40 YEARS ANNIVERSARY 1979 - 2019

Bandwagon

The BWCI Group Newsletter

BWCI

Quarter 4 - 2019

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2019 Mind Sports Action

BWCI's 10 year Club

From left to right: Stephen Ainsworth, Jenny Martel, Margaret Boucher, Erin Bisson and Hannah Sarson, Daniel Guilbert was unavailable.

2019 saw the number of staff in BWCI's "10 year club" reach a significant milestone, with the number of members reaching 50 for the first time.

The latest members to join the group were: Erin Bisson, who is an actuary and team leader in our actuarial pensions team; Daniel Guilbert who is an assistant manager in one of our major client teams; Jenny Martel, our first ever bursary student, who is now an assistant manager in our Blue Riband pensions administration team and Hannah Sarson who is a senior administrator, and plays a key role in our Insurance Administration team.

As well as marking 10 years' service, we also marked Margaret Boucher's 25 years' service with BWCI. Margaret is a qualified actuary and is a senior manager in our pensions administration team and a director of BWCI Pension Trustees Limited.

BWCI's Senior Partner, Stephen Ainsworth, presented the long service awards at a celebratory lunch for all of the 10 Year Club members and thanked each of them for their dedication and contribution to BWCI's continuing growth.

Insurance Team Grows

Jonathan Kemp

We are delighted to announce the appointment of Jonathan Kemp as a Senior Manager in our Insurance Consulting team. Jonathan is also a director of BWCI Insurance Management Ltd and BWCI Insurance Broking Ltd.

Jonathan, who qualified as a Fellow of the Institute and Faculty of Actuaries in 2000, has over 20 years' experience in financial services, including periods working as an insurance consultant and as chief actuary to insurance companies in Malta and Bahrain.

Jonathan specialises in providing actuarial and consultancy advice to captive insurance and life assurance companies. He has experience of advising clients in Gibraltar, Malta and the UK on compliance with Solvency II and also on changes to international accounting standards.

BWCI Partner and Head of Insurance Services, Clair Le Poidevin said *"Jonathan's depth of experience will help us to take the business forward and we are delighted to welcome him to the team"*.

IGR Brand Reputation Index

Island Global Research (IGR) are launching a Brand Reputation Index which will enable organisations in Guernsey and Jersey to track how their brands are perceived over time. This information is key to helping organisations preserve and develop their customer base, and potentially expanding their pool of prospective employees.

IGR's approach has been inspired by UK and international brand equity trackers, but adapted to the local context. An organisation's Index score is based on responses to survey questions about seven dimensions that impact brand reputation.

Insights are also obtained on the reach of advertising and word of mouth, and on consumer satisfaction, which organisations may find useful for measuring their engagement strategies and customer service. The results will be available, every six months, to participating organisations on a subscription basis.

More information about the IGR Brand Reputation Index can be found on our website: https://www.islandglobalresearch.com/Brand-Reputation-Index.

Alternatively, please email: info@islandglobalresearch.com

Dimensions assessed in IGR's Brand Reputation Index

- feel positive about
- would feel proud to work for
- describe as trustworthy
- makes a positive contribution to the local community
- associated with good quality
- cares about the environment
- very likely to recommend to others

Annuity rates – How low will they go?

"annuities still have a role to play"

Jessica Sumner
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What is an annuity?

An annuity is an insurance company product that provides a guaranteed level of income for life, in return for a single premium.

The record low annuity rates seen in September hit the headlines in the financial press recently. While annuity rates generally have been falling for many years, the latest sharp fall in government bond yields since the beginning of 2019 has seen annuity rates drop by well over 10% over the last few months.

What this means in practice

At the start of the year a pension pot of £500,000 would have secured an income of £22,670 pa for a 65* year old. By September 2019 the same £500,000 pension pot would have only have been sufficient to purchase an income of £19,832 pa. That's a reduction of 13%, which is almost £55 a week!

Demand for annuities has dropped off in recent years, as they have increasingly been perceived as being expensive. In addition, the annuity market declined further following the introduction of "Pension Freedoms" in the UK from April 2015. However, annuities still have a role to play in the provision of a retirement income; after all, an annuity is the only product available that will turn a defined contribution pension into a guaranteed income for life. The main downside of buying an annuity is that once purchased, an individual is "locked in" to the terms at the date of purchase.

Should you defer purchasing an annuity?

In view of the high cost of annuities at the current time, some have suggested that it may be better for an individual to draw down from their fund, at least in the short term, and consider deferring purchasing an annuity until a later date. However, this is not without risks. If interest rates continue to be very low for an extended period and investment returns are poor, it may never be possible to secure an annuity on better terms.

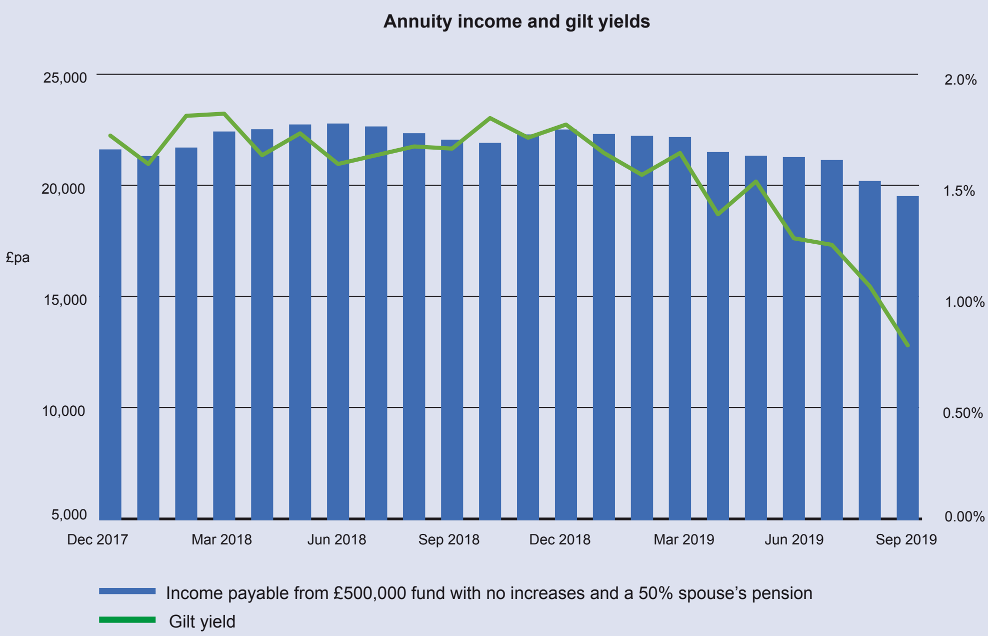
Are annuities still a good option?

With annuity rates at such low levels, to many approaching retirement, purchasing an annuity may not seem like the best option at the current time. However, annuities should not be dismissed without first considering their advantages:

- An annuity can provide a baseline income to cover monthly living costs
- Opting for an annuity that increases either in line with inflation, or at a specified rate, protects against the effects of inflation eroding purchasing power in retirement
- Selecting an annuity with a dependant's pension option provides some financial protection for a partner or dependant after an individual's death
- Including a guarantee period will ensure that the annuity will continue to be paid for a minimum period after retirement, in the event of early death within the guarantee period
- Those with a medical condition or smokers may be able to secure a higher income if they qualify for an "enhanced" or "impaired life" annuity.

Best of both worlds?

For those with more than one sizeable defined contribution pot, they could provide a minimum level of guaranteed income by purchasing an annuity using one of the funds and draw down on the remaining fund(s) to provide extra income when required.



*Non increasing pension with a 50% spouse's pension for a spouse 3 years younger

Isle of Man Changes for Non-Life Insurers

"Whether or not a non-life insurer qualifies as a captive will have a material effect on the amount of capital it has to hold"

Jonathan Kemp
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Jargon Buster

BEL	Best estimate of liabilities
CoC	Cost of capital requirement
MCR	Minimum capital requirement
SCR	Solvency capital requirement

What is happening?

The Isle of Man is changing its valuation and solvency regulations for non-life insurers. This is another milestone on the island's roadmap for updating its regulatory framework for insurance business.

Two draft regulations were issued by the Isle of Man Financial Services Authority earlier this year:

- Insurance Regulations 2020 which relates to whether an insurance entity qualifies as a captive insurer (class 12)
- Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2020 which introduces a risk-based capital framework for non-life insurers on the island

Both sets of draft regulations had recent consultations that have now closed; the regulations are expected to be finalised before the end of 2019, with both scheduled to come into force on 1 July 2020.

The new approach to valuation and solvency has many similarities to the EU's Solvency II standard formula and, as a result, many insurance managers will be familiar with most of the features. Whether or not a non-life insurer qualifies as a captive will have a material effect on the amount of capital it has to hold.

Reporting and Approach

As well as specifying how valuation and solvency must be calculated for non-life insurers, the draft regulations also specify some reporting requirements. An insurer must submit a written report to its board of directors at least annually. This must cover a number of topics relating to the valuation of the insurer's technical provisions and solvency capital requirements, including:

- methodologies
- key assumptions
- expert judgements made
- results determined

In addition, the report must identify any deficiencies in the data used or the approaches taken, as well as recommending how they might be remedied.

A "CoC and BEL" Story

Assets and liabilities must be valued on a market value basis, at the amount for which they could be transferred or settled, between knowledgeable willing parties in an arm's length transaction. For most assets this is fairly straight forward, but for insurance liabilities and reinsurance assets it represents a departure from current approaches.

All non-life insurers will have to calculate their technical provisions for solvency purposes as the value of a best estimate of liabilities (referred to as "BEL" under Solvency II notation), plus a risk margin.

Captive insurers are allowed some flexibility in how they arrive at the value of technical provisions. The standard method in the regulations, to calculate the BEL, is to take a discounted cash flow approach, based on a projection of the expected cash outflows and inflows. Captives have the option of basing the BEL on their accounting reserves and considering where explicit prudence in these reserves can be removed.

Whether this represents an attractive option for captives may depend on the attitude of external auditors to the approach. In practice, it may be easier to follow the standard approach of a cash flow projection, which is most likely to result in lower capital requirements.

The second part of the technical provisions is the risk margin. The insurance assets and liabilities will attract a certain amount of solvency capital requirement (SCR) that needs to be held. The risk margin represents the cost of capital (CoC) in relation to holding the SCR.

As with the determination of the technical provisions, captive insurers are again given some leeway in how to arrive at the risk margin. As a general rule, the approach is to estimate the SCR in each future year, apply a cost of capital of 5% and discount those values to the reporting date. Captive insurers may use some approximations in the calculation of the risk margin. As with all approximations, they must be documented and justified.

Solvency Capital

The SCR is the regulatory capital an insurer is required to hold to be able to meet its obligations over the next 12 months, with a probability as defined by the relevant confidence level:

- for captive insurers, a 90% confidence level,
- for non-captive insurers, a 99.5% confidence level.

Or to put it more simply, capital is required such that a captive can withstand 1 in 10 year events, while non-captives must hold enough capital to withstand 1 in 200 year events.

The SCR is measured by applying different types of stress to both the assets and the liabilities. The resulting net change forms a component of the SCR. Different components are grouped together as either market risk, counterparty default risk, underwriting risk, intangible asset risk or operational risk. The groups of components are then combined to form a total SCR. At each level of aggregation, some allowance is made for diversification between the different types of risk. In that respect, the total SCR is less than the sum of its parts. This is achieved by applying correlation matrices when combining the different components. All of the parameters, including the stresses to be applied and the correlation matrices, are defined within the regulations.

In addition to an SCR, a minimum capital requirement (MCR) is also calculated. An insurer must hold own-funds of an amount that is equal to or greater than its MCR. For non-captives the MCR is the greater of 35% of the SCR and £500,000, whilst for captives it is the higher of 75% of the SCR and £100,000. At first glance the higher percentage of SCR for captives looks strange. However this reflects that, whilst the SCRs for captives and non-captives are based on different confidence intervals, the MCRs are targeted at the same level.

As might be expected, slightly more complex rules apply to protected cell companies.

How to Qualify

Non-life captives are described as "class 12" in the Isle of Man. The draft regulations describe the criteria that must be met for an insurance company to qualify as class 12. This is important as it is this class 12 qualification that determines whether an insurer can take advantage of the less stringent aspects of the valuation and solvency regulations.

Proposed criteria for class 12 authorisation:

- Policyholders are directly or indirectly related to the insurer.
- Policyholders are sophisticated parties that have consented, on an informed basis, to being insured by a class 12 insurer.
- Reinsurance business is fronted reinsurance by a commercial reinsurer.
- For reinsurance business the underlying direct insurance is ancillary to a main non-insurance activity of the reinsurer's group.
- Non-class 12 insurance business represents less than 5% of business.

The regulations set out the details of assessing the class 12 criteria, including what constitutes a related party, the meaning of informed consent, and how to measure the 5% de-minimis rule.

How BWCI can help

BWCI has many years' experience working both with captives, as well as with insurance companies reporting under similar solvency regimes to that proposed in the Isle of Man. We can help assess the financial impact of the regulations, assist in calculating best estimate liabilities and solvency capital requirements. We can also provide the necessary documentation of methods and assumptions to satisfy the reporting requirements.

Class 12 Captive Advantages

- Some level of approximation is allowed in calculating the BEL and risk margin
- The use of a 90% confidence interval, as opposed to a 99.5% confidence interval, results in the stresses applied being approximately half those for a non-captive
- A simplified calculation for the spread risk component of market risk
- Captives are exempt from the operational risk SCR component
- Captives are exempt from the catastrophe risk SCR component that falls within underwriting risk
- The absolute minimum MCR is £400,000 lower

Economic Substance Rules

"crack down on perceived abuses"

Carl Hansen
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Background

Guernsey, Jersey and the Isle of Man have all recently introduced "economic substance" rules which come into effect for accounting periods commencing on or after 1 January 2019. The rules are in response to an European Union and Organisation for Economic Co-operation and Development (OECD) initiative to increase transparency and to crack down on perceived abuses in certain sectors. The rules apply to all companies which are tax resident in one of the Crown Dependencies.

So far, the Crown Dependencies have published joint Guidance Notes as the issues faced by all three jurisdictions are similar. Each location has also made some additional information available.

The Rules

To fall within the scope of these rules, a company which is tax resident in one of the Crown Dependencies must have income from operating in one of the nine relevant sectors identified by the OECD (see box opposite).

Where the rules apply, a company must demonstrate that it has adequate substance where it is tax resident during a reporting period. If it does not, sanctions may apply.

Adequate Substance

For an affected entity, adequate substance generally means that it:

- is managed and directed in the island where it is tax resident
- has a physical presence there
- conducts Core Income Generating Activities (CIGA) on the island
- has an adequate number of (qualified) employees there to support its activities
- has adequate expenditure proportionate to the level of its activities

In general, the management/direction function involves holding board meetings on island, with a quorum of directors physically present; minutes and other company records must also be kept there. As the CIGAs vary by relevant sector, they should be reviewed in more detail if a company is within scope. It is possible to outsource activities to another entity, as long as the outsourced activities are adequately supervised and are undertaken where the company is tax resident.

Measuring Compliance

Compliance information will generally be reported via the local income tax filing process. This includes:

- Relevant activity
- Income by relevant activity
- Operating expenditure by relevant activity
- Business address
- Number of employees
- CIGA for each relevant activity
- Financial statements
- Details of outsourcing for any CIGA
- Value of Tangible Assets

Impact on Client Companies

We anticipate that BWCI client companies will probably fall into one of three relevant sectors; finance and leasing, insurance, or holding company. In particular, non-commercial trust companies do not fall into any of the relevant sectors.

Exemptions

Clause 6 of The Income Tax (Substance Requirements) (Implementation) Regulations, 2018 provides for some Guernsey companies to be exempt from economic substance rules. In particular, the rules will not apply for accounting periods where a company had no income from relevant activities. While not yet explicitly stated, a similar principle will probably apply in Jersey and the Isle of Man.

A company classified as a holding company may have simplified reporting. In particular, it will only need to comply with the Corporate Law Filing Requirements, and demonstrate that there are adequate people and premises in the appropriate jurisdiction (including outsourced activities).

We will be working with affected companies to ensure compliance with the new rules. Please contact your usual consultant for more information.

Relevant Sectors - Further details

- Banking
- Insurance
- Shipping
- Fund management (not including Collective Investment Vehicles)
- Finance and leasing
- Headquartering
- Distribution and Service Centres
- Operation of a Holding Company
- Holding intangible property (Intellectual Property)

Finance and Leasing

This category includes companies which offer credit or financing of any kind for consideration, including intra-group financing.

Insurance Company

This category encompasses companies undertaking both life and non-life insurance business within or from one of the islands as an insurer (including reinsurance). Other non-insurance companies undertaking activities connected with insurance (such as insurance managers or brokers) are not in scope.

Holding Company

The guidance on holding companies specifically focuses on "pure equity" situations, with the simplified compliance noted previously. Pure equity holding companies have the sole function of acquiring and holding equities that are controlling stakes in other companies. They are subject to the substance requirements if they are the beneficial owner of the shares.

Consultation on Revised Pension Rules

"designed to ensure members are better informed"

Erin Bisson
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The Guernsey Financial Services Commission ("GFSC") published draft revised pension rules for consultation in September. The proposed changes clarify the existing requirements as well as reducing the current overlap and duplication of requirements placed on licensed pension providers. A key change is that the conduct of business provisions (covered by chapters 2 to 9 of the current rules) have been absorbed into the new draft Fiduciary Handbook. Some new requirements are also proposed.

The consultation closed on 7 November 2019 and the draft handbook and rules can be found at:

https://consultationhub.gfsc.gg/fiduciary-supervision-policy-and-innovations/consultation-paper-revised-pension-rules/

Proposed Changes

Defined contribution ("DC") schemes
Licensees of DC schemes would need to notify members where there is no reasonable likelihood that, after member-borne charges are applied, the member's account will be sufficient to achieve capital growth in current or future market conditions. This is designed to ensure members are better informed and aware of the value of their account and the fees charged.

Defined benefit ("DB") schemes
DB schemes would need to have an actuarial valuation once every three years. This is already standard practice for many schemes, but not all will have previously adhered to this timeline if it is not specified in a scheme's rules. A three yearly valuation cycle has been a requirement in the UK for some time.

However, unlike the UK, where there is a 15 month statutory deadline for finalising the valuation, the GFSC's new rules do not impose any time limit for completing the exercise.

Other amendments affecting DB schemes include an increase in the minimum transfer value triggering a transfer value analysis report, from £30,000 to £50,000. This change is expected to make it easier to transfer small benefit amounts.

General

A new rule covering the fair treatment of members has been proposed. The current version of the rules includes this within the general principles, at the start of section 10, but there is currently no explicit rule. In a further simplification, a Statement of Investment Principles is no longer required for member-directed schemes. In addition, the draft rules include guidance notes throughout to assist the user.

Timescale

At this stage there is no firm date for when the revised rules will be finalised, but we expect this will be in 2020.

Guernsey Budget: Pension Changes

Guernsey released its 2020 budget proposals in October and these were debated by the States on 5 November. The table summarises the agreed changes that will affect pensions.

Aspect	Detail
Tax-free element of lump sums	After age 50 a person may take a cash lump sum of up to 30% of their pension fund value; the lump sum is tax-free up to a monetary limit. The 2019 limit is £198,000. **The limit will be increased to £203,000 for 2020**
Triviality provisions - aggregation	Following consideration of the 2019 Budget Report, the States resolved that, for members aged 50 or over, the limit for triviality payments was to be raised to £50,000 **per scheme** rather than in aggregate. However, the Income Tax Law was not fully updated to reflect this intention. **The Law is being amended this year, as part of the budget process, to remove the aggregation requirement.**
Triviality provisions - taxation	Some high earners in Guernsey are able to benefit from one of Guernsey's income tax caps, whereby tax is not charged on income above the relevant cap. The 2019 Budget Report included the intention that triviality payments would be excluded from the income tax cap. However, no proposition was included to this effect. **It has been agreed that the Income Tax Law be amended to exclude from the tax cap the following payments, if they derive from Guernsey tax-relieved contributions:** ■ **triviality payments; and** ■ **lump sum payments from pension schemes or annuity schemes which are chargeable to tax as being over the tax-free limit**

BWCI Bandits

BWCI's Touch Rugby Team

This season we saw the BWCI Bandits come joint top of the Mixed C Division of the Touch Rugby Summer League. Despite narrowly missing out on the top spot on try difference, our team were delighted with their performance in what was a breakthrough year.

The season got off to a slow start; without a win in their first 4 matches the BWCI Bandits were assigned to the Mixed C league for the remainder of the season. This would see them take on six teams with names such as the Specsavers Swamp Bats and the Investec Zebras.

The race for the league title came down to the matches in the last week of the competition; the BWCI Bandits and Albecq Anti-Sauce were joint top of the league, with the latter just ahead on try difference.

Despite the Bandits' impressive 7-2 win in their final match, they were not able to close the try difference gap; Albecq Anti-Sauce proved unstoppable and came away with an 8-2 win in their final match.

The BWCI Bandits put in a massive effort this season, with the new members proving invaluable, as well as a number of existing members becoming more experienced. Notable performances within our team were recognised in the Mixed C Divison accolades, with Elliot Wilson gaining the most "Most Valuable Player" points and Alex Senda scoring the most tries by a male team member.

BWCI Mind Sports

2019 BWCI Mind Sports

The October half term saw the return of the BWCI Mind Sports workshops. We were very pleased to be able to support the event again this year and welcome back Tony Corfe and his team for the series of strategy game sessions. After a busy week, Tony said: *"This year has been one of the best I can remember – the group of children have been a pleasure to teach"*.

The workshops are a great opportunity to meet new friends, as well as developing critical thinking and problem solving skills. From a series of chess coaching sessions which began 18 years ago, the workshops have expanded and now include a wide range of board and card games. In BWCI's 40th anniversary year, we were particularly pleased to see the growing Mind Sports legacy, with three local sixth formers returning to assist this year as coaches and to share their enjoyment of the games "with the next generation of players."

The week culminated in the Mind Sports Olympiad to crown the overall champions.

2019 Mind Sports Championships

Primary

Individual Champion:	Pippa Smith
School Champions:	Beechwood

Secondary

Individual Champion:	Sam Tooley
School Champions:	Grammar School

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