40 YEARS ANNIVERSARY 1979 - 2019

Bandwagon

The BWCI Group Newsletter

BWCI

Quarter 2 - 2019

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BWCI Training Scheme Launched

We're Celebrating

40 YEARS
ANNIVERSARY
1979 - 2019

In this second issue of Bandwagon in our 40th anniversary year we are looking back at BWCI's contribution to the local community. We have highlighted some of our initiatives on the page opposite. We have also been active in the business community through our support of the Guernsey Awards for Achievement over many years, as well as providing support behind the scenes on a number of industry working parties.

We marked our 25th anniversary year with the establishment of the BWCI Charitable Trust (now the BWCI Foundation) primarily to support Channel Islands charities selected by our staff. We are proud to have donated over £200,000 to local good causes over the last 15 years.

In addition to charitable support, we have also encouraged the development of teamwork and problem solving skills through our sponsorship of the popular Minds Sports workshops, the BWCI Mini Soccer Festival, A level Further Mathematics prizes and our student bursary scheme.

In 2002 we established our relationship with the Camerata Orchestra to encourage and support some of the best young local musicians to reach their full potential. This has been one of the longest running local musical sponsorships and details of the next event can be found on the back page of this edition of Bandwagon.

Finally, as a special event to mark our 40th anniversary year, we are delighted to announce that BWCI is a principal sponsor of the Shakespeare Globe Touring Company, which will see three of Shakespeare's plays performed in Guernsey in the summer.

Retirements

Left to right: Ian Morris and Steven Jones cutting cakes to celebrate their retirement

30 April 2019 marks the retirement of two of our long serving partners, Steven Jones and Ian Morris from the BWCI Group. Between them they have clocked up an impressive 68 years of service!

Steven has been part of BWCI for almost 40 years, having transferred from the London Office of Bacon & Woodrow in 1980. He became a Fellow of the Institute and Faculty of Actuaries in 1982 and went on to become a Partner in 1986. During his career with us, Steven has played a key role in the development of the BWCI Group. He has undertaken a wide range of roles, not only as actuary to a number of our local and international pension scheme clients, but also as trustee to several other local and international schemes. More recently, Steven has been chief executive of our fiduciary businesses.

Ian joined BWCI as a qualified actuary in 1990 and went on to become a Partner in 1996. Ian has led our Insurance Practice for many years and has overseen its considerable development over the last two decades. As well as acting as actuary to a number of our major insurance clients, Ian has served as a non-executive director on several life and captive insurance boards. Ian has played a significant role in the management of the BWCI Group, as our Head of Risk & Compliance.

We would like to take this opportunity to thank both Steven and Ian for their considerable contributions to BWCI and to wish them both a long and happy retirement.

BWCI Training Scheme Launched

Deciding on a career path after leaving school or university can be a difficult decision. We recognise that moving into the world of full time work after many years in education is a significant step. With this in mind, we have developed a new training scheme which we will be launching in the summer as part of our ongoing 40th anniversary celebrations.

The two-year structured training programme provides the opportunity for four 6-month placements in different business areas within BWCI.

There will be a choice of placements available, which will include working within our actuarial and administration teams, as well as the chance to choose other business areas, such as Island Global Research.

The trainee scheme is open to both A level students and graduates and further details are available from Alison Hawkins (ahawkins@bwcigroup.com).

BWCI Supporting the Community

2019 Shakespeare's Globe

A Channel Island first. BWCI is sponsoring the Globe's Touring Ensemble to bring three days of Shakespeare's plays to Guernsey in July

10th year of the BWCI Mini Soccer Festival 2017

The festival gives young Channel Island players the opportunity to play against some of the top UK academy teams

2007 Student Bursaries

BWCI has supported 12 local students since our bursary scheme was launched in 2007. The scheme provides paid work experience and financial support

Mind Sports 2004

Commencement of BWCI's ongoing sponsorship of the Mind Sports workshops, to promote the development of problem solving skills in young people

2002 Guernsey Camerata Orchestra

Sponsorship of the Guernsey Camerata Orchestra announced, to foster the development of musical talent locally

A Level Prizes 1992

Particularly aimed at Further Mathematics students, BWCI launched these prizes to support and encourage the teaching of A level mathematics in schools

New Approach to Captive Reserving?

"more complex reserving methods could result in more accurate estimates"

Michael Jones
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POLICY YEAR

The policy year relates to the year over which the cover is provided, whereas the claims can emerge over many years into the future. Consequently the true cost of the claims arising from a particular policy year can take many years to emerge fully.

Historically general insurers, including captives, used run-off triangles as a key tool to predict future levels of claims and reserve for them.

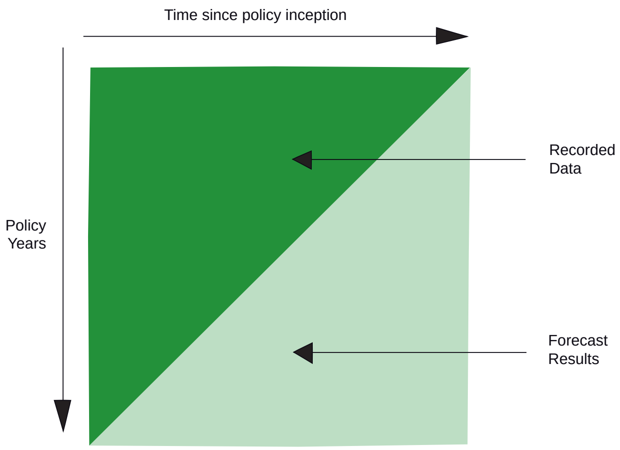
This triangulation method involves recording observed data about total known claims amounts (paid or incurred) at regular intervals in each policy year. The data points are arranged in a table, with rows corresponding to policy years and columns corresponding to time since the policy's inception. The earliest policy years have entries in more columns than more recent policy years, so the table of known data takes on a triangular shape.

Traditional methods for estimating the "Incurred but not reported" (IBNR) reserves aim to 'fill in' the rest of the table; completing each row with an expected level of future claims at each point in time in order to arrive at the projected total claim amount in the right hand column. These methods rely on various assumptions, including one that the general trend in claims amounts over time is roughly similar across policy years. The accuracy of the projections depends on how well these assumptions reflect what happens in the real world.

The run-off triangle method often provides reasonable reserve amounts. In addition, it is easy to understand and does not require a large amount of complex data. However, it does have some drawbacks as the triangulation approach may not cope well when the insurance structure has complex deductibles, limits and non-proportional reinsurance. More importantly, the main drawback is that it only offers a single estimated value for total ultimate claims per each policy year; it cannot attach any probability to the calculated IBNR reserve.

Directors and regulators are becoming more interested in setting reserves at a level with a quantified probability of being sufficient. In view of these issues and increases in computational power and data processing systems generally, it may be time to rethink this methodology.

Traditional Run-Off Triangle



Stochastic Claims Reserving

As computational power has become cheaper and data quality improved, more sophisticated stochastic models have been developed. They can cope with more complex insurance structures, as well as providing more detailed results. A first step into stochastic reserving provides the insurer with a probability that the likely ultimate claims amount will fall within a range between upper and lower bounds.

More sophisticated models (which still use claims triangulations) can provide a full distribution of expected possible claim amounts. This information allows the insurer to set its claims reserves with reference to its risk appetite – essentially answering the question of what level reserves should be in order to meet claims 99 times out of 100, for example. However, being still based on claims triangulations, these methods still suffer from uncertainty arising through aggregation of data.

Individual Claims Reserving

The next refinement is to use individual claims reserving methods. If an insurer has high quality data it is possible to calculate IBNR reserves for individual claims, rather than the annual aggregate amounts. An individual approach is better able to allow for complex insurance/ reinsurance structures and non-standard claims development. Individual claims reserving methods simulate the 'history' of single claims from incidence through to their ultimate settlement. These stochastic models still provide a distribution of ultimate claims, but also calculate reserves at a claim level which can lead to more appropriate projections. In practice, this means that the insurer can be more certain about their estimate of ultimate claims and, therefore, is better equipped to manage its risk.

To support this level of detail, the data needs to be of high quality, which potentially leads to increased costs. Individual claims models therefore tend to benefit larger insurers who can exert tighter control over their data recording and processing.

Conclusions

Whether the benefits of an individual claims reserving approach outweigh the increased costs will depend on the individual insurer. For many small captive insurers, the traditional triangulation-based methods work very well and the level of data recorded would not support a more sophisticated approach. However, more complex reserving methods could result in more accurate estimates and better quantification of risk could bring significant improvements in risk management and may offer insights into previously unobserved groupings of claims.

Guernsey Secondary Pensions Update

"the project is running behind its original schedule"

Michelle Galpin
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It is a little over three years since we first reported on the proposals to introduce a secondary pension system in Guernsey. Shortly afterwards the high level secondary pensions framework was agreed, in principle, at the States meeting in February 2016. At that stage it was acknowledged that further work would be needed and it was anticipated that more detailed proposals would be available by December 2017, with a target launch date in 2020. Since then, work has been going on behind the scenes.

A report on the wider economic impact of secondary pensions was published at the end of 2017. This identified that there was expected to be a reduction in tax revenue (due to the pension tax relief granted on the contributions made to secondary pensions). This was acknowledged and it was recognised that the financial implications would need to be factored into the States Medium Term Financial Plan.

In addition to progress on the economic implications, the tender process to identify and appoint an administrator for the default secondary pension arrangement was launched in the summer of 2018; this is understood to be close to completion.

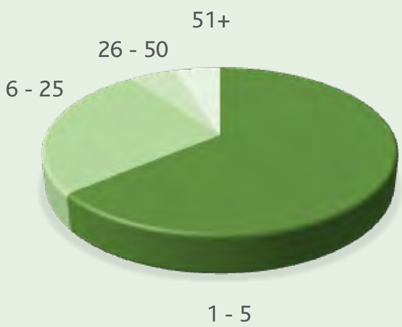
At the end of January 2019 the President of the Committee for Employment & Social Security provided an update on the status of some of the Committee's current projects, including secondary pensions. It had previously been indicated that employee and employer secondary pension contributions would be collected through the Social Security system. However, it is now expected that the contributions will be collected directly by the scheme's administrator. This is to speed up the process of collecting and investing the contributions.

A Policy Letter is due to go before the States later in 2019. We hope that this will provide details about the requirements for qualifying schemes for the purposes of secondary pensions and when the system is likely to be introduced. However, the President did note that the project is running behind its original schedule. At this stage it is not clear if the original implementation date of 2020 will be put back.

In contrast to Guernsey, secondary pensions are now well-established in the UK, having been gradually phased in from 2012. "Workplace pensions" as they have come to be known, require everyone over age 22 earning a minimum level of income to be auto-enrolled into a pension scheme. Although employees can opt out if they wish to, most have not done so and the take up rate has been higher than expected at the outset.

A recent UK survey* suggests that the opt out rate is dependent on the size of the employer, with the largest employers having the lowest opt out rates as illustrated in the table below. The median initial opt-out rate for all UK employers was in the range 6-10%, but this has increased to 11-15% currently. With 64% of Guernsey's employers employing less than 6 people, it will be interesting to see what the take up rate for secondary pensions will be locally.

Guernsey Employers
Number of employees



Source: Guernsey Facts and Figures 2018

UK's median employee opt out rates under auto enrolment							
Number of employees	1 - 9	10 - 49	50 - 249	250 - 499	500 - 999	1000 - 4999	5000+
Opt out rate initially	26 - 30%	11 - 15%	6 - 10%	6 - 10%	6 - 10%	1 - 5%	1 - 5%
Current cessation rate (includes initial opt outs)	31 - 35%	16 - 20%	11 - 15%	11 - 15%	6 - 10%	6 - 10%	1 - 5%

* Association of Consulting Actuaries 2018 Pension Trends Survey

Proposed Changes to Guernsey Pension Rules

"... clarify some areas in response to feedback"

Erin Bisson
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The Guernsey Financial Services Commission ("GFSC") introduced a regulatory framework for pensions in 2017, with full compliance required by 30 September 2018. The framework's scope is limited to those pension and gratuity schemes where a licensed fiduciary is involved with either the scheme's trusteeship or administration. The practical requirements are set out in the "Pension Rules"*. Following feedback from stakeholders, the GFSC has released a discussion paper seeking comments on potential enhancements to the framework and also to clarify some areas.

The GFSC also clarified that Employer Sponsored Retirement Annuity Trust Schemes (RATS) are considered to be occupational schemes, which means that the requirements surrounding investment direction no longer apply.

Further details of the discussion paper can be found at:

https://www.gfsc.gg/news/article/discussion-paper-proposals-create-single-fiduciary-handbook-and-revise-pension-rules

Key points

- Amendments to some definitions, in particular:
  - to include reference to the United Kingdom in the definition of Appropriate Financial Advisor, as the UK would no longer be an EU member state after Brexit; and
  - updates to the definitions of Defined Contribution and Defined Benefit to ensure all schemes fall within the scope of one or the other.
- Moving the conduct of business related sections of the Pension Rules into the Fiduciary Handbook
- Amending the Pension Rules to clarify that the appointment of a Governance Committee is at the discretion of the licensee, so long as it has ensured appropriate internal controls
- Increasing the minimum defined benefit transfer value requiring a transfer value analysis report from £30,000 to £50,000, or possibly linking the minimum to the deferred pension amount rather than the transfer value
- Removing the 21 day limit for providing a defined benefit transfer value and instead requiring that the valuation is provided as soon as reasonably practicable
- Excluding "member directed schemes" from the requirements regarding the preparation of a "Statement of Investment Principles".

* The Pension Licensees (Conduct of Business) & Domestic and International Pension Scheme and Gratuity Scheme Rules (No.2) 2017

Jersey Guidance Notes updated

The Government of Jersey published an updated version of the Tax Guidance Notes for Pension Scheme Administrators on 20 March 2019. However they apply retrospectively from 1 January 2018.

The principal change is the addition of Appendix 11 which provides detailed guidance for drawdown managers on the calculation of relevant income, to check if an individual wishing to take advantage of the drawdown option satisfies the Minimum Retirement Income ("MRI").

The guidance also covers the assessment of the Minimum Retirement Capital ("MRC"). This is an alternative route to accessing an approved drawdown contract where an individual has significant wealth but insufficient income to meet the MRI requirement.

The guidance also includes the updated triviality limits that were introduced in the 2018 budget.

A copy of the latest guidance can be found at:
https://www.gov.je/TaxesMoney/IncomeTax/Pension/Pages/PensionAdministratorTaxGuidanceNotes.aspx

Personal Injury Claims

"A lump sum could potentially under or overstate the actual loss suffered"

Stacey Wilen
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Jurisdiction	Current discount rates
UK	-0.75%pa
Jersey	+0.5%pa for losses covering periods of 20 years or less +1.8%pa for losses covering periods of over 20 years
Guernsey	Courts use Helmot method

After suffering a serious personal injury, with adverse long-term consequences for their quality of their life, an individual will often be entitled to compensation. These damages reflect the financial impact of the injury on the individual; these could include the cost of future care needs, as well as compensation for the loss of future earnings and pension rights.

In the UK the courts have flexibility to award either a lump sum payment or a periodical payment order (PPO). A PPO provides a series of compensation payments potentially for life. Until now Guernsey and Jersey courts have only been able to award lump sum damages, but legislation to allow periodic payments is being introduced.

Which is better?

There are arguments for and against either option. A lump sum could potentially under or overstate the actual loss suffered. However it has the advantage of a "clean break" settlement for both parties. The main drawback with lump sum damages is that the amount is dependent on the assumptions used to estimate the loss; how long the injured party is expected to live and the rate of interest, after adjusting for expected inflation (ie the discount rate). The discount rate estimates the investment return above inflation from investing the damages at the outset.

Setting the discount rate

The UK's discount rate is set by the Lord Chancellor. Since March 2017 it has been -0.75% pa, but previously had been +2.5% pa since 2001. The UK rate is expected to change again as the methodology used to set it is under review. The Isle of Man's statutory discount rate remains at 2.5%pa, but this is expected to be reviewed once the outcome of the UK review is known.

The position is different in Guernsey and Jersey; in the absence of a statutory discount rate the Courts used to adopt the UK discount rate until 2010 when this was successfully challenged in the Guernsey case of Helmot v Simon. The judgement in this case went on to set out guidelines for future Guernsey cases.

The impact of uncertainty

The discount rate used can have a significant impact on the level of damages awarded. The lower the discount rate, the higher the damages.

Since the Helmot case, the uncertainty over what discount rate would be used in Guernsey and Jersey cases has meant that insurance premiums, particularly for cover for medical professionals, are higher than in the UK. However, the situation is expected to become clearer as both Guernsey and Jersey are set to introduce legislation to implement statutory discount rates, in addition to the introduction of a PPO option.

Jersey Changes

In January 2019 a draft Damages Law implementing a statutory discount rate in personal injury claims was approved.

The discount rate is dependent on the period that the award is expected to cover, as follows:

- +0.5%pa if period is 20 years or less
- +1.8%pa if period is over 20 years

The higher discount rate for longer term awards reflects the higher expected return from longer term investments.

Going forward the Chief Minister will be able to change the discount rate by Order, after consulting the Bailiff. In addition, the legislation permits the States to introduce regulations to change the discount rate in future.

The UK's current approach to setting the statutory discount rate assumes that damages will be invested in "very low risk" investments, eg index-linked gilts, which currently have negative returns. In practice, analysis by the UK's Government Actuary's Department shows that lump sum damages tend to be invested in a low risk diversified strategy, resulting in a slightly higher expected rate of return. Jersey have taken this analysis into account in setting its discount rate. However, it has not yet been reflected in the UK rate.

What is happening in Guernsey?

Guernsey has also recently approved proposals for a statutory discount rate. It is anticipated that this would be set by the States Policy and Resources Committee, but no detailed proposals have yet been put forward. Consultation with interested parties is expected in the second quarter of 2019.

What happens next?

Jersey is some way ahead of Guernsey, with draft legislation already approved. At this stage, the timeframe for the implementation of any legislation in Guernsey is unclear.

The hope is that, once implemented, having statutory discount rates in Guernsey and Jersey will reduce uncertainty on the size of lump sum damages claims, relative to the UK position and have a downward effect on insurance premiums, striking a better balance between the interests of insurers (and those paying premiums) and the needs of potential claimants.

BWCI Mini Soccer Festival

BWCI's Diana Simon with GFA Chairman Chris Schofield

We are delighted to be able to extend our support to the Guernsey Football Association's ("GFA") Mini Soccer Festival for a further three years.

GFA Chairman, Chris Schofield, said:

"This is a widely recognised as being a highlight of the local football calendar. It plays a key role in supporting the development of our young players, and the teams, players and coaches who are participating will undoubtedly be looking forward all season to the Festival."

BWCI's Managing Partner Diana Simon said:

"2019 is a very special year for the BWCI Group as it marks our 40th anniversary in the Channel Islands. The festival is a fantastic opportunity for our local teams to get a taste of what it is like to play against some of the top UK Academy teams."

This year's festival will take place on 20 and 21 July and will be held at Victoria Avenue.

BWCI teams up with GSO

BWCI's Stephen Ainsworth with GSO's Tim Wright

BWCI is teaming up with the Guernsey Symphony Orchestra (GSO) as part of its ongoing support for music in the community. We have been associated with the Guernsey Camerata's Family Concerts since the very first one back in 2006.

Following the merger of the Camerata into the Guernsey Symphony Orchestra, we were very pleased to have the opportunity to continue to sponsor the Family Concerts under the GSO banner.

BWCI's Senior Partner, Stephen Ainsworth, said:

"We are looking forward to working with the GSO for our next Family Concert in the BWCI Guernsey Camerata Concert Series. These special concerts provide a great opportunity for the whole family to come and enjoy an afternoon of popular classics."

He went on to say:

"2019 is our 40th Anniversary Year and this is one of a number of events and initiatives to celebrate this important milestone".

Tim Wright, Chairman of the GSO said:

"We are delighted to have teamed up with BWCI as sponsors of the GSO/ Camerata Family Concert. This concert brings the exciting spectacle of a live orchestra into a family setting which not only entertains but informs and encourages the family audience to engage in live music. BWCI continues to be a great supporter of the arts in Guernsey and we hope that our relationship will continue into the future".

Diary dates

17 - 20 July	**Shakespeare's Globe Touring Company**
20/21 July	**BWCI Mini Soccer Festival**
22 September	**Next BWCI Family Concert**

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Guernsey Employers' Disability Charter

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