that the financial services industry supports the needs of the local economy.

Risk Appetite

14. Guernsey is an international financial services centre serving an international client base. Unlike London or New York, the two major international finance centres, it does not have a large domestic market. Guernsey has succeeded by providing services to internationally mobile capital and supporting other major finance centres such as London by providing complementary services. Guernsey has tailored its legislative and regulatory regime to niche, high value finance business. For example the development of captive insurance and alternative investment funds was the result of a combination of the identification by the private sector of potential markets, innovation and development of ideas, and by introduction of appropriate legislation and regulation by government.
15. A balance needs to be struck between risk of failure and financial and economic reward. The legal and regulatory framework should facilitate the development of high “value-added” financial services business focused on professional and institutional investors. If appropriate the regulatory regime should be able to accommodate higher risk levels and can recognise that professional and institutional investors ought to be able to appropriately assess and manage their own risk. The Commission should satisfy itself that businesses have the necessary skills, experience, and systems to appropriately manage risk. There should also be some flexibility surrounding who the Commission accepts as promoters of new financial services businesses. The current approach of only accepting first rank promoters has served Guernsey well and should continue. However there should be some flexibility particularly for new and innovative propositions which may fit with other strategic goals of the States.

16. The financial crisis demonstrated that some institutional and professional investors were not capable of appropriately managing their risks and even overlooked and underestimated significant risks. However while that may have been the case in mainstream jurisdictions, it was less of a problem in Guernsey. Institutional and professional investors have made a deliberate choice to use Guernsey as a jurisdiction and have been expertly and professionally advised in that decision making process. Those investors have chosen to make investments often with a greater risk and reward ratio. In those circumstances the regulatory focus should be on managing systemic risks. Of course there are circumstances where business specific risks can develop into systemic risks. This was demonstrated in the financial crisis where securitisation theoretically reduced risk for each institution, but collectively magnified and transmitted that risk to the financial system as a whole. The Commission should monitor business specific risks to ensure it has an understanding of potential systemic risks that may build up as a result.

Professional Financial Services

17. A more focussed regulatory regime aimed at managing systemic risk is appropriate for professional and institutional investors. The legal and regulatory regime should permit business failure provided that such failure does not result in systemic risk emanating from Guernsey. In general most of the types of financial services business in Guernsey which serve professional investors are not sufficiently large to result in systemic risk. It is far more likely that systemic risk will be transmitted to Guernsey from elsewhere and the role of regulation should be to support other regulators in managing systemic risk which may build up in, or be transmitted through, Guernsey.

Retail Financial Services

18. It is essential that in addition to the financial services industry being internationally focussed it should also support and meet the needs of the local economy.

19. Retail investors need the greatest level of regulatory and legal protection. However they must also be given access to products and services which will enable them to save and invest for their future. There should be greater regulatory oversight of products and services intended for retail consumers relative to non-retail consumers. Experience in other jurisdictions demonstrates the potential risks to consumers of inappropriate financial products. However there should be recognition that no level of regulation can absolutely prevent failure of financial institutions or losses to consumers. Where appropriate the Government and Commission should work to promote consumer understanding of financial services. This focus should be on empowering Guernsey consumers to better understand financial services so that consumers can make better decisions surrounding their finances. It should not be the role of the Commission or the Government to give investment advice or “approve” particular products but to ensure that information and education about financial services is broadly
available so consumers can make better decisions and be responsible for their investment decisions.

20. Financial Services products and services which are marketed to retail investors should be well regulated and there should be a much lower possibility of failure of the businesses which operate in this part of the market.

Innovation

21. Innovation is a key part of Guernsey’s competitive advantage. Innovation in this context not only refers to the States willingness to introduce innovative legislation to facilitate financial services business but also the ability of the financial services industry to develop innovative products within a regulatory framework that is capable of adapting to those new developments. The private sector is well placed to identify trends, key target markets and new products while government can facilitate research using industry knowledge and develop any new products as appropriate. The legal and regulatory framework should encourage innovation for professional and institutional investors, provided that such innovation does not unnecessarily increase systemic risk in the financial system. Innovation should be facilitated through:

- Identifying key legislative initiatives and adequately prioritising that legislation where there is clear economic benefit,
- Developing appropriate investor protection suitable to the skills and expertise of investors as necessary,
- Actively developing products and services designed for new and emerging markets.

22. Innovation in retail financial services should also be facilitated where that allows Guernsey residents to have access to innovations available in the United Kingdom and elsewhere. For example developments in cashless payments and mobile banking should be available in Guernsey on largely the same basis as they are available to UK consumers.

23. The financial crisis demonstrated that some innovations can increase risks and have adverse systemic effects. The Government and Commission must develop mechanisms for understanding and monitoring private sector innovation to ensure that innovations are not increasing systemic risks. This may require additional resources and skills as well as granting the Commission with the authority to ban or restrict the sale of certain financial products, subject to appropriate consultation with the relevant States Department.

Low Taxation

24. Maintaining the availability of a tax neutral environment for international financial services business remains critical. A comparison of all competitor jurisdictions reveals that providing some form of tax neutral product is an essential ingredient to providing international financial services. This includes many OECD and EU members which provide tax neutral vehicles such as partnerships and collective investment schemes as it is generally accepted that investment vehicles should not be subject to taxation but the underlying investors should instead, as taxation of investment reduces economic growth as it creates a disincentive to on-going investment in the economy.

Low Taxes

25. Guernsey Government should retain a tax neutral environment for international business through the maintenance of zero/10 or via other taxation strategies that ensure tax neutrality for international business.
**Tax Transparency and Co-operation**

26. Co-operation on tax, through sharing information on request, is now the internationally accepted standard. There is also an emerging global consensus for information exchange to occur automatically. Guernsey has ensured that it remains part of that global consensus and has taken steps to ensure that its international reputation is not tarnished by keeping pace with these developments.

27. Guernsey exchanges information automatically with EU member states under bilateral agreements with EU members under the European Union Savings Tax Directive. It has also committed to exchange information automatically with the UK and United States through the respective Foreign Account Tax Compliance Act (FATCA) and equivalent intergovernmental agreements. It has also expressed a strong interest in participating with a pilot program of automatic exchange along the lines of FATCA with five major EU jurisdictions.

28. As a general policy approach Guernsey will continue to negotiate agreements permitting automatic exchange of information provided that there are clear reciprocal benefits from doing so, such as comprehensive and beneficial Double Taxation Agreements (DTAs).

**Proportionate Regulation**

29. Government has consistently endorsed the principle that Guernsey should meet internationally accepted regulatory standards, as endorsed by the G20 group of countries. Guernsey’s reputation as a well-regulated financial services centre is a key part of its competitive advantage.

30. Maintaining an internationally respected regulatory regime will continue to be part of Guernsey’s competitive advantage. However the following principles should guide decisions on adjusting the regulatory framework:

   - Maintaining an appropriate regulatory framework can facilitate business and encourage development of new industries,
   - Guernsey should strive to meet current and future G20 endorsed regulatory standards ensuring where possible that those standards are implemented in a manner which minimises their economic cost and which is proportionate to the nature of the Guernsey finance industry,
   - Guernsey should strive to remain in the top quartile of jurisdictions in international assessments of regulatory standards.

**Adaptability**

31. The regulatory framework in Guernsey must remain capable of adapting to new business models and financial innovation. There are many examples where the introduction of an appropriate regulatory regime has led to a sustainable competitive advantage. Initiatives in Guernsey in captive insurance and fiduciary business demonstrate how the introduction of an appropriate regulatory regime can support economic activity.

32. To ensure that the regulatory framework can adapt to new and changing business models there should be on-going research and development to ensure that regulatory policy can be developed in a timely manner. That research and development should involve Government, Regulator and Industry.
Promotion in key markets

33. Guernsey has promoted itself as a finance centre for many years. Guernsey Finance actively promotes Guernsey as a jurisdiction in established and emerging markets. On-going promotion is a key part of the strategy for the next decade. However given resource constraints it is necessary to take a focussed approach to promotion.

Maintain focus on existing markets

34. Maintaining a high profile in the primary markets of London and Europe remains critical as Guernsey still is highly dependent on London as an introducer centre for international finance business. As a major global finance centre London acts as an international hub for financial services business. Much of the business conducted in London is unrelated to the broader UK or European economy as London provides services to many emerging markets. Given the international nature of the City of London, Guernsey must retain and build its profile in the London market. This will assist in developing business from new and emerging markets.

35. In addition Guernsey is seeing growth in business from other advanced economies such as North America and Europe. Guernsey should continue to market itself in advanced Western economies as they will remain the leading economies for the foreseeable future, albeit with lower growth prospects than emerging markets.

Develop emerging markets

36. Guernsey should increase its promotional efforts in key emerging economies. Given resource constraints a focussed and targeted approach is necessary. It is a matter for the Board and Chief Executive of Guernsey Finance to choose how to allocate its resources, however in general the target markets should have the following general characteristics:

- Significant levels of economic growth over a long period of time, with a growing standard of living and substantial number of high net worth individuals,
- Established legal and regulatory infrastructure to facilitate cross border flows,
- Existing or developing business links between Guernsey and the emerging markets,
- General support for the initiative from the Guernsey International Business Association or its constituent member associations.

37. A focussed approach should include medium to long term commitments such as has been undertaken in establishing a China office. Consistent with the overall approach taken to financial services business any jurisdictional initiative should target professional and institutional investors.

Supportive Infrastructure

38. A key responsibility of Government is to provide the necessary infrastructure for on-going development of financial services. That infrastructure includes matters such as:

- Skilled and experienced employees,
- The legislative framework,
- Connectivity, both information and physical connectivity,
- The built environment, office accommodation and resources.

39. Many of the relevant systems are in place to ensure the required changes can be delivered. The interests of the financial services industry are a matter that is considered in developing Government policy in this respect and the Guernsey International Business Association and the Guernsey Chamber of Commerce is represented as a stakeholder in many of these areas.
Skills and Experience

40. The establishment of Skills Guernsey is an important part of the Island's overall economic development strategy which is intended to support every sector of the Island's community. The goal of the Skills Strategy is retaining and building upon a skilled workforce, and ensuring that the potential workforce is maximised at all skill levels.

41. The Skills Guernsey Implementation Group meets regularly to discuss progress and develop the strategy and the Policy group provides political leadership, advice and details on timescale.

42. Skills Guernsey has two main goals:
   - **Skills Development** - developing a workforce that is well educated, highly skilled and sustainable that supports the Island’s competitiveness and prosperity; and
   - **Workforce Participation** - providing opportunities for, and fully utilising the potential workforce, at all levels.

43. The Skills Guernsey group has stakeholder representatives which include the Guernsey International Business Association and the Department which is responsible for economic development and the financial services industry generally.

Connectivity: Physical and Virtual

44. **Air Links**: Connectivity is a critical factor in the long term success of Guernsey’s financial services centre. It is vital to retain regular air links to a major London airline hub, a demand currently met by Gatwick airport. Regular services are critical and there should be a reasonable number of rotations to Gatwick daily to ensure convenient and reliable access to the city of London and vice versa.

45. Developing further links to other financial centres such as Switzerland, Frankfurt, Luxembourg, Paris or Amsterdam ought to be encouraged; however developing such routes through a taxpayer subsidy is unrealistic given current financial constraints. Guernsey Finance carried out a survey to identify desirable air links and ideally a continental air link should be with a major international hub to provide adequate connectivity to other European jurisdictions.

46. **Virtual Connectivity**: The development of information and communications technology will continue at an ever increasing pace. It is vital that Guernsey remains competitive from a connectivity and cost viewpoint. Encouraging better and cheaper IT infrastructure remains a key priority of the Department and the ICT subcommittee will continue to work on this project to maintain Guernsey’s competitiveness.
Chapter 4: Sector Specific Strategies

Guiding Principles

47. Guernsey Government Departments have in place a number of key policies which both inform and guide this strategy for the Financial Services Industry. For example:

- A commitment to high standards of Anti Money Laundering and Countering Financing of Terrorism (AML/CFT) compliance and prudential regulation comparable with competitor jurisdictions,
- Maintaining the Island’s international reputation as a well regulated, co-operative, and transparent jurisdiction,
- Maintaining the Island’s international reputation as a good place to do quality finance business.

48. These guiding principles should inform decision making within the Government as well as the GFSC and Guernsey Finance. The principles should also provide a context for discussions between Government and others (including the GFSC, Guernsey Finance and any agencies) to ensure Guernsey’s financial services sector is developed while maintaining regulatory standards.

49. This section identifies strategies to enhance the financial services industry in Guernsey.

50. In addition to implementing any new strategies it is essential that each sector continues to focus on protecting the existing business and also adapts to any external changing conditions to take advantage of opportunities which may arise.
Banking

Objective

- Government wishes to safeguard the underlying health of Guernsey’s banking sector and attract more banks to Guernsey.

51. Banking is fundamental to Guernsey’s success as a finance centre. The provision of banking services is central to all other aspects of the finance industry. Maintaining and, preferably, increasing the number of banks in Guernsey is important to ensure that Guernsey remains, and continues to be recognised as, a premier international financial centre capable of providing a diverse range of financial services. Globally, it is recognised that banking is in secular retrenchment following the global financial crisis of 2008. Therefore continued ‘natural wastage’ of existing banking licences is likely. Opportunities for growth in new banking licences in today’s world are likely to be more limited than in the past and conversion from prospect to licence similarly harder. Therefore a clear strategy needs to be followed to achieve the objective and to ensure that opportunities are not missed or wasted.

Strategy

52. Guernsey will seek to secure and grow its banking sector by seeking growth opportunities in key target markets taking into account the following factors (further details below):

- business models;
- ownership models;
- jurisdictions;
- risk profile.

53. To deliver this strategy, a marketing programme will be devised to identify decision makers, advisors and influencers in the appropriate markets and segments and to tailor messages, material and communication activity to those decision makers.

54. To support this strategy, the message must be actively communicated to relevant stakeholders and influencers that Guernsey is open for new banking business.

55. A more pro-active red-carpet approach will be taken for any potential licensees to convert interest to banking licences. A coordinated approach already exists as potential licensees are assisted by Guernsey Finance and the FSDU arranging appropriate meetings and ensuring access to key politicians and decision makers, effectively making it easy for a prospective bank to obtain all relevant information and meet key decision makers to facilitate a positive outcome.

Business Models

- The focus will be on attracting banks which specialise in private banking, wealth management, investment and advisory services.

- Managed or administered banks will be encouraged.

- A focus on European and emerging market banks. In particular, China, India and the Middle East are considered to be more likely to see growth in the next three to five years.

56. While a broad range of banking services can be provided from Guernsey, locally the most recent growth has been in the private banking model. Over time it would be anticipated that private banks would provide higher value advisory services and support the broader wealth management sector.
57. One potential area for investigation is the development of private banks which may choose to operate an on-line only business model. Guernsey has advanced IT infrastructure and this may be a potential business model which will be further explored. There are potential regulatory issues with such operations which need to be carefully considered. The Commission should work with the Department to actively identify and resolve any regulatory issues and to develop an appropriate plan for supervising these types of businesses.

58. The managed bank business model is still a valuable means of attracting banking licences while avoiding the need for a substantial start up investment in premises or staff. Experience has shown that managed banks often evolve into hybrid or stand-alone businesses.

59. At present banking is under political scrutiny in many jurisdictions, although less so in Guernsey. There are a large number of regulatory reforms which are likely to affect the universal banking model. It is also apparent that given the on-going economic turmoil it is unlikely that this political pressure will abate, at least in the next few years. That political environment means that large multinational banks, especially those from Europe, are unlikely to be seeking to expand operations in the medium term. Further deleveraging is also likely to continue. However there are a large number of small and medium sized banks in Europe and elsewhere which provide private banking services to high net worth individuals that may be looking to expand to fill market opportunities which may present themselves as the larger multinational operators continue to consolidate and focus their operations. Small and medium sized banks are more likely to operate private banking services and are less likely to be subject to unfavourable political controversy. Those types of institutions in particular are a good fit with the overall Guernsey banking and financial services industry.

60. There are also many jurisdictions which have not been as exposed to the global financial crisis as Europe and North America. There are encouraging signs that banks from those jurisdictions are seeking to grow and expand operations. That expansion is likely to require competitive international banking services such as those which can be provided in Guernsey.

Ownership Models

- Private capital and private investment in banking should be encouraged subject to appropriate capital, regulation and due diligence being carried out.

- There should be no presumption against “standalone” banks which provide private banking or wealth management services, although standalone banks would not be appropriate for banks providing retail financial services.

- Investigation should be undertaken into the establishment of a regulatory framework for “captive-private banking” where banking entities can be established to provide services to a specific corporate group or high net worth family but not to the public at large.
61. Unsurprisingly the majority of banks in Guernsey are either subsidiaries or branches of established banks operating in other jurisdictions. Traditionally banks backed by private capital or private owners have not had a presence in Guernsey, subject to a number of notable exceptions where a number of long established merchant banks have operations in Guernsey and are ultimately privately owned. In addition for some time there have not been standalone banks which are headquartered in Guernsey. However private capital has a place in the ownership of banking structures. There is evidence to suggest that future growth in the small and medium banking sector may be backed by private capital rather than through the expansion of existing banking businesses.

62. In addition there is also a growing trend towards banks being owned by private investors directly. It is evident that many well established banking “brands” began with investment by private individuals. The possibility of a bank being established by a private individual is not without risks. Those risks would need to be carefully assessed and it would be necessary to ensure that those risks could be appropriately managed through adequate capital requirements and/or supervision. The substantial growth in ultra-high net worth individuals in the middle and far-east may be a source of capital for future banking operations in Guernsey and elsewhere. Provided that the risks inherent in such a business model can be adequately managed, banks backed by individual capital may be acceptable for Guernsey where the banking operations are sufficiently high value added.

63. Another potential growth market is the concept of a “captive” private bank which would operate along the lines of a captive insurance company. Under this concept a company or perhaps a wealthy family could establish a bank in Guernsey that existed solely to provide banking services to that corporate group or wealthy family. Being regulated and capitalised as a bank would not only allow direct access to the payments system but could open up investment opportunities. Other financial institutions may be more willing to deal with a regulated bank as a commercial counterparty as they can rely on the solvency and liquidity regulations which apply to reduce the cost of due diligence and on-going monitoring of the relationship. This could be attractive to corporate groups or wealthy families as it may reduce the costs of managing their investments.

64. If an appropriate regulatory framework can be developed, which would probably require a different licence category to that issued to banks serving the public, then the product could be marketed to multinationals and high net worth individuals. This could be an innovative new product which could allow Guernsey to create a new market and also establish market leadership leading to sustained competitive advantage, as has happened in the insurance sector.

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1 Standalone banks are banks which do not have operations elsewhere and are Guernsey managed and controlled.
**Jurisdictions**

- Guernsey will target emerging market banks wishing to expand from emerging economies into Europe.
- Research should be carried out into jurisdictions which have a similar regime to the UK’s resident non-domicile rules.

65. Guernsey’s banking industry is dominated by UK and European Banks albeit with a number of North American, African, and Middle Eastern operations. However the banks which operate in Guernsey generally serve a European client base. Economic growth in Europe is likely to be modest over the next two to five years. The majority of economic growth is likely to occur in the emerging economies although at perhaps a lower rate than may have been forecast a few years ago. However some of those jurisdictions have less developed financial services industries as well as other potential risks.

66. Guernsey will focus on China, India, and the Middle East as the first stage. Other jurisdictions which may be of interest would be the “second level” emerging markets such as Turkey, Mexico, Korea, and Indonesia all of which have large domestic markets and growing financial services industries.

67. As emerging economies expand, their financial services industries are likely to wish to provide services in Europe and more particularly London. Guernsey is well positioned to provide a complimentary international service. It will be important to use those contacts built up in emerging markets to assist in identifying potential institutions in those jurisdictions. In order to achieve that the following steps will be taken:

   - Regular discussions will be held with Guernsey financial services business which have established operations outside Guernsey and in target jurisdictions,
   - Contact will be maintained with local advocates and accountants which may be able to identify potential institutions through their contacts in London and elsewhere,
   - Targeted public relations will be carried out in specialist media to inform potential institutions that Guernsey is “open for banking business”.

68. Finally one of the key niche services provided by Guernsey private banks is meeting the needs of UK resident non-domiciles. Research will be carried out into other jurisdictions which may have a similar regime. Once identified, banks which service those economies will also be targeted as part of the banking strategy.
Risk Profile

- Risk to retail consumers should continue to be managed so as to minimise it and the current regulatory stance for retail banking services should be maintained.
- There is a minimum level of regulation which must be applied in order to meet international standards. Private Banks serve professional and high net worth clients and a different, more risk based approach, to regulation is acceptable to the Government provided that the minimum international standards of prudential regulation and AML/CFT compliance are met. Where banks engage in retail business additional regulatory scrutiny may also be necessary.

69. The decline in deposit gathering is largely the result of higher liquidity requirements in home jurisdictions such as the UK against short term funding, and the very low interest rate environment making the business model unprofitable. Those circumstances are unlikely to change in the medium term. This has placed pressure on those retail banks providing deposit gathering and up-streaming services.

70. Private banks serve a different client base of high net worth individuals. Their clients are more capable of protecting their own interests and carrying out due diligence on those with whom they choose to bank. Those clients also obtain very little protection from the Depositor Compensation Scheme (DCS) and the risks to the DCS are also more limited. In general private banks also tend to be more conservatively managed with higher levels of capital as their reputations for stability and security are paramount for their clients. In the circumstances the risk of failure is lower for Private Banks and in the event of failure the consequences to the DCS and the broader community are also less severe.

71. Provided that prudential requirements and Guernsey’s high standards of AML/CFT compliance are met, the Government is comfortable with the level of risk in this sector. It is important that the regulatory approach adopted by the GFSC reflects this level of risk appetite and that a proportionate approach to risk and regulation is adopted.

Branches or Subsidiaries

72. The Commission must carefully consider whether any particular institution should be permitted to operate as a branch or a subsidiary. Each approach has its own particular risks and benefits although often banks prefer branches as they are more efficient from a capital perspective. In considering whether to permit a bank to operate as a branch careful consideration must be given to the regulatory oversight in the home jurisdiction. Ultimately it is a regulatory matter that the Commission must be free to determine based on its assessment of the risks posed by each type of operation.
Key Steps and Action Points

- Commerce and Employment will work with all other relevant bodies to identify and minimise barriers to the establishment of new banking business.

- An ad-hoc “new business committee” should be established with representatives from relevant authorities to ensure a co-ordinated response to potential developments.

- A “red-carpet” approach will be taken to enquiries with the Department and Guernsey Finance assisting in the arrangement of meetings and introductions to key individuals.

73. The focus will be on attracting higher value added banking operations. In order to attract those types of operations it may be necessary to facilitate and support business which desires to import specialist skills and experience in the area of relationship management and risk management. Both skill sets are in short supply in the local employment market and are critical in order for private and commercial banks to operate successfully in any jurisdiction. Increasing the skills base available on the Island can be achieved through both providing housing licenses to experienced employees and developing the skill level in the local employment market.

74. In the long term, growth in the sector will increase tax revenue for the Island through both higher wages and direct tax from banking profits.

75. In order to ensure that a co-ordinated approach is adopted it is proposed to explore the formation of a “new business committee” which would meet on an ad hoc basis. That committee would have staff representatives from the Policy Council, Commerce and Employment, Housing, and Home Departments, Income Tax Authority and Guernsey Finance and would ensure a co-ordinated approach was taken to any potential applicants. The GFSC, while not formally part of the new business committee would be kept apprised of developments by the Department.

- Guernsey Finance should work with the Association of Guernsey Banks and the finance industry more generally to identify potential interested parties.

- Senior politicians, civil servants, and regulators should be involved in meeting with banks, either jointly or separately as appropriate, which may be interested in establishing in the Island.

- Marketing literature should be developed by Guernsey Finance specifically for potential banking licensees setting out the advantages of doing banking business in Guernsey.

- Guernsey Finance should carry out research on the growth of financial services and banking in emerging markets to identify potential markets where financial services business is expanding.

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2 In the event that immigration permits are required.
76. In order for the strategy to succeed it is important that detailed research and investigations are carried out to identify banks or other institutions which may be considering expanding operations into Europe or desire to provide banking services from International Finance Centres. It may also be necessary to engage with local advisors in target markets to assist in identifying potential opportunities, gaining access to key decision makers and developing effective relationships. Once an interested institution has been identified arrangements should be made to meet with key decision makers within that organisation, potentially at senior executive level.

77. In arranging such meetings the senior politicians should be involved in those discussions, with relevant non-elected officers. The presence of a senior politician would be of considerable assistance in ensuring that meetings can be arranged with appropriate senior executives.

78. Growing the banking sector in Guernsey is a medium to long term initiative. Unlike other sectors in the finance industry increasing the number of banking licences is likely to take three to five years given the significant cost incurred and the regulatory hurdles to overcome. In that regard the Department would consider it a success if between two and four new banking licences could be granted in the next three to five years.
Fiduciary

Objective

- Guernsey wishes to maintain and increase business flows into the fiduciary sector, particularly from new and emerging markets.

79. The fiduciary sector is a key driver of business flows into the Guernsey economy. Fiduciary business provides on-going benefits to all other sectors in the finance industry, creating demand for banking and investment advisory services. Ensuring that Guernsey retains and grows a vibrant and diverse fiduciary sector is a key pillar in the on-going success of the finance industry.

Strategy

80. Guernsey wishes to develop and protect the fiduciary sector through encouraging business flows. It is not a primary goal to attract additional fiduciary businesses or trust companies to establish in Guernsey, although that would no doubt happen should additional business flows to the sector be delivered.

81. To achieve this goal the following steps need to be taken:

- Continue to provide innovative legislation for fiduciary business,
- Create a regulatory environment which takes a balanced approach to innovation in fiduciary business,
- Identify key jurisdictions for business flows and remove potential barriers while increasing promotional efforts,
- Accept appropriate levels of risk for high net worth individuals,
- Continue to support the Guernsey Registry in acting as an enabler for the fiduciary sector.

Innovation

- Guernsey Government will continue to develop and prioritise innovative legislation which can facilitate business flows into the fiduciary sector.

- The regulatory approach should facilitate innovation where there are benefits to the underlying clients, particularly for High Net Worth Individuals and Professional Clients.

Legislation

82. Developing new legislation has been a key part of the development of the fiduciary sector. Ensuring that the laws relating to Trusts are kept up to date along with introducing new legislation, such as for example foundations and image rights in the recent past, are key tools for the fiduciary sector to develop new products and business models for their underlying clients.
83. Continued legislative innovation is a key factor in maintaining competitive advantage. Potential developments include:
- Periodic reviews of the Companies (Guernsey) Law, 2008 to ensure it remains competitive with key jurisdictions,
- Introduction of Limited Liability Partnerships,
- Developing the Limited Partnership Law,
- Introducing standard memorandum and articles for different types of companies to speed the formation process and reduce the cost of using a Guernsey company,
- Introducing the ability to register fixed and floating charges.

**Identification of Potential Jurisdictions**

- The Government will work with Guernsey Finance to identify a number of key jurisdictions to target for fiduciary business flows.
- The Government will work to introduce relevant co-operation agreements, tax agreements, and other relevant international agreements which will enable business flows between Guernsey and those jurisdictions.

84. The traditional markets for fiduciary business such as UK resident “non-doms” and high net worth individuals remain the major source of business for the fiduciary sector. However new and emerging markets continue to grow as potential sources of business. This trend is likely to continue as economic growth occurs in the emerging markets.

85. Guernsey Finance will be responsible for identifying the key jurisdictions on which marketing efforts will be focussed. Given available resources it is proposed to target two or three jurisdictions. Ideally the marketing efforts in these jurisdictions should be co-ordinated with other sector programs. Visits to those targeted jurisdictions will be supported with work undertaken by relevant Ministers and civil servants as appropriate. Where appropriate the Commission can support such programs by providing appropriate expertise and staff, particularly for governmental or regulatory meetings, as well as providing speakers for Guernsey Finance events.

86. In order to facilitate business flows the Government and the Commission (where relevant) should take steps to:
- Develop relevant co-operation agreements at regulatory and governmental levels,
- Negotiate appropriate tax treaties such as Tax Information Exchange Agreements or Double Tax Agreements where reciprocal benefits are available,
- Ensure that arrangements for mutual legal assistance, including asset sharing, continue to facilitate timely and effective intergovernmental co-operation.

**Risk Appetite**

- Where value added fiduciary services are provided to high net worth individuals and professional investors, provided AML standards are met then investment risk should be a matter for the individuals concerned.
- Fiduciary structures which are mass marketed and wholly based on tax minimisation or avoidance are unlikely to be sustainable in the long term.

87. High AML/CFT standards have been a key part of Guernsey’s regulatory strategy over the past two decades. Maintaining an appropriate AML/CFT framework is essential to protect Guernsey’s international reputation.
88. Fiduciary services are generally provided to high net worth individuals and professional or corporate investors. Fiduciary structures are generally sophisticated products for sophisticated and experienced clients. In those circumstances it can be accepted that those types of clients need a lower level of protection than retail clients.

89. Transparency in tax matters has become an accepted global standard. Guernsey will continue to meet internationally agreed standards on tax information exchange. Current global scrutiny of tax regimes is set to continue. The ability to engage in reasonable tax planning is a key part of Guernsey’s competitive advantage. However aggressive tax avoidance, and structuring client affairs solely to gain a tax advantage would not be a successful or desirable long term strategy for the fiduciary sector.
**Investment Funds**

**Objectives**

- Guernsey wishes to encourage business flows into the investment funds sector.
- Guernsey wishes to attract fund management business, particularly in the alternatives sector, which is targeted at professional, institutional, and corporate investors.
- Guernsey wishes to leverage the opportunity presented by the Alternative Investment Fund Managers Directive (AIFMD) to become a globally leading domicile for Alternative Investments seeking access to European Markets under the new regime, which provides for third country access.

90. The investment funds business has been the driver of significant growth in the Guernsey finance industry over the past decade. It has been particularly resilient since 2008 with fund volumes continuing to grow through the past few years in a difficult global economic environment. Guernsey is now the largest fund domicile in the Crown Dependencies.

**Strategy**

91. There are two key aspects of continued growth in the investment funds sector:

- Increasing business flows into the funds sector,
- Increasing the number of fund administration, fund management, and custody services in Guernsey by encouraging start-ups and relocations of appropriate businesses.

**Business Flows**

- Guernsey Finance should continue to market Guernsey as a premier funds domicile.
- The Government’s Intergovernmental Agreement under US FATCA should facilitate business flows with the US market.
- The Commission should continue to work with the Guernsey Investment Funds Association in developing a set of AIFMD compliant rules to enable Guernsey funds’ access to the third country passport regimes when they become effective and to continue to promote awareness of the dual regime.
- Guernsey should consider implementing necessary changes to permit fund managers to operate through Protected Cell Companies (PCCs) to allow for multi-manager structures for AIFMD compliant structures.
- Guernsey will seek to ensure that there are no barriers to the listing of Guernsey Domiciled Funds on overseas Securities Markets, for example by encouraging the negotiation of arrangements with relevant foreign authorities.
92. Guernsey Finance should continue its marketing strategy on the investment funds sector to increase business flows into the fund management and administration sectors. The USA and the UK represent globally significant fund management centres. Maintaining Guernsey’s attractiveness to the UK and increasing Guernsey’s attractiveness to the US are essential for maintaining competitiveness and encouraging increased growth in fund flows to the Island. Maintaining the ability to list funds on major stock exchanges is also a major competitive advantage for Guernsey. The closed-ended listed sector being a good example of where Guernsey’s approach allowed it to achieve market leadership in that particular sector.

93. The Department should continue to actively engage with the European Union on any proposals in relation to the investment sector. As demonstrated by AIFMD active, helpful and regular dialogue can result in a more favourable outcome for Guernsey.

**New Businesses Flows**

- **New funds business will be encouraged to domicile in the Island, in particular fund management, fund administration and custody and depository services will be targeted.**
- **Fund businesses that do not have a presence in Guernsey should be identified and actively targeted through visits and direct marketing.**

94. Guernsey has had recent success in fund management business choosing to relocate to the Island and there remains a significant amount of interest. However given labour and land constraints it may often be difficult to accommodate fund management business in their entirety as many require large trading floors with expert skills. However that is not uniformly true across the funds industry. The following types of attributes would indicate a fund management business which would be particularly suitable for Guernsey and could be directly targeted:

- Head Office and corporate governance functions could be located in Guernsey,
- Innovative business propositions that have the potential to provide higher value added services, for example there may be investment funds which use sophisticated IT systems or quantitative analysis to generate returns without requiring a large trading presence,
- Start-up funds where those behind the operation have suitable experience and/or a track record in other industry sectors and are looking for a new domicile to locate their operations.

95. Guernsey will continue to meet the regulatory standards set by the International Organisation of Securities Commissions (IOSCO), which provide the benchmark level of regulation in the investment funds sector.
Innovation

- The regulatory regime for the investment funds sector should be kept simple and effective without unnecessary complication.
- Legislation will be continually reviewed to ensure that it provides a competitive advantage for the funds industry.

96. The funds sector has benefited from having a limited number of rules and regulations governed by the Protection of Investors Law (POI). This makes the regime relatively simple and straightforward, particularly from a marketing perspective. This has been a source of on-going competitive advantage as it makes it relatively easy to understand the regime. The POI Law is a key marketing tool for Guernsey as it provides a simple and easily understood regime which fund promoters find easy to use.

97. Legislative innovation has also created sustained competitive advantage. For example the Limited Partnerships (Guernsey) Law, 1995 is an ideal vehicle for alternative investment funds. Maintaining flexible and innovative legislation is essential to maintain competitiveness. There are a range of innovations which should be fast tracked to improve the funds sector’s competitiveness including:

- Enable PCCs to be used as management companies under AIFMD,
- The introduction of Protected Cell Limited Partnership amendments,
- Consideration of the potential use of foundations as investment or securitisation vehicles.

Identification of Potential New Jurisdictions

- Guernsey Finance should identify a small number of key jurisdictions as targets for developing new investment funds business.

98. Guernsey’s funds business has traditionally flowed through London and Europe, with a smaller amount of North American business. Globally the alternative investment funds industry is growing primarily in new and emerging markets. The funds industries in many new and emerging economies are more retail in nature which reflects the general level of finance sector development in those markets. Retail collective investment funds are a relatively small part of Guernsey’s funds mix and we are unlikely to see significant growth in that area, as those types of funds are more likely to be attracted to jurisdictions with a lower cost base. Nevertheless the open ended and retail sectors remain an important part of the funds sector and add important diversity to the offering and should be maintained. However, given the focus on alternative and professional investor funds the marketing effort should focus on those industry sectors.

99. Finalising a set of AIFMD compliant rules remains a priority to ensure that Guernsey funds can be marketed to EU investors.
Insurance

Objective

- Maintain Guernsey’s position as a Global top four or higher captive insurance jurisdiction by increasing business flows into the captive sector.
- To be a domicile of choice for international pensions providers.
- Continue to develop Insurance Linked Securities (ILS) and Life Business.
- Explore the potential development of the Island as a reinsurance centre for reinsurers seeking a non-solvency II domicile for reinsurance services.

100. While a smaller sector in terms of the numbers employed, Guernsey’s insurance industry provides significant diversity and economic resilience due to its long term and countercyclical nature. It also provides diversity in the financial services employment market and provides an opportunity to develop different skills than might otherwise be available in its absence.

101. There are three primary sectors to the insurance industry, two well established and one emerging. Captive Insurance and International Life and Pensions are well established sectors with strong records of growth. ILS have seen a resurgence in Guernsey and should be actively encouraged. Reinsurance is the sector which has the most growth potential but also poses significant challenges in realising that potential.

Strategy and New Business Flows

- Guernsey Finance should continue to market Guernsey as a premier captive domicile in established markets.
- Guernsey Finance should identify two or three potential new markets for captive insurance business and develop marketing strategies to attract business from those jurisdictions.
- Government will work with Guernsey Finance and established reinsurance businesses on the Island to identify and remove barriers to establishing reinsurance business on the Island.
- Government and Guernsey Finance should actively target major reinsurance companies to explain Guernsey’s offering and provide a “red-carpet” service to those which may consider domiciling reinsurance entities in Guernsey.

Captive Insurance

102. Captive Insurance in Guernsey has seen considerable growth in the past two years. One of the key reasons for this is the decision not to adopt measures equivalent to the EU’s Solvency II directive. Solvency II standards are inappropriate for captive insurance and the current stance on Solvency II should be maintained for the foreseeable future.

103. The regulatory approach to captive insurance should also be reviewed to ensure that it remains appropriate. Given that captive insurance is largely a method of self-insurance for corporate entities who choose to self-manage their own risk, it may not be appropriate for them to be regulated in the same manner as a standalone insurance company that deals with consumers or third parties. The GFSC should consider the most appropriate manner of regulating captive insurance companies.
Reinsurance

104. The reinsurance sector in Guernsey is in its infancy with a handful of reinsurance companies having been established in recent years. There are a number of challenges to developing Guernsey as a reinsurance centre. In order to be a credible alternative there needs to be a minimum number of reinsurance businesses established to create the relevant cluster effect and potentially develop a reinsurance market. Examination of centres that have successfully evolved from captive insurance domiciles to reinsurance centres shows that the following are necessary:

- The ability to raise capital quickly and faster than the major centres,
- A regulatory framework which allows fast approval of reinsurance businesses,
- Appropriate skills available in the captive insurance industry which can be adapted for the reinsurance sector, or the ability to import the necessary skills,
- Active marketing to the reinsurance broking industry which is responsible for placing business within various centres.

105. History reveals that the development of a reinsurance industry requires a relatively hard insurance market where capital needs to be raised quickly. In those circumstances centres with the ability to obtain regulatory authorisation and proceed to raising capital quickly can have a potential edge. At present the global insurance market is relatively soft. Guernsey needs to be prepared for the market turning and ensure that there is a good understanding of Guernsey as an alternative to traditional reinsurance domicile. There are some alternative risk transfer vehicles in Guernsey such as ILS and insurance transformers which are related to the reinsurance industry. This demonstrates that the requisite skills are present in the Island and could be capitalised upon should the insurance market harden and an opportunity present to develop further reinsurance in Guernsey.

106. Another key point of differentiation for Guernsey may be the stance on Solvency II. Apart from the US the major competitors to Guernsey are in the EU or have committed to implementing regulatory standards that are equivalent to Solvency II. Guernsey may be able to differentiate itself and offer itself as a “split-domicile” alternative for the reinsurance industry offering a non-Solvency II regulatory regime which may be attractive to non-EU jurisdictions which include the developing and emerging markets which Guernsey is seeking to target.

General Insurance, Life and Pensions

107. There are several substantial businesses which offer general insurance, life and pensions for internationally mobile individuals. Those businesses are significant employers and provide further diversity within the insurance sector and the broader financial services industry. The current legal and regulatory framework makes Guernsey an attractive domicile for this type of business. The legal and regulatory framework must be kept competitive for this type of business so it can continue to prosper in the future.

Insurance Linked Securities

108. Guernsey has recently seen renewed interest in using Guernsey vehicles to issue ILS, which are structured products tied to the insurance market and are a useful method of spreading risk across a range of different investors. They have some similarities with a collective investment fund and also often carry on activities which may require a fiduciary licence. In order to ensure that this business stream continues to develop the Commission should be asked to review the way in which it regulates ILS products to ensure that it does not require more than one licence or authorisation which could make the jurisdiction unattractive given the regulatory overlap and compliance burden which results. Although to date no changes have been necessary and a
pragmatic approach has been taken by the Commission, the regulatory framework for the insurance sector may require adjusting to ensure that it is adequate.

**Innovation**

- Government should ensure that legislation is kept competitive by prioritising legislative change to ensure that Guernsey’s competitive advantage can be sustained.
- The Regulatory framework will be reviewed for captive insurance to ensure it remains appropriate.

109. The captive insurance industry has been a substantial user of PCCs. Similarly the re-insurance industry was facilitated by regulatory changes allowing Lloyds Syndicates to be established on the Island. As part of the on-going review of commercial legislation any necessary changes to the legislative framework which can benefit the insurance industry will be developed and introduced.
The Legal and Accounting Professions

110. The Legal and Accounting Professions are a vital element in maintaining competitive advantage for the Island. The ability to access high quality legal and accounting advice is a necessary condition for the growth of all other aspects of the financial services industry. Maintaining competitiveness in the legal and accounting sectors is primarily dependent on ensuring that the relevant skills and experience can be developed or imported where necessary.

111. As well as working with industry to develop relevant skills within the local population, some of the steps which could be taken to improve and maintain the relevant skills base included:

- Appropriate support for housing licenses for skilled and experienced employees in the legal and accounting professions,
- Reviewing the policy on immigration clearance for non-EEA nationals to attract appropriate skills and experience, ensuring that work permits for non-EEA nationals are more readily available,

112. With respect to the legal profession, in particular, the Department will work with the Guernsey Bar Association to explore means of ensuring that the supply of locally qualified Advocates, the legal system, and the Courts, continue to meet the needs of the financial services industry.

Legislative Developments

113. To facilitate new and emerging financial services business as well as to increase Guernsey’s competitiveness the Commerce and Employment Department will continue its review of commercial legislation and will focus on delivering the following legal reforms over the next three to five years:

- A revision of Guernsey’s commercial insolvency regime,
- A revision of Guernsey’s securities interests law,
- Investigate developing the relevant legislation to facilitate alternative payments, e-finance, and mobile payments systems,
- Continue expanding the Intellectual Property regime with a particular focus on expanding the range of international agreements applicable to IP to facilitate Guernsey’s attractiveness as an IP domicile,
- Finalisation of the Limited Partnership Law Amendments,
- Implementation of the Limited Liability Partnerships Law,
- Amendments to Guernsey’s Trusts Law to ensure that recent developments have been incorporated into the legislative regime,
- Implementation of legislation designed to facilitate securitisation by clarifying the conflicts of laws issues which arise in cross border transactions.

114. The on-going revision of financial services legislation should continue as this area of law requires constant review to ensure that it can accommodate and facilitate new business and developments.
Chapter 5: Key Changes to infrastructure

Implementation

115. Having set the overall strategic direction it will be necessary to make a number of changes in the field of Government Infrastructure. The key matters to be implemented as part of this strategy are:

- The Policy Council (PC), supported and advised by its own Fiscal and Economic Policy Group (FEPG), should ensure that the Commission has a clear set of legislative objectives which should include an obligation to consider the economic importance of financial services to the Guernsey economy.

- Commerce and Employment’s Finance Sector Development Unit (FSDU) should advise on all aspects of the financial services sector including supporting the Department and the Policy Council’s political representatives in their oversight role of the Commission.

- The Finance Sector Group (FSG) should be renamed the Finance Sector Forum (FSF) and become the peak consultation forum for development, promotion, and regulation of financial services, which would inform policy development and involve stakeholder representatives.

- A subcommittee of the FSF should be tasked with reviewing innovations in financial services and making recommendations to the FSF on appropriate innovations which are aligned with the overall strategic goals of Government.

- Guernsey Finance funding was increased in late 2013 for three years and should be subject to ongoing review and monitored for any need for further increases. Guernsey Finance will focus on maintaining existing markets, continuing the China initiative and aggressively promoting Guernsey’s finance industry in two or three key emerging markets.

Government Structure

116. One of the key issues is the manner in which the Commission is held to account by Government. At present the Policy Council is responsible for the Commission, while the Commerce and Employment Department is responsible for financial services legislation. This can create inefficiencies and can also make it unclear which arm of Government is responsible for setting the GFSC’s overall legislative objectives and holding the Commission to account in how it meets those objectives. In the absence of clear statutory objectives, which include appropriate secondary factors such as considering the economic importance of financial services to the Guernsey economy, it is to be expected that a more risk averse approach is taken to regulation than might otherwise be economically efficient.

117. However transferring responsibility for the Commission to the Commerce and Employment Department creates potential conflicts of interest and could expose Guernsey to international criticism. It is difficult for the body responsible for the promotion and development of the finance industry to be entirely objective and impartial in setting regulatory policy. In most jurisdictions those functions are separated, although there is usually a close working relationship between the relevant authorities.

118. Serious consideration was given to recommending a change to departmental mandates to consolidate responsibility for all aspects of financial services in a single department. However a closer analysis of the present arrangements revealed that the current arrangements are clear,
and the difficulties are more those of perception rather than reality. It is clear that the Policy Council is the arm of Government that is responsible for the regulation of financial services as well as broader economic policy. The Commerce and Employment Department’s role is focused on economic development and representing the interests of the finance industry, including at the Policy Council. It is clear that these arrangements are not well understood outside Government and more effort must be made to improve understanding and demonstrate the relevant political leadership by the Policy Council. This can be achieved by better communication with the public and more detailed reporting to the States on the work carried out by the Policy Council.

119. It is important to ensure that administrative and political mechanisms are put in place to overcome this weakness, which is effectively an issue with the machinery of government, through taking the following steps:

- Developing a clear set of statutory objectives which enable the Commission to have a clear understanding of the Government’s expectations,
- Improving the level of detail and information contained in the Commission’s annual report to ensure that all stakeholders have a better understanding of the issues and challenges faced by the Commission,
- The Commission should continue with its practice of presenting its annual report to all Deputies,
- Ensuring close co-operation between the Policy Council and the Finance Sector Development Unit at an operational level through interdepartmental working groups,
- Arranging regular joint meetings with Commissioners and members of the Fiscal and Economic Policy Group and members of the Commerce and Employment Board to ensure all stakeholders are able to appropriately question and challenge Commissioners and allow the Commissioners to get a better appreciation of the economic priorities of Government. Those meetings should be at least twice per year with a clear agenda and papers prepared well in advance.

120. Government will also need to expand its capacity to deal with financial services policy issues. At present the capacity of the States to deal with issues surrounding policy, regulation and promotion is constrained by resource limitations. With adequate resourcing policy development will become more effective.
121. The proposed structure is as follows:

**Fiscal and Economic Policy Group – Regulatory Expectations**

122. FEPG – a sub-committee of the Policy Council – currently manages the relationship with the Commission as the Policy Council’s delegate. At an operational level regulatory policy development should become the joint responsibility of FEPG and Commerce and Employment Department, with the Policy Council remaining ultimately responsible for setting overall regulatory objectives for Guernsey’s financial services industry given the economic importance of the sector and the diverse range of Departments and Committees represented in that Group. FEPG should remain exclusively responsible for Commissioner Recruitment and Remuneration to ensure that there is appropriate independence in the selection and appointment of Commissioners.

123. In addition, FEPG should also be responsible for determining the overall risk appetite of Government for financial services businesses. The Commerce and Employment Department would make recommendations to FEPG and FEPG would be responsible for calibrating the political appetite for risk in the financial services industry.
States Finance Sector Policy Resources

124. Between 1987 and 2002 the Government had no officers with dedicated responsibility for financial services policy, although around this time the President of the Advisory and Finance Committee was also Chairman of the GFSC. During that period the Guernsey Financial Services Commission was responsible for regulation, development and promotion of the financial services industry and was the primary source of policy advice to the States. The Advisory and Finance Committee was responsible for the Commission and acted as a conduit through which that financial services policy advice was presented to the States of Deliberation. The Advisory and Finance Committee, through the States Supervisor managed the relationship with the Commission. Consideration of proposals from the Commission fell to the States Supervisor and other officers at Advisory and Finance.

125. In 2002, the Advisory and Finance Committee established the Finance Industry Policy Advisory Group (FIPAG), a group of advisors which had a part-time secretary providing support. From 2004 to date the Commerce and Employment Department has added resources to deal with finance sector policy advice as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Staff Resources</th>
<th>Number</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002 – 2004</td>
<td>Secretary to the Finance Industry Policy Advisory Group (FIPAG) recruited on a part time basis</td>
<td>0.5</td>
<td>FIPAG was a forerunner to the FSG and was supported by a part time secretary responsible for co-ordinating the work and developing policy. It was replaced by the FSG following the reforms to Guernsey's machinery of government</td>
</tr>
<tr>
<td>2004 – 2007</td>
<td>Director Finance Sector Development (“DFSD”)/Chief Executive (“CE”) Guernsey Finance</td>
<td>0.5</td>
<td>The DFSD and CE of GF were combined in a single role which performed both functions</td>
</tr>
<tr>
<td>2007-2008</td>
<td>DFSD/CE Guernsey Finance Commercial Lawyer</td>
<td>1.5</td>
<td>A Commercial Lawyer was recruited to specialise in delivering policy and legislation</td>
</tr>
<tr>
<td>2008-2009</td>
<td>DFSD</td>
<td>1</td>
<td>The role of DFSD and CEO of GF were split and the Commercial Lawyer was moved into the DFSD Role</td>
</tr>
<tr>
<td>2009-2011</td>
<td>DFSD Commercial Lawyer</td>
<td>2</td>
<td>An additional Commercial Lawyer was recruited to provide policy and legislation advice</td>
</tr>
<tr>
<td>2011 – date</td>
<td>DFSD Commercial Lawyer Policy Advisor (shared with renewable energy)</td>
<td>2.6</td>
<td>A Policy Advisor was recruited to provide support to FSDU and to lead the Renewable Energy Project with approximately 60% of time on finance</td>
</tr>
</tbody>
</table>
126. The Commerce and Employment Department has consistently increased resources available to deal with financial services policy. That commitment to additional resources has been achieved within existing cash limits and through reallocation of resources internally at the Commerce and Employment Department. The investment is modest considering the importance of financial services to the local economy and relative to competitor jurisdictions. However there is a limit to what can be achieved within existing resources and it will become necessary to allocate additional resources to the Finance Sector Development Unit if the States wishes to deliver this strategy in a reasonable timeframe. Without additional resources there will be inevitable delay in delivery of financial services initiatives.

Financial Services Policy Unit

127. To address the need for a more co-ordinated response to financial services and to facilitate greater progress with existing projects along with the potential to manage additional projects it is proposed that FSDU be converted to Financial Services Policy Unit (FSPU) with responsibility for providing co-ordinated strategic and policy advice for the Island’s financial services sector.

128. FSDU/FSPU will remain administratively a part of the Commerce and Employment Department but will also be available, subject to availability of sufficient resource, to support and advise all other States Departments and Committees on financial services policy issues.

Scope and Purpose of the Unit

129. The FSDU/FSPU will be responsible for providing advice to the relevant political bodies on the following issues:

- Finance Sector Development: This will fulfil the primary responsibility of the current FSDU which is developing new policy and legislation for the finance industry. It will ensure that there are legislative developments and innovative legal products to enable business flows to be attracted to the Island.

- Finance Sector Regulatory Issues: FSDU/FSPU will work closely with the Commission on regulatory policy and legislation issues and will advise FEPG and Commerce and Employment on necessary legislative changes either as developed independently by FSDU/FSPU or as proposed by the Guernsey Financial Services Commission. This may also involve supporting the FEPG in the recruitment of Commissioners and ensuring that the Policy Council and the Department have sufficient information to ensure that the Commission is appropriately held accountable for meeting its legislative objectives.

- Finance Sector Promotion: This will involve working with the Board of Guernsey Finance, and supporting the Chief Executive of Guernsey Finance on promotional activity. This will allow the FSDU/FSPU to work with the Guernsey International Business Association (GIBA), other member organisations, the Board and the Chief Executive in developing the promotional strategy and also to consider the appropriateness of funding and expenditure by Guernsey Finance. This will ensure that the work of Guernsey Finance meets the overall objective of Government as a 50% stakeholder in the company. Similar to the arrangements for the Commission, it would be useful to arrange regular joint meetings between the Board of Guernsey Finance, the Department and FEPG to ensure appropriate accountability.

- Working with the Finance Sector Registries: The Unit will work closely with both the Intellectual Property Registry and the Companies Registry to ensure that both of those provide an appropriate service to the financial services industry.
130. Tax policy would remain the responsibility of FEPG and T&R, although FSDU/FSPU would provide technical support and assistance where requested.

131. Resources and staffing of FSDU/FSPU will be increased to ensure policy can be delivered in a timely manner. It is expected that it will be necessary in the short term to build FSDU/FSPU to at least 4 or 5 FTE in order to deliver the finance sector strategy in a meaningful and realistic way. A lack of resources will delay or prevent the implementation of key aspects of this strategy.

**Prioritisation of Legislation**

132. A significant competitive advantage for Guernsey is the ability to enact and develop its own legislation. Maximisation of that advantage, involves careful management of both the content of legislation and the timing of its enactment. There is frequently a range of initiatives which can be implemented by legislation in order to provide a useful stimulus to the various industry sectors. Some of the currently identified legislative initiatives are referred to in paragraph 113 of this Strategy Document.

133. Ensuring that policy can be developed, and that any relevant legislation to implement agreed policy can be drafted and enacted as quickly as possible are key issues which the Department believes that it can influence positively. In relation to this it has consulted with senior drafters in the Chambers of the Law Officers of the Crown, St James Chambers (LO StJC) in order to gain awareness of those factors which can lead to avoidable delay in the totality of the legislative process. Further to this consultation, the Department believes that the availability of funding to enable drafting and advisory resources to be made available, as and when needed and in the form most appropriate to circumstances, is essential if full benefit is to be taken of the legislative advantage which Guernsey has. In particular there is a need for flexibility so that appropriate arrangements can be put in place at key stages in the formulation and drafting of specific policies, and items of legislation, where clearly appropriate and necessary following consultation with the senior draftsmen LO StJC.

134. The availability of funding to make arrangements as described above will enable legislation to be developed, drafted and implemented as quickly as possible where timely action is necessary. In addition, the Department will wish to take advantage of existing methods of "fast tracking" legislative initiatives in order to enable Guernsey to move swiftly to capture emerging market developments. For example, the Department intends in appropriate circumstances for financial services legislation:

- To facilitate and promote the development of legislation and policy simultaneously,
- To use the procedure further to which a States Report and associated legislation may, with the consent of the Presiding Officer, be presented for approval at the same meeting of the States of Deliberation,
- To arrange for the presentation of legislation for approval by the States of Deliberation at the meeting immediately following the meeting at which the relevant Resolution directing the preparation of that legislation is made,
- To regularly inform and update the Prioritisation of Legislation Working Group of priorities for legislation.
135. The Finance Sector Group (FSG) is currently a tripartite discussion forum at which the Government, the GFSC and the Guernsey International Business Association are represented. It has proven an effective forum for discussing critical emerging issues and Government’s policy initiatives. It has been less successful as a forum for innovation or discussions about regulatory issues. It is proposed to change the role and mandate of the FSG as well as rename it as the Finance Sector Forum (FSF). The proposed structure is as follows:

136. The mandate of FSG/FSF would include:
   - Acting as a peak consultation forum for all financial services policy,
   - Acting as a peak consultation forum for all regulatory policy initiatives,
   - Acting as a peak consultation forum for discussing innovation and initiatives suggested by financial services industry associations.

137. The membership of FSG/FSF would need to ensure that the Chief Executive of Guernsey Finance (or a delegate) was represented at the meetings. It would also be necessary to ensure that GIBA and all major industry associations were represented at the meeting. GIBA should also have the ability to bring sector specific experts to FSG/FSF according to the topic for discussion.

138. FSG/FSF would continue to have an advisory and consultative role only. It would not have any decision making or policy formulation role but could assist policy development by informing and critiquing policy discussions. It would also be at the discretion of the Department whether or not a particular issue should be raised at FSG/FSF although contributions and supporting papers from all participants would be actively encouraged. There may be cases where it would be inappropriate for certain matters to be raised at FSG/FSF, particularly where regulation or law enforcement interests may be affected.
Chapter 6: Financial Services and the Economy

Economic Growth and the Finance Industry

The Contribution of Financial Services to the Economy

139. The financial services industry is the key driver of the Guernsey economy. It is by far and away the largest sector and the largest contributor in per capita economic output – its Gross Value Added (‘GVA’) per employee being nearly twice the Island average:

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Finance</th>
<th>Non Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per employee/self employed person</td>
<td>£59,700</td>
<td>£110,700</td>
<td>£46,100</td>
</tr>
<tr>
<td>Earnings</td>
<td>£29,250</td>
<td>£41,340</td>
<td>N/A</td>
</tr>
<tr>
<td>Housing Licences</td>
<td>1 in 10</td>
<td>1 in 13</td>
<td>1 in 9</td>
</tr>
</tbody>
</table>

140. This demonstrates that the economic contribution of each employee in the finance industry is more than double that of employees in the non-finance sector. This is evidence of the substantial competitive advantage that Guernsey has in financial services.

141. The financial services industry directly contributes 39% of Guernsey’s economic output (Gross Domestic Product or GDP). By way of comparison, the retail sector accounts for approximately 7% of GDP, whilst hostelry and information technology each account for approximately 3% of GDP. To provide an example of the comparative benefit to the economy of growth of financial services: if it were possible to grow the financial service sector by 10% to 43% of GDP it would achieve the same result to the economy as growing the information technology or tourism sectors by 100% or the retail sector by almost 50%. Indeed it would be practically impossible to achieve that level of growth in those sectors in the short to medium term given the constraints on labour, land and resources faced by the Island. Over the long term such changes may occur through the natural evolution of the economy as competitive advantage can change through education and supply side reforms. However, at the present time if the States desires significant economic growth the most effective way of achieving that is to seek to expand the financial services industry.

Employment in the Finance Industry

142. The financial services industry is collectively the largest employer on the Island and employs approximately 6,800 staff or 21% of the Island’s total workforce. In general, financial services
provide jobs for islanders which are highly skilled and well paid resulting in a relatively high standard of living compared to many other jurisdictions. The average salary in the financial services sector (excluding the legal profession) is £41,340 compared to an economy wide average of £29,250.

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Employees/Self-employed *</th>
<th>Percentage of finance sector employment</th>
<th>Percentage of total employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>1,967</td>
<td>29.1%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Fiduciaries</td>
<td>1,908</td>
<td>28.2%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Investments</td>
<td>1,797</td>
<td>26.6%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Insurance</td>
<td>702</td>
<td>10.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other</td>
<td>394</td>
<td>5.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Total</td>
<td>6,768</td>
<td>100.0%</td>
<td>21.0%</td>
</tr>
</tbody>
</table>

*2012 four quarter average

**Industry Performance**

143. The economic conditions since 2008 have been difficult across the globe with most major advanced economies suffering recessions. Guernsey has not been immune to this and there has been a degree of cooling in the domestic financial services industry. Nevertheless in some areas the Guernsey finance industry has been strong. For example the funds industry is now larger than it was in 2008, and is the largest funds industry in the Crown Dependencies. The captive insurance sector has also seen growth in the past three years cementing Guernsey’s place as the largest captive insurance domicile in Europe and fourth largest in the world.

*Total Assets under Management in Guernsey’s Funds Industry*
International Insurance Statistics in 2012 – 2013

<table>
<thead>
<tr>
<th>Type</th>
<th>1 Oct 2012</th>
<th>Additions</th>
<th>Surrenders</th>
<th>Net Change</th>
<th>30 Sept 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies</td>
<td>251</td>
<td>7</td>
<td>16</td>
<td>-9</td>
<td>242</td>
</tr>
<tr>
<td>PCCs</td>
<td>67</td>
<td>6</td>
<td>1</td>
<td>5</td>
<td>72</td>
</tr>
<tr>
<td>PCC Cells</td>
<td>406</td>
<td>61</td>
<td>30</td>
<td>31</td>
<td>437</td>
</tr>
<tr>
<td>ICCs</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>ICC Cells</td>
<td>17</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td>Totals</td>
<td>746</td>
<td>79</td>
<td>47</td>
<td>32</td>
<td>778</td>
</tr>
</tbody>
</table>

Tax Revenues and other public infrastructure supported by the Finance Industry

144. The financial services industry is also the largest contributor to government revenues through direct taxation on profits for companies within the 10% corporate tax band as well as through Employee Tax Instalments. The financial services industry contributes approximately 41% of ETI from 21% of the workforce. In addition the finance industry generates a significant part of the revenue generated from the Company Registry and is also the largest user of commercial property on the Island and therefore pays a significant amount of TRP revenue. The finance industry directly funds the regulatory framework administered by the GFSC through licence fees which would otherwise have to be funded out of Government general revenue.

145. It is very difficult to calculate the direct contribution to Government revenues with precision. In order to quantify the direct benefit to the Government’s financial position regulatory fees have also been included as while they do not form part of Government revenues, the funding by industry relieves the Government of expenditure which it would otherwise have to incur in order to meet international obligations for financial services regulation.
An estimate of the direct contribution to Government revenue and other public sector infrastructure in 2012 is as follows:

### Direct Contribution to Government Revenue

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Basis of Calculation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Bank Profits</td>
<td>10% tax on banking profits</td>
<td>23,200,000</td>
</tr>
<tr>
<td>ETI Contribution</td>
<td>41% of total personal Income Tax</td>
<td>93,260,000</td>
</tr>
<tr>
<td>Company Registry Fees</td>
<td>Financial Product Company Annual Fees</td>
<td>5,300,000</td>
</tr>
<tr>
<td><strong>TOTAL DIRECT REVENUE</strong></td>
<td></td>
<td><strong>£121,760,000</strong></td>
</tr>
</tbody>
</table>

### Direct Contribution to other Public Sector Infrastructure

<table>
<thead>
<tr>
<th>Source</th>
<th>Basis of Calculation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFSC Fees</td>
<td>Annual Report</td>
<td>12,530,000</td>
</tr>
<tr>
<td>Guernsey Finance Funding Levy</td>
<td>Guernsey Registry</td>
<td>351,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>12,881,000</strong></td>
</tr>
</tbody>
</table>

In total the finance industry contributes £134,641,000 to tax revenues and other necessary public sector infrastructure which would otherwise have to be funded by Government. This is a conservative estimate of the total contribution as it does not include TRP contributions from the finance industry as those figures are not readily disaggregated. The total contribution is likely to be higher.

There are also significant secondary economic benefits that accrue from the finance industry. It has been calculated that each person employed in the financial services industry supports 1.5 employees in the broader economy. On that basis the finance industry also supports approximately 10,200 jobs in the non-finance sector. With a total of close to 17,000 jobs directly and indirectly dependent on the finance industry the total contribution to ETI which is dependent on that industry is significantly greater than that set out above.

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3 It would be anticipated that social security revenues from the finance industry would be broadly similar in proportion to income tax.
Maintaining a strong and vibrant financial services industry is critical to ensuring Guernsey’s continued economic prosperity. The contribution of the financial services industry to Government revenues and the community is significant and recognised. The Government must also appropriately support the finance sector given its significance to the overall economy. In addition to providing funding for Guernsey Finance, the Department also supports the industry through the Finance Sector Development Unit which is responsible for policy and legislation as well as responding to international developments. It is only through new product development, development of new legislation and policy that the necessary infrastructure can be put in place to ensure Guernsey retains its competitiveness in the global financial services industry.