

# GUERNSEY As a Financial Centre

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## Island is resilient in face of downturn

While the rest of the world faced economic meltdown, its financial sector held firm, writes **Bob Sherwood**

As one Guernsey financier reflected ironically: "If you were designing an economy to cope with a banking crisis, you wouldn't pick one with a 50 per cent dependency on financial services."

Yet this island nestling off Normandy, and which is only 24 miles square, has to a large extent confounded expectations and displayed an economic resilience that might appear surprising.

Its economy did contract by 2.6 per cent in 2009, but the contribution of the finance sector, which accounts for a little over 40 per cent of the island's output, held steady.

There is virtually full employment and the number of high-performance sports cars to be seen cruising the narrow rural lanes, which bear a 35mph top

speed limit, seems as high as ever.

"We have had a pretty good crisis," smiles Lyndon Trott, Guernsey's chief minister, pointing to a low rate of inflation, no government borrowing, large cash reserves and no planned tax rises. "For me it's difficult to be anything other than optimistic."

Though offshore tax havens, a term every Guernsey official and executive abhors, came in for heavy criticism at the onset of the global crisis, many in the financial sector insist the island's activities were not caught in the storm.

Paul Meader, head of Guernsey portfolio management at Collins Stewart and chairman of the Guernsey International Business Association, says: "Investment banks here were not doing any of the things that suffered the speculative implosion. We might have suffered some secondary effects of the general financial crisis but were not at the heart of it."

Yet there is still a price to pay. The crown dependencies of Guernsey, Jersey and the Isle of Man, which are not technically part of the UK and have the



Steady as a rock: although offshore tax havens have come in for heavy criticism, many in the financial sector say the island's activities were not caught in the storm

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right to legislate independently on domestic issues, have become used to intense international criticism and scrutiny of their taxation and regulation in recent years.

However, the international turbulence has changed the financial landscape everywhere, and for offshore low-tax jurisdictions that means scrutiny has just got even more intense.

Most serious is a threatened forced change in the island's corporate tax structure just a couple of years after all the crown dependencies revamped their laws in an attempt to comply with European Union regulations.

The zero 10 structure, which equalised the corporate tax rate for almost all companies – whether Guernsey-owned or owned by overseas shareholders – at zero per cent, while banks

and others providing credit facilities are taxed at 10 per cent, came into effect in 2008.

Though it appeared to placate the European Union Code of Conduct Group's complaints of "harmful" tax practices at the time, the islands were warned this autumn that the new regimes, which are still bedding down, were considered to infringe the "spirit" of the EU code of conduct.

That has created uncertainty about Guernsey's tax regime, although the island has taken a more conciliatory approach to the EU than either Jersey or the Isle of Man, which are opposing the renewed pressure.

Mike Brown, chief executive of the States of Guernsey, the island's senior civil servant, says the island always expected the tax regime to come under scrutiny at some point but "because of the crisis, it has

allowed a more rapid and more political approach" by the EU.

The latest in a stream of inspections of the jurisdiction, a report from the International Monetary Fund on Guernsey's financial stability and money laundering prevention regime, is due in December.

The Bailiwick also suffered some of the fall-out of the banking crisis, notably with the collapse of Landsbanki Guernsey, a subsidiary of the Icelandic bank.

Inevitably that has led to a year of regulatory change, according to Ken Bradley, director of Barclays Wealth, particularly over "upstreaming rules" that govern where a bank places depositors' money with a parent company.

There has also been a somewhat more combative tone from the Guernsey Financial Services Commission. "It's clear we have a new relationship with the reg-

ulator," says Mr Bradley. "There has to be a healthy tension."

Nik van Leuven, director-general of the GFSC, agrees. "The financial crisis has made everyone recognise, with rather brutal clarity, that they are not immune to events and pressures and reactions from outside," he says. "Post-Northern Rock and Landsbanki, we have certainly been looking at liquidity and asset issues for local banks because there are inherent risks in any upstreaming model."

"Undoubtedly, there is more tension than there was a few years ago."

Yet the crisis has perhaps also focused some attention on the island's more beneficial aspects. For example, a report last year by Sir Michael Foot, the former Bank of England director, found



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Lyndon Trott (above), the chief minister, insists he has steered the right course through tricky European waters **Page 2**

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## Guernsey as a Financial Centre

# Chief minister defends his course in choppy EU waters

### Politics

The island has reacted to European criticism more co-operatively than other centres, writes **Bob Sherwood**

In the face of a renewed attack on the crown dependencies' corporate tax regimes, Guernsey has taken a markedly different political tack to that of its fellow offshore jurisdictions, Jersey and the Isle of Man.

While the other islands have combatively opposed the European authorities' objections, Guernsey has reacted much more co-operatively.

Some criticise Guernsey's approach as too meek, or perhaps even disingenuous. Presumably because of its rapid willingness to consider potential changes to its tax system, Guernsey is the only one of the three jurisdictions to have avoided a formal European Union review.

Yet should Jersey and the Isle of Man triumph in their resistance to another forced tax change, there would be no onus on Guernsey to overhaul its regime either.

But Lyndon Trott, the island's chief minister, insists he has plotted the right course in such tricky European political waters. "We have continued to liaise closely with our EU counterparts and so we have a seat at the table.

"I am absolutely convinced that the way of finding a sustainable solution to this is constructive engagement... If you don't have a seat at the table, you are compromised."

Robust interaction with European and other international authorities will inevitably remain a feature of the political landscape for the island and, though it has no plans to join the EU, the island recently established a lobbying office in Brussels jointly with Jersey.

Mr Trott professes himself "not really" surprised by the objections to the tax regime, even though it was so recently revamped to placate the EU, nor

does he claim to be perturbed by the resulting deficit that the switch to the "zero 10" tax system caused. Because the change meant that most companies paid zero corporate tax, that left a hole in public finances that has so far meant a loss of revenue of about £80m.

But unlike, say, the UK's deficit, Mr Trott is at pains to point out that Guernsey's shortfall is "entirely planned" and he maintains the island is on course to eradicate it within four years through growth in the economy and a freeze on public spending.

"In cutting the deficit, the pain is going to be minimal. We are freezing expenditure in real terms and procuring better," he says. "The reality is that our issue is tiny compared with elsewhere."

In fact, any corporate tax change could prove helpful to the public coffers as it would almost certainly raise more corporate tax, even though politicians will claim that any changes should be revenue neutral.

"It is entirely possible that there would be a small net bene-

fit," says Mr Trott, "but that is not the driver."

However, some others believe closing the deficit could prove trickier. Charles Parkinson, treasury and resources minister, says: "It's obviously not easy to freeze public expenditure. It's easy to say but not so easy to do... Public expenditure in Guernsey rose in real terms by 7 per cent in 2009 and our policy is to keep it at zero. The biggest problem for us is medical inflation and demand for medical services."

Also on the political agenda is a working party due to report by the end of the year on the issue of population growth. Guernsey's population is ageing, which will shrink the available workforce, and the government has lifted the retirement age to 67 by 2027.

In spite of calls by some business figures, there has been little political appetite for changing the policy of zero population growth as a way of boosting the economy.

"It's a complex challenge for all island communities," says Mr Trott, "and it would be fool-

ish to prejudice the consultation on it. But one thing is certain: we have managed to achieve regular gross domestic product growth without extra population policies."

Under Guernsey's consensus-based political system, there are no political parties. The States of Guernsey, the island's parliament, is composed of 47 politically independent deputies, two of whom represent Alderney, and the ministerial posts are elected by the deputies, so the chief minister has no powers to choose a cabinet.

While advocates say the consensus system makes for stability and sound legislation, as there is no decision-making cabinet, it has been criticised for lacking the capacity to make bold decisions swiftly.

Derek Coates, the entrepreneur who owns Healthspan and local airline Blue Islands, says: "At the moment there are 47 political parties and there is a lack of direct accountability. It is not the way to make change. Absolutely no change has happened in the past two years.

"And because the deputies all

work separately, the departments are not joined up and that has hampered business."

Mr Trott counters that the States tends to react well to the need to make decisions quickly, such as during a financial crisis, even though the system might not appear geared to swift action.

He said: "The States of Guernsey has a record of getting the big issues right notwithstanding a ponderous form of consensus government."

He acknowledges that his role might be easier if everyone was "padding in the right direction" and the chief minister had the power to hire and fire ministers, but he adds: "It's less relevant than you might think."

Mr Coates does, however, acknowledge that one of the major benefits of the island's political system is the accessibility of ministers, which enables business leaders to express their opinions to government freely and in person.

"It is a huge strength of the system that people can come to me and make their point," agrees Mr Trott. "And they do."



'In cutting the deficit, the pain is going to be minimal... our issue is tiny compared with elsewhere'

Lyndon Trott, Chief minister, Guernsey

## Financial sector holds up despite hammering

### Economy

Business services have suffered more because of the downturn, writes **Bob Sherwood**

After three years of growth, Guernsey's economy contracted during 2009 as the global financial storm buffeted the island that many had thought well insulated from a downturn.

Total gross domestic product dropped by 2.6 per cent to £1.9bn. But a look behind the headline figures suggests those predicting the resilience of the finance sector were not far wrong.

The island's economy is dominated by financial services, which contribute more than 40 per cent of GDP and employ just under a quarter of the workforce. The finance sector did not grow last year but nor did it shrink. By contrast, non-finance sector output dropped 1.2 per cent, while income from capital was down more than 11 per cent.

It was the business services sector that felt the worst effects of the downturn, posting a 17 per cent fall in output.

But with very little unemployment and high finance sector wages, Guernsey's economic figures remain enviable. The workforce of 31,500, from a population of about 63,000, enjoy average earnings of £35,700, well above the UK average, and an average household income of £45,000.

Charles Parkinson, treasury and resources minister, says the economy is expected to grow by about 1.75 per cent in 2011. That

would be a good performance in the world context, he points out, but adds: "It will still mean that the economy would be smaller at the end of next year than it was at the beginning of last year."

There are 42 licensed banks on Guernsey and banking accounts for fully half of the finance sector's output. The funds sector is the next largest, accounting for 21 per cent of output, while insurance makes up 11 per cent and fiduciary activities another 9 per cent. There are 369 international insurers represented in Guernsey, which is Europe's largest captive insurance market.

After growing by more than 30 per cent in 2008, banking continued to grow at a slower rate in 2009. However, other areas of the sector contracted slightly, and the biggest fall was in the fiduciary sector, a drop of more than 15 per cent.

Property prices, which have been rising steadily in recent years, fell in the last two quarters of 2009 but started to pick up again from the beginning of this year. Matthew Henry, managing director of Swoffers, Guernsey's largest estate agency, says demand is increasing for the 1,700 "open market" properties on the island, implying an increase in the number of well-heeled people looking to settle on the island.

Open market homes are available to anyone and confer residency on the occupier, while local market homes can only be bought and occupied by Guernsey natives or those with housing licences, which are hard to obtain.

Naturally, there is a marked price difference. While he would expect to

sell 80 to 100 open market homes in a normal year, the number of sales stuck at about 60 for 2008 and 2009. But this year he had sold 63 by the end of September, including "quite a few" in the £3m-£5m bracket, and he was on course for a more typical total for 2010.

On the open market a one-bed flat would fetch about £500,000, twice as much as on the local market, while a detached family home would cost £1.5m and a farmhouse upwards of £3m. The island's record sale is £7.5m but Swoffers currently has an estate on its books valued at £16m.

There is, however, a shortage of luxury homes,

'It will still mean the economy would be smaller at the end of next year than at the beginning of last year'

which could be limiting the numbers of wealthy people coming to the island, says Mr Henry. "We are seeing an increase in demand for high-calibre properties, but there is a lack of those properties available," he says.

Redundancies have been relatively scarce on the island in the downturn and, with a limited labour market, Guernsey maintains what is in effect almost full employment. The unemployment rate has risen, however, to 1.4 per cent in 2009, with just over 400 people classed as unemployed, about 100 more than in 2008.

More women have joined the workforce in recent years but, with a policy of

At work: more women on the island have found jobs in recent years

Alamy

no population growth, a rise in output will have to come from greater productivity rather than an increase in employment.

Guernsey's government is pursuing a policy of diversifying the economy and creating more high-value jobs to achieve gross domestic product growth, and counts among its successes the recent rise in the online gambling sector. The most prominent companies outside the finance sector include Specsavers, the optical chain, Sportingbet, the online gambling business, Healthspan, the direct supplier of vitamins and supplements, and Moonpig, the personalised online greeting card company.

Mr Parkinson said: "We have a flourishing e-commerce sector, including e-gambling. I think there's a strong future in online commerce... There's not an opportunity for growth from spare capacity and so we must look at productivity gains to achieve growth."

However, Derek Coates, founder of Healthspan and one of Guernsey's most prominent entrepreneurs, is sceptical. He sees online commerce as the future of his business and recently set up a digital division in Bristol, rather than Guernsey, because the difficulty getting housing licences meant he could not import the skills he needed.

Mr Coates is an advocate of loosening the strict immigration rules to allow the island to increase its skills base, not least because an ageing population will shrink the available workforce in coming years.



### Taxation Zero 10 and counting: EU rethink forces drive to 'more normal regime'

It was the system that was supposed to silence European Union critics by putting the crown dependencies on a stable, low-tax base to secure their competitive future.

Back in the late 1990s the EU's Code of Conduct Group had identified "harmful" tax measures in the offshore jurisdictions. These treated locally owned companies differently from those owned by overseas shareholders.

Led by the Isle of Man, the perceived solution was the introduction of the zero 10 corporate tax system, which equalised the rate for most companies, wherever their shareholders were based, at zero per cent. Banks and some other finance companies pay a rate of 10 per cent.

But less than three years after Guernsey adopted the regime – and took a hole in its public finances to do it – the Bailiwick is facing the prospect of overhauling the system yet again under renewed pressure from the EU.

When zero 10 was introduced on January 1 2008, "it was fairly clear even then that this was not what the EU had in mind, but it did appear that we had done enough to meet its demands," says Graham Parrott, tax partner at Ernst & Young.

Apparently not. In autumn 2009, after the global financial crisis had taken hold, UK Treasury ministers communicated to the crown dependencies that zero 10 was now considered by "certain member states" to be against the "spirit" of the EU code and they were requested to commit themselves to change it.

What was not immediately clear, however, was exactly who had objected or quite what their complaints were, says Mr Parrott. "Not only have the goalposts moved, they don't have the courtesy to tell you who dictates it and why."

Though it is not a system that is particularly popular among the islanders – many of whom feel they have had to subsidise businesses with higher indirect personal taxes – there is not an overriding sense that Guernsey ministers got the decision wrong.

Tony Mancini, executive director of tax at KPMG, says: "At the time, it was absolutely the right decision. It was the least imperfect of the options that was available to us."

But he says the uncertainty has unsettled many of his corporate clients. "Initially, there was a lot of concern about a perceived rise to a standard 10 per cent rate.

We did get a lot of calls. There is a demand for certainty. People want to know what is going to happen."

In some ways, that uncertainty has been exacerbated by the different reactions of the crown dependencies to the EU. While the Isle of Man and Jersey have taken a combative stance, resulting in a formal review of their corporate tax systems by the EU Code of Conduct Group, Guernsey was immediately more co-operative.

As quickly as October 2009, the States of Guernsey passed a resolution to review its tax laws with the presumption that "a movement from a limited to a general corporate tax rate of 10 per cent is likely to be required".

It was that presumption that sparked concerns that a blanket rate of 10 per cent tax was on the way, a misunderstanding that was "not helpful" according to Mr Parrott.

He says such a blanket rate "would be the death of the finance industry on this island".

"What is important for this island is tax-neutrality," he says. "If you could survive with a 10 per cent tax rate, why would you go with zero per cent in the first place?"

Clearly, such a tax structure is not what Guernsey politicians have in mind, although Mike Brown, chief executive of the States of Guernsey, says: "We accept that what is needed is a more normal regime."

The government's position is that five key criteria must be met by any changed corporate tax system. They say it must be competitive;

it must be internationally acceptable; it must promote a sustainable economy; it must be based on a simple, solid rationale; and it must give rise to reciprocal benefits, such as double tax agreements with other jurisdictions.

For all its speed – some say haste – in moving to co-operate with the EU, Lyndon Trott,

chief minister, is adamant that "Guernsey will not and cannot undermine its economy through either the review or the timing of any revisions."

Guernsey has made no final decision on its corporate tax structure and a public consultation, which closed at the end of August, set out a number of options. The favourite that seems to be emerging is a move to a territorial system, as seen in Singapore and Hong Kong, so that a company would be taxed in Guernsey only on income that was earned, or "sourced", on the island.

While such a system is featuring prominently in officials' thoughts, clearly the key to its success would lie in how the authorities defined "Guernsey-sourced income" and the acceptability of that definition to international bodies. It also runs the risk of lacking clarity or creating the impression of a broader 10 per cent tax rate.

Of course, the issue might just vanish if the outcome of the review of the Isle of Man and Jersey structures does not find fault. Few in Guernsey, though, are expecting that outcome.

Those reviews and any subsequent negotiations will inevitably take quite a while to complete and so the present system is unlikely to change in the immediate future.

"While those already here will give us time to resolve it, the current uncertainty must be a deterrent

to those looking for a tax-neutral location to move to or do business with," adds Mr Parrott.

"For business, while the uncertainty is not ideal and mistakes have been made getting us to this point, a workable solution will be found. It has to be."

**Bob Sherwood**

**Graham Parrott: the EU has moved the goalposts on taxation**



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# Variety provides sector with sheet anchor

## Financial services

The island offers opportunities for business in niche areas, writes **Brian Groom**

For an island of little more than 60,000 people, Guernsey has a remarkably varied financial services industry, a factor that helped it to ride out the global storms of the past three years with fewer traumas than many other centres. "During the peak of the problems we saw some reduction in business flows, particularly in our investment fund business," says Peter Niven, chief executive of Guernsey Finance, which promotes the island. "But that business picked up in a short period of time and we are now at a higher level than before the downturn."

Built up during the past 50 years, Guernsey's financial sector accounts for just over 40 per cent of the island's output, employing 7,000 people. It has four main pillars: banking, fiduciary (trust and company administration), investment funds and insurance.

Banks' profit margins have been squeezed by ultra-low interest rates and the value of deposits has fallen. Fund administrators and managers – a big growth area of the past decade – saw new business dry up for a period and net asset values drop, but these have bounced back by 32 per cent in the past year to a high of £224bn.

Insurance, dominated by captives, or in-house companies set up by non-insurers, has remained steady, while there have been mixed fortunes in the fiduciary sector, in which 150 licensed providers employing around 2,200 staff hold more than £300bn of assets in trust.

Some trust business has been boosted by the crisis. "It gave people that did have money a jolt to say 'Crikey, we'd better get something organised with our wealth. We'd better put it into structures that will preserve it and enhance it for the future,'" says Mr Niven.

Guernsey has not, though, escaped the crisis's repercussions. "The one thing that the financial crisis has really brought home to the financial services sector and to our regulation of it is that Guernsey cannot be immune from external pressures and influences," says Nik van Leuven, director-general of the Guernsey Financial Services Commission.

He says the commission is addressing changes in financial services regulation "with vigour". Guernsey suffered one banking collapse – that of Landsbanki Guernsey, subsidiary of the Icelandic bank –



Who pays the ferryman in St Peter Port?: Guernsey's financial sector accounts for just over 40 per cent of the island's output and employs about 7,000 people

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## Investment funds Private equity specialist sees growth potential in Russia as it bounces back from downturn

Guernsey's burgeoning investment funds sector has not been immune to the recession, but for Ipes, a private equity fund administrator founded on the island 12 years ago, the downturn has merely slowed down its rapid growth.

"We saw investment activity in the first half of 2009 reduce significantly," says Michel Davy, managing director for Guernsey. "Thereafter things started to pick up and this year's been a lot better."

Ipes was created in 1998 by Connie Helyar, a former Miss Guernsey and one of the island's best-known female entrepreneurs, and Peter Gillson, as Guernsey's first specialist firm offering administrative services to sponsors of

private equity funds. They sold out two years ago to the current management backed by buy-out firm RJD Partners.

In the past 12 years, Ipes has grown from a Guernsey administrator of five to a company with more than 120 staff and offices in London, Luxembourg and Jersey. Its headquarters remain on Guernsey, where it employs 80 and is the second largest fund administrator after Northern Trust, measured by the assets it handles.

Assets under administration have risen by 12 per cent to more than \$37bn in the past 12 months, compared with 59 per cent in 2007-08.

Net income and revenues are up by 10-15 per cent compared with a peak of

20-30 per cent before the downturn. Justin Partington, commercial director, says: "There are a lot of inquiries, the question is, how many will launch? There are more funds chasing investors' money than is available right now."

Guernsey's strength, he says, lies in having "easily the biggest concentration of private equity fund structuring lawyers anywhere, with years more experience than anywhere else".

The island's growth in private equity fund administration has been aided by the presence on Guernsey of the Channel Islands Stock Exchange, created in 1998, which provides a market for funds and debt products. Mr Davy says however that

Guernsey cannot afford to be complacent.

Ipes conducts 90 per cent of its business in Europe, half in the UK with some in France, Germany and parts of eastern Europe. It has hopes of Russia and administers three funds for Baring Vostok Capital Partners, a leading private equity house, and has won a mandate from a Russian healthcare fund.

"From a regulatory point of view [Russian funds] are seen as higher risk, and the regulator will talk about better risk warnings on private placement memorandums for example, but that doesn't mean they haven't got serious professionals at the top of their game in those fund managers," says Mr Davy. **BG**

while the Guernsey operation of Northern Rock, the nationalised UK lender, recently closed.

Guernsey has since introduced a depositors protection scheme. The 2,000 Landsbanki savers seem likely to recoup 90p in the pound from the administrators. But the affair exposed risks in the "upstreaming" model, whereby banks place depositors' money with their parent companies, which has led the commission to look closely at liquidity and asset issues for local banks.

The crisis has intensified international pressures, notably over the European Union's controversial new regulatory regime for hedge funds and private equity funds. After two years of bruising negotiations,

the final version allows funds and managers from outside the EU access to markets within the 27-country bloc provided they meet certain standards.

"I am very confident that we will get a passport under the directive," says Jarrod Cowley-Grimmond, a senior official at the States of Guernsey. "There is a good opportunity there for our funds sector."

Also looming is Solvency II, the EU's proposed risk-based capital regime for insurers. Guernsey may stay outside this and not seek "equivalent" status for its rules if, as many fear, the EU imposes requirements that are too costly for low-risk captives. But the island is reviewing its own risk-based system and may tighten it fur-

ther in line with international standards.

The International Monetary Fund is due to report shortly on Guernsey's anti-money laundering regime and its regulatory framework for banking and insurance. Both are likely to get a clean bill of health. Guernsey's response to international pressures over more than a decade has been one of constructive engagement, allowing it to market itself as among the top tier of offshore centres for regulatory standards.

Many of Guernsey's opportunities lie in niche areas, such as private equity fund administration, which has grown into a sizeable part of the funds sector alongside property and funds of funds. The decision by Guy

Hands, who runs Terra Firma Capital Partners, to move his home to Guernsey, along with hedge fund BlueCrest Capital's shift of its tax base to the island have underlined Guernsey's attractions.

Innovation plays a big role for Guernsey, such as in its intellectual property laws, which it began reforming in 2004. Its patents legislation allows a broader range of inventions to be registered than in the UK and Europe. It plans ground-breaking legislation for celebrities and sports stars to register their image rights.

The aim is for stars to register early in their careers so they can securitise, trade on, license and exploit their image in a tax-efficient way, says Elaine Gray,

partner at law firm AO Hall. English Premier League football and the 2012 Olympics offer such opportunities.

Film finance is another niche Guernsey is seeking to exploit through Guernsey Film, a new public-private body that brings together the expertise of bankers, lawyers and others. "It will be a one-stop shop where a producer or distributor looking to raise finance can come," says Richard Garrod, co-chairman.

Much of Guernsey's business from around the world comes via the City of London, but now the island is looking to build relationships in Asia. Guernsey Finance opened a Shanghai office three years ago and has just led its first official delegation to India.

## Island resilient in face of downturn

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that the crown dependencies played a significant role in providing banking funds to the UK, funds that would have been unlikely to be routed to London from other offshore centres.

"Our role as a net provider of finance to the City of London was beneficial in terms of providing liquidity," says Mr Trott.

Mr Meader suggests Guernsey may even be in a better position to win business from other low-tax jurisdictions. "I think Guernsey is in a better position than it was a few years ago because its attributes of being well regulated and transparent are more obvious than they were and are more valued," he says.

"The differentiation of Guernsey versus Cayman or Switzerland is clearer."

The lure of Guernsey has also been apparent for high-profile arrivals from the UK of late. Formula One driver Jenson Button recently arrived from Monaco, while Guy Hands, the financier who runs Terra Firma Capital Partners, made headlines when he fled the UK for the island apparently to escape the 50 per cent tax rate introduced for high earners.

In April, BlueCrest Capital Management, one of London's biggest hedge funds, announced it had relocated its tax headquarters to Guernsey, while Shore Capital, the stockbroking house, also moved its head office from London to take advantage of the tax and regulatory environment.

Mr Meader says: "People generally come to Guernsey rather than Jersey, because there is more privacy here and they are left to their own devices. But it is not attracting tax exiles that is important for Guernsey, it's more about attracting businesses that have a number of highly paid skilled people."

In the face of greater international scrutiny and another attack on its tax regime, Mr Trott is adamant that Guernsey's attraction for such companies will not be dimmed.

"The bottom line," he says, "is we are not going to chip away at tax neutrality."

Newcomer:  
Jenson  
Button



# Lenders confident of riding out crisis thanks to low risk appetite

## Banks

Landsbanki, Northern Rock and low rates have left their mark, writes **Brian Groom**

Steve Watts, chairman of the Association of Guernsey Banks, has a vision. "In 10 years' time when I walk down the street I would like to see banks from Russia, India, China and Brazil in Guernsey, bringing business to it," says Mr Watts, who is also managing director of EFG Private Bank.

After nearly 50 years of international operations, it is as well for Guernsey's mature banking sector to keep its eyes on future opportunities. It also helps to look beyond the difficulties caused by the financial crisis and the recession.

Guernsey's banks came through in better shape than in some other centres, helped by the fact that the island has no investment banks engaged in the derivatives trading that caused the problems. But it felt the impact of the Icelandic crisis with the collapse of Landsbanki Guernsey, affecting 2,000 savers, while Northern Rock, the failed UK lender, recently closed its Guernsey operation.

For most banks, profit margins have been squeezed. "We have a low risk appetite as an island and an industry," Mr Watts

says, "but that doesn't mean to say we haven't been affected. We have, but most of that is as a consequence of issues beyond our control, around globally low interest rates. If you aren't earning money on your book, you are going to struggle."

The 42 licensed banks include subsidiaries of international groups headquartered in the UK, North America, Switzerland and other European countries. Retail banking is a relatively small part of what they do compared with private banking for the wealthy and tax-neutral services to international companies. Increasingly, the sector's role is to provide banking to other parts of Guernsey's financial services.

Deposits were £117bn at the end of June, down from a peak of £157bn in 2008. Part of that drop was a decline in Swiss fiduciary deposits – short-term cash placed with Swiss banks for deposits abroad, which were affected by interest rates, or by the result of exchange rate movements. The number of banking licences is down from 79 a decade ago, though that has largely been caused by mergers or banks giving up multiple licences.

"The thing to understand about the banking sector in Guernsey is that it is intimately intertwined with the other sectors," says Bob Moore, managing director of Butterfield Bank (Guernsey), part of a Bermuda-based group that has been

on Guernsey since 1972 and combines private client wealth management with institutional administration services.

Trust work has held up well as families worldwide sought structures to protect their wealth, he says, helping to offset squeezed banking margins. Mr Moore believes Guernsey's strong legal and regulatory environment, coupled with its cadre of professionals, will carry it through.

Philip Marr, director of banking at Guernsey Financial Services Commission,

'As long as people can connect to the emerging markets, we can grow the business here'

believes the Landsbanki affair has not damaged the island's reputation, though it was painful for savers, including some on the island. After the collapse, Guernsey set up a depositor protection scheme covering up to £50,000 per person. The Landsbanki administrators have paid out £7.5p in the pound and expect to pay 90p.

The financial crisis has had some odd repercussions. Kleinwort Benson, which has operated in the Channel Islands for nearly 50 years, moved its base from Jersey to Guernsey after its parent, Commerzbank, under pressure from

Brussels to make divestments, sold it to RHJ International, a Belgium-based private equity firm.

It had to move because it no longer qualified under Jersey's rules as a top 500 bank, but Guernsey approved it after due diligence and its depositors have stuck with it. "I am happy to say it went to plan," says Mark Bright, its managing director.

Mr Bright does not see banking market conditions improving rapidly. "Banks are going to have to be a bit more innovative about what they do," he says. "Guernsey needs to make sure that whatever areas finance goes into, there are people capable to develop services and legal structures quite quickly."

Alan Bougourd, managing director of Skipton International, says the crisis has led to an increased emphasis on risk management. His bank, a subsidiary of the UK building society, started taking deposits in 1995 from British expatriates who wanted interest paid without deduction of tax, but it has grown into Guernsey's top mortgage provider.

Mr Bougourd, a Guernsey native, is an example of how skills have developed. After entering banking following school, he studied for a degree in financial services, a masters in corporate governance and the Institute of Directors' direction programme without leaving the island. Deutsche Bank, whose

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## Guernsey as a Financial Centre

# Islands bet on high-tech industry for jobs and growth

### Online gambling

The sector has been able to cash in on a regulatory regime set up in Alderney, says **Bob Sherwood**

Far from large sports venues, in a narrow street in St Peter Port, traders at Sportingbet monitor international events, constantly adjusting odds as they handle up to 70m wagers a year.

Online gambling has become a rapid growth sector on Guernsey and the Bailiwick has capitalised on the reputation of the regulatory regime established more than a decade ago on its tiny neighbour island Alderney.

According to a report from accountants KPMG, the online

gambling industry contributed £50m to Guernsey's economy in 2009, up from £7m in 2007. Moreover, KPMG predicts further growth of 40 per cent in the next couple of years.

While still a small sector compared with financial services, online gambling is seen as a welcome diversification that puts Guernsey alongside other offshore jurisdictions such as Gibraltar, Malta and the Isle of Man, which have lured gaming companies and bookmakers away from the UK mainland.

Sportingbet is the largest employer in the sector, with 100 staff on Guernsey and nine on Alderney, while Virgin Games has also established a presence.

The Alderney Gambling Control Commission has issued about 45 licences to companies including Rank, Gala Coral and Blue Square, with most

operating through Guernsey. "Regulation is probably the key," says Bob Duttall, Sportingbet managing director. "You need stability and robust regulation and Alderney is at the forefront of that across the world."

André Wilsenach, chief executive of the Alderney Gambling Control Commission, the sector's regulator which oversees companies on both islands, says: "We are one of the longest established online gambling authorities. Alderney is leading the online gambling world in terms of regulation."

That regulatory position "didn't just happen", he adds. Alderney sought to capitalise on the growth of telephone betting in the late 1990s but quickly realised the future was online.

The regulatory regime brought companies to Alderney, and Sportingbet was launched

there. But the sector's growth and its technical requirements soon ran up against Alderney's infrastructure limitations.

Sportingbet, for example, found it could not grow sufficiently and moved to London. The solution was an arrangement between Alderney and Guernsey that allowed companies to be based on either island and remain subject to Alderney regulation. That led to growth of the sector on Guernsey and Sportingbet returned to Guernsey in 2007 amid uncertainty over the UK's gambling regulations, while the Alderney economy now receives about £7m a year from the sector.

With its excellent telecommunications capabilities, quality of life and internationally recognised regulatory regime, Guernsey has proved to be the right location for Sportingbet, says

Ron Jenkins, head of human resources. "The tax benefits are beneficial," Mr Jenkins says, "but they were not the reason for us coming here. They put us on no better a footing than most of our competitors [in offshore jurisdictions]."

But there are difficulties in setting up what is in effect a new sector on an island with a limited employment pool. Of Sportingbet's 100 staff only about 50 are Guernsey locals, a particularly unusual ratio for a large company on the island.

"When you bring in something that requires fresh skills, there is no talent pool for you to dip into," says Mr Duttall.

With no possibility of being granted enough housing licences, the company simply moved into the open housing market and bought properties for its young traders from the

UK to share. More senior employees receive support for their open market rental costs.

Sportingbet says it now has the skills available to run a localisation training programme for the next wave of traders, increasing the potential career choices for islanders.

Mr Duttall says: "We offer something that is not totally different from financial services, but that is different enough that it gives [young people] some variety in their career choice."

Mr Wilsenach does foresee regulatory challenges ahead. Regulation by Alderney has been accepted by many nations regardless of where the gambler is based. However, some jurisdictions in Europe and elsewhere are considering changing their requirements, so transactions are deemed to take place where the consumer is based.

That might require gambling companies to gain regulatory licences in a number of jurisdictions while business-to-business services, such as the software providers, could continue to be licensed solely by Alderney.

Mr Wilsenach believes the international regulatory picture is likely to become more complex, but that Alderney will continue to play a large role in regulation, especially for online gambling platforms.

He says: "I am positioning Alderney with a view to creating comfort with these other jurisdictions that they are happy for players to play on platforms based in Guernsey."

He remains upbeat: "We certainly don't expect a significant drop [in business from the sector]. We will remain a jurisdiction of choice for worldwide earnings."

## Push for business travellers leads to hotels revamp

### Tourism

Tired-looking venues for tourists have smartened up their act, writes **Bob Sherwood**

There has been something of a revolution in Guernsey hotel accommodation in recent years.

After the decline of bucket and spade tourism left a legacy of tired, outdated accommodation, a wave of investment has

created an array of smarter, sophisticated hotels more suited to an international financial centre.

"In the last five years we have seen a considerable amount of investment going into the sector," says Jason Moriarty, trade and marketing manager at Visit Guernsey. "There are now a number of hotels in Guernsey that are more fashionable and they are offering a more personal service."

Among those that have been revamped in recent years are the Old Government House Hotel and La Fregate, both in historic buildings. Mr Moriarty says

the tourism sector, which had been in decline, is important not only as a staple industry in Guernsey but also for the indirect benefits it provides to local people, such as the availability of quality hotels and restaurants and the maintenance of air and sea routes. "The tourist industry contributes to the lifestyle of the local population," he says.

The industry is also important for the health of the international finance sector, which inevitably generates a large amount of business travel, says Derek Coates, one of the entrepre-



On the beach: the mini-break market, offering twin-centre holidays in Guernsey and Jersey, is one of the potential growth areas for the sector

Alamy

neurs who has been investing heavily in hotels on the island. He has put more than £20m into his hotels Fermain Valley, The Chalet Hotel, and Sunnycroft on Guernsey and Braye Beach on Alderney, all bought and revamped in the past four years.

"If we had not done it, it

would have been detrimental to the finance sector," he says.

More than 60 per cent of his hotel revenues come from business travellers, and Mr Coates sees plenty more growth in the sector, as well as the potential for linking hotels across the Channel Islands to create multi-island breaks.

"I think there's still a massive opportunity," he goes on. "We want to expand our hotels into Jersey. People don't realise the diversity in our islands. They are worlds apart but just minutes apart."

One of the factors limiting the short-break market, he says, is the relatively high price of air travel to Guernsey from the UK. But key to his business is his ownership of Blue Islands, the Channel Island airline that flies to other financial centres such as Geneva and

Zurich, other crown dependencies and Southampton in the UK.

Mr Coates, founder of Healthspan, the direct supplier of vitamins and supplements, uses his company's database of older, wealthier consumers to target customers for his hotels using Blue Islands as a conduit. He sees the profitability of the airline as less important than the revenue it generates for his hotels. "I wouldn't mind if the airline just broke even for the next 50 years as long as it feeds our hotels," he says.

He even mounted a failed bid to buy Aurigny Air Services, the airline owned by the States of Guernsey, and merge it with Blue Islands.

The hostelry sector grew by almost 4 per cent in 2009 after years of gradual decline. That was helped by the high euro as 75 per cent

of leisure visitors come from the UK mainland. Even so Mr Moriarty sees a longer-lasting shift.

"Last year [2009] was a good year, with staying visitors up 5 per cent year-on-year," he says. "This year there are indications of 90 per cent occupancy in August, the best for many years, and a 2-3 per cent increase on last year's figures. In the last two years we have certainly seen an upward trend."

The average length of stay has also increased slightly to five and a half nights.

Air travel is up year-on-year and there are now eight flights a day from Gatwick with carriers Aurigny and Flybe, four a week from east Midlands airport and five a week from Plymouth. There are also weekly charters from Rotterdam, Hanover and

Frankfurt. UK sea traffic is also up 1 per cent on the year to date.

There are fast ferries from Weymouth and Poole and an overnight ferry from Portsmouth, as well as cruise-ship traffic.

Mr Moriarty believes the increase in tourism is a result not only of better marketing but also a wider sense that Guernsey's attributes are better appreciated in the modern climate.

He says: "We refined our strategy and I think we got our marketing right. We stayed true to what the island does well and what we can deliver on. Over the past few years Guernsey has epitomised the traditional activities that have gained popularity in the UK – good food, walking, cycling, landscape and heritage. We have what many people are looking for."

## Captives offer 'stable and steady' rewards

### Insurance

Companies providing in-house cover still offer prospects for innovative business development, writes **Brian Groom**

Guernsey's well-established insurance sector has proved a steady pillar of the finance industry through the recession. Best known for in-house insurance companies, it now sees growth prospects both for these and for diversification into other parts of insurance and reinsurance.

The island is Europe's biggest centre for captives – insurance companies set up by non-insurers to cover their own risks – and the world's fourth largest. About 40 per cent of UK FTSE 100 companies have captives based on the island, alongside others from around the globe.

Insurers' gross assets, net worth and premiums written have all increased during the past year.

Guernsey had 685 licensed insurance entities at the end of September, down from 700-plus two years ago but growing again.

The island's attractions include its expertise, pragmatic regulation, closeness to the London market and zero tax rate for companies. Tax is being reviewed, under pressure from the European Union, but the industry hopes that for captives it will continue to be levied in parent companies' home countries rather than in Guernsey.

"It's stable and steady – and that's good in the fragile business environment we have experienced since September 2008," says Paul Sykes, managing director of Aon Insurance Managers (Guernsey), the largest captive manager.

Insurers have had to cope not only with the recession, which saw some parent companies close captives and

repatriate the cash. A "soft" global insurance market lasting several years has also kept prices down. This does not favour captives, which trade on saving money compared with commercial insurance.

Guernsey has a reputation for innovation, founded on having been the first domicile in the world 13 years ago to introduce protected cell companies, which made it simpler and cheaper for smaller companies to set up captives.

Protected cell companies are single legal entities that contain segregated units. Insurers can be set up in each cell, giving them the benefits of a larger operation while protecting them from the liabilities of others.

Dominic Wheatley, chief marketing officer of Willis International Captive Practice and chairman of the Guernsey International Insurance Association, says they have changed the industry. "Cells are often transactions with a finite life. It's a different market, more marketing-based and there's a need to develop a greater flow of new business," he says.

Richard Tee, chief executive of Heritage Group, a management-owned independent, insists there is still room for growth in the captive model. He has been seeing interest from smaller UK brokers whose clients could benefit from captives.

The island also has insurers such as Generali and Nordben, life and employee benefits specialists, and has attracted a few underwriters and reinsurers. Barbican, created three years ago, is a Lloyd's business that has its holding company on the island as well as a Guernsey-based reinsurer. "We have been very impressed with the reception we have received in the Guernsey financial and broker markets," says David Reeves, chief executive.

He plans to expand its local reinsurance and domestic insurance business but argues that Guernsey could market more actively its attractions for reinsurance – where it is a minnow



Convergence with products such as catastrophe bonds has been slow

Getty

compared with Bermuda. Nick Wild, managing director of JLT Insurance Management (Guernsey), says attracting more niche reinsurers and underwriters would create business for other insurance companies to provide support.

Guernsey also hoped to capitalise on convergence between insurance and the capital markets, with insurance risks being transferred to a broader range of investors through insurance-linked securities such as catastrophe bonds. This has been slow to take off because of the poor state of debt markets.

The island is eyeing warily the EU's proposed Solvency II regime, requiring insurers from 2013 to be capitalised according to risk. Although the details are not yet clear, many hope Guernsey, as a non-EU-jurisdiction, will stay outside and not seek "equivalent" status under the EU rules, fearing these will be too onerous for captives.

The island has its own risk-based system, whereby insurers have to conduct their own solvency assessment. "We are consulting industry with regard to how we will adopt a more comprehensive risk-based solvency requirement," says John Dunford of the Guernsey Financial Services Commission.

Nik van Leuven, the commission's director-general, says: "International standards are moving in that direction in any case. The issue is more about timing than anything else."



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