Bandwagon

The BWCI Group Newsletter

BWCI

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Inside this issue:

BWCI's 2017 Bursary Launched

Insurance Consulting Team Expands

Graydon Bennett
BWCI Senior Manager

We are delighted to announce the appointment of Graydon Bennett as a Senior Manager within our insurance consulting team. This new role has been created as a result of the continued growth of our insurance consulting business.

Graydon, who is originally from Canada, qualified as an actuary in 2012. He is a Fellow of both the Society of Actuaries and the Institute and Faculty of Actuaries. He joins us from a large life assurer based in Guernsey.

As well as taking responsibility for some of our key clients, Graydon will be working closely with our two Insurance Partners; Ian Morris who is our Head of Insurance Services, and Clair Le Poidevin, who manages the insurance actuarial team. Graydon will help to develop and grow our insurance consultancy services.

Ian Morris said:

"Graydon will be playing a major role in ensuring that we continue to offer high quality and innovative services.

We anticipate further growth in demand for actuarial services to captives, life companies, insurers and reinsurers in a range of jurisdictions including Guernsey, Jersey, the Isle of Man, Malta, Gibraltar and the UK. We also expect regulatory developments and new accounting standards, to continue to increase the need for actuarial services."

2016 BWCI Innovation Award Shortlist

The short-listed entries for each of the six business awards in the 2016 Guernsey Awards for Achievement were announced just before Christmas. Once again the BWCI Innovation Award proved to be a popular category, with entries from a variety of business sectors.

After a detailed analysis of all of the submissions, the judging panel selected three finalists, FCG, parent company of 1st Central, Galaxy Computer Brokers and Offshore.

BWCI's Senior Partner, Stephen Ainsworth, said:

"The Innovation Award judges once again were impressed with the quality of the entries this year and the range of innovations that were included. As a result, we have had a difficult task in deciding our shortlist and the eventual winner of the 2016 Award."

The winner of the BWCI Innovation Award will be announced at the Awards Gala Dinner on Thursday 9 February.

Shortlist for the 2016 BWCI Innovation Award	
FCG	The parent company of a financial services group with entities covering insurance, property, finance and law.
Galaxy Computer Brokers	An IT specialist recycling company based in the Channel Islands.
Offshore	A specialist consulting and accounting practice.

Strategic Review of Guernsey's Insurance Industry

"optimistic about the sector's future prospects"
Ian Morris

Areas for Development

- Cyber and technology
- Pension longevity de-risking
- Captives
- Retail
- (Rated) Reinsurance
- Life business
- Alternative reinsurance.

Support for Development

Four key themes to help realise the opportunities were identified:

1. Market consolidation and expansion
Targeting key insurance industry executives and entrepreneurs, establishing a regular forum for the Guernsey insurance sector and pooling resources to respond to external issues, such as the EU data protection requirements under the General Data Protection Regulation (GDPR).

2. Regulation and legislation
Formation of a working party to devise new regulations and legislation to support alternative reinsurance structures.

3. Resourcing
Identification of key roles within the insurance sector that will be recognised as a priority by the States of Guernsey, and hence receive support for issues such as housing licences for recruiting staff from off island.

4. Promotion
Continued support for both Guernsey Finance and Locate Guernsey, together with promotional initiatives to support issues such as the new rules for special purpose insurers.

Guernsey's Committee for Economic Development has recently released PwC's strategic review of Guernsey's insurance industry. It underlines the importance of the sector to the island's economy; employing 11% of finance sector workers and generating an estimated 20% of the finance sector's GDP.

The review was undertaken to highlight the current success of Guernsey's insurance sector, as well as to focus on how to enhance and develop a range of opportunities within the industry.

The review's key conclusion was: "The offshore insurance market is increasingly competitive and the island (Guernsey) cannot afford to rely on reactive changes to keep pace."

Methodology

The review was based on a large number of interviews and workshops, discussions within the PwC network and a survey of local insurance managers. It also sourced a variety of government data to try to validate and support the work done.

Key opportunities

Seven key sectors were identified as areas for potential development listed in the box (top left).

The breadth of opportunities perhaps highlights why the review also found that most insurance managers were optimistic about the sector's future prospects.

Key advantages

The review also highlighted a long list of advantages to being based in Guernsey. A survey of insurance managers found the top four to be:

- Flexible regulator
- Local expertise
- Proximity to London
- Innovation

It is likely that the perception of the key advantages will depend on the sectors of business undertaken by the specific manager. However, the list itself may be helpful to those looking to market their services.

Challenges

The review identifies a range of opportunities and ways in which they could be developed. However, some may be difficult to achieve in practice.

For example, the review notes the success of Gibraltar in attracting retail business (primarily motor insurance). Guernsey could, in principle, offer a similar service. However, there would need to be changes to UK regulatory requirements to facilitate this.

Brexit may prove an opportunity to reset UK regulatory requirements, but it is unlikely that this will be a priority for the UK. Hence patient negotiation may be needed to achieve market access for Guernsey.

Guernsey has flourished whilst not seeking Solvency II equivalence. However, it is still a matter for debate whether other approaches could provide improvement. For example, Bermuda has achieved equivalence for part of its insurance industry.

Could Guernsey be more successful if, say, commercial reinsurers had to comply with a Solvency II equivalent regime and benefited from the credibility that this might engender? It is not a simple issue, as the costs of aiming for such a regime could be considerable.

Would the UK require a Solvency II equivalent regime to allow Guernsey based entities to write UK motor business? The UK is leaving the EU so would not have to keep Solvency II. However something similar is likely to be retained.

Summary

The review is an excellent analysis of the core opportunities, as well as the issues to be addressed. It pinpoints what needs to be done to support the efforts to enhance Guernsey's insurance industry still further in order to benefit from these opportunities.

The challenges will be in the execution of the changes needed. The four key themes are all internal to Guernsey and, with the necessary focus, should be achievable. However other issues, such as access to the retail market, may require co-operation from the UK; securing the desired changes may be challenging.

Furthermore, there will be a need to remain flexible as further opportunities emerge. Guernsey will need to demonstrate both an awareness of market development and a rapid response to continue to develop and expand.

Further Information
Please contact Ian Morris at imorris@bwcigroup.com.

Jersey Pensions Update

"very low interest rates have increased the cost of purchasing an annuity"
Amber Buckingham

Jersey's 2017 budget was approved by the States in December 2016 and included two pension-related changes covering:

- Approved drawdown contracts
- The taxation of lump sum payments from overseas pension schemes

Approved Drawdown Contracts

Jersey's approved drawdown contracts allow individuals unlimited access to their pension savings, provided that they can demonstrate that they are in receipt of the Minimum Retirement Income ("MRI") before entering into an approved drawdown contract. The MRI requirement is to be in receipt of guaranteed future income at least equal to the amount of Jersey's full rate single person's old age pension.

In some cases this has meant that a person had to purchase an annuity with part of their drawdown funds in order to achieve the MRI. However, very low interest rates have increased the cost of purchasing an annuity, making it difficult to meet the MRI requirement in some cases; even in situations where an individual has significant personal wealth. Consequently it has been agreed that a second test, the Minimum Retirement Capital ("MRC") test will be introduced. Furthermore, if an individual is unable to meet either the MRI or the MRC test, there will be an alternative test which combines elements of both the MRI and MRC.

At this stage no timescale has been given for the introduction of the MRC test. This is because work is ongoing to determine both the amount of the capital required and what assets should be taken into account in determining whether the MRC has been satisfied. These details will be introduced by Ministerial Order in due course.

Overseas Lump Sums

By concession, before 27 March 2015 lump sum payments arising from the commutation of pensions from overseas schemes were treated as tax-free in Jersey. However, this concession was withdrawn in light of the UK pension freedoms that were introduced from April 2015. If the concession had not been withdrawn it could have potentially resulted in payments from UK schemes not being subject to tax anywhere.

As part of the budget approval it has been agreed that, wherever practical, lump sum payments from overseas pension schemes should be taxed in a manner broadly consistent with the taxation of lump sum payments from approved Jersey schemes. That is, 30% of the pension fund may be paid out tax-free, with the remaining 70% being treated as taxable income and subject to Jersey tax. Individuals are able to choose whether to apply the 30% test to the total fund value or to each separate lump sum payment received from the overseas scheme.

For consistency with the requirements for approved Jersey schemes, lump sums from overseas schemes paid on death, or on the diagnosis of serious ill health, before the commencement of benefits will be wholly tax-free.

These changes have been backdated to 27 March 2015 so that anyone who received a lump sum payment during the period after the concession was withdrawn will not have to pay tax on the full amount received.

Two New Actuaries

Erin Bisson

We are very pleased to be able to announce that both Erin Bisson and Matthew Le Blond have just completed all of the exams required to qualify as Fellows of the Institute and Faculty of Actuaries. Both Erin and Matt were born and educated in Guernsey and BWCI has supported them throughout their actuarial studies.

We first met Erin in 2005, when she joined us for a period of work experience in our Pensions Actuarial team during the summer holidays, immediately after she completed her GCSEs at Guernsey's La Mare de Carteret Secondary School.

Erin went on to study A levels at the Grammar School and Sixth Form Centre, before graduating with a BSc. in Mathematics and Statistics with Management from Brunel University.

Erin returned to join BWCI permanently in 2009. She spent the first four years of her career with us in our Investment Team, before returning to the Pensions Actuarial Team. Erin was promoted to an assistant manager in 2015 and has been the student representative on the Channel Islands Actuarial Association Committee for a number of years. On qualification Erin also becomes BWCI's first Chartered Enterprise Risk Actuary.

UK Finance Bill 2017

"a number of changes to the UK taxation of foreign pensions"
Debra Smith

The UK's draft Finance Bill 2017 was published on 5 December 2016 following the UK Chancellor's Autumn Statement. It contains a number of changes to the UK taxation of foreign pensions which are expected to apply from 6 April 2017. The headline proposals are summarised in the table below.

The legislation has been issued for technical consultation until 1 February 2017 and the final provisions of the Finance Bill 2017 will be confirmed in the 2017 Spring Budget, on 8 March. In the meantime if you require any further information, please contact your usual BWCI contact.

Aspect	Details of Changes
UK tax charges	The period during which UK tax charges can potentially apply to payments from overseas pension schemes will be increased from five to ten years of non-UK residency for: ■ QROPS (Qualifying Recognised Overseas Pension Scheme) transfers after 6 April 2017; and ■ Benefit payments from overseas pension schemes in respect of post 5 April 2017 accrual which has benefited from UK tax relief.
Overseas Registered Pension Schemes	Funds in registered pension schemes based outside the UK will be subject to UK taxation consistent with the tax treatment of UK registered pension schemes.
UK taxation of foreign pensions	■ UK residents will be taxed in full on their foreign pension income in place of the 90% multiplier that currently applies. ■ Lump sums paid under foreign pension schemes to UK residents will become taxable in the UK. However, if the lump sum is paid from a pension scheme that meets HMRC's definition of an "Overseas Pension Scheme" then the lump sum will receive the same tax treatment as if it were made from a UK registered pension scheme.
Section 615 schemes	UK schemes for internationally mobile employees ("section 615 schemes") will need to cease contributions on 5 April 2017 in order to retain their current exemptions from tax on investment income and pensions paid to non-UK residents.

Matt joined our Pensions Actuarial team in 1998. He was educated at Guernsey's Elizabeth College and graduated from the London School of Economics with a BSc in Economics.

Matt, who is an assistant manager, has undertaken a variety of roles within BWCI. Initially working as a member of the client team advising a range of UK, Channel Islands, and international clients, he has recently shifted focus to concentrate on development of new actuarial solutions and research project work within the pensions actuarial team.

In addition, Matt has also been seconded to other teams to support a number of key projects in our compliance and pensions administration teams.

Matt is also the Honorary Treasurer of the Channel Islands Actuarial Association.

Matthew Le Blond

Insurance Accounting - the shape of things to come

"The proposed changes are likely to be challenging..."
Graydon Bennett

Timeline

1997
Project started

2004
IFRS4 interim issued

2007
Discussion paper

2010
Exposure draft

2013
Revised exposure draft

2017
Expected standard

Accounting standard setters have been debating the structure for accounting for insurance for many years. The International Accounting Standards Board have now voted that a new standard, IFRS17, should be effective from 1 January 2021.

This may seem a long time away, but the changes required are substantial. In addition, prior year comparatives will be expected. Therefore, it is prudent for those involved in insurance to be aware of the issue and the potential implications well in advance.

Perceived need for change

The current standard IFRS4 for insurance contracts is only an interim one and permits a wide variety of practices. It includes a temporary exemption from the requirement that accounting policies should be relevant and reliable.

The limitations of the current approach include a lack of transparency and comparability between products, companies and across jurisdictions.

History

The potential changes have been through an extensive process of review and consultation. As illustrated in the timeline, the development has taken around 20 years so far, reflecting the concerns over the requirements' complexity and potential impact. The standard is expected to be issued in the first half of 2017, which should give over three years to prepare for implementation.

Nature of the changes

The changes will ultimately be defined when the standard is issued. However, the key principles have been debated in the various draft documents so the outline is reasonably clear. The standard contemplates three models, depending on the nature of the contract written. They are:

- A building block approach that will be the default and cover most long term business
- A premium allocation approach that will probably be used for short term business
- A variable fee approach that may apply to contracts which participate in specific pools of assets and will probably be used for both unit linked and with profit contracts

The building block approach has many similarities to Solvency II in requiring:

- Discounting with allowance for risk
- Market consistent valuation of options and guarantees

However, it is likely there will also be differences of interpretation and application. For example, day one profits may be eliminated under IFRS17, unlike the position under Solvency II.

It is also worth noting that insurers may elect to defer implementation of IFRS 9 (Financial Instruments) to coincide with their implementation of IFRS17.

Challenges

The proposed changes are likely to be challenging for all those involved in creating and using insurance accounts. Those producing accounts will have to adapt to a new regime, with requirements which are very different from the current regime; additional data and new calculations will be required.

For many companies the process of collecting additional data could take some time, since the precise data needed will have to be defined and the collection process specified and tested. Companies will the then need to specify and test the new accounting calculations.

While some elements of the new regime bear some resemblance to Solvency II, the approaches are not the same. In addition, the application of the new standard will encompass insurance companies not currently required to report under Solvency II.

For users the new style accounts may offer greater consistency and comparability. However, the process is more complex and the user will need to understand the reasons for the changes and the implications.

Conclusion

The evolution of the new accounting requirements for insurance companies has already taken over 20 years, reflecting the complexity of a project that has to meet the needs of varying types of insurance.

For long term business the changes are likely to be fundamental and akin to the changes needed for Solvency II. For short term business the changes to adopt the premium allocation approach may not be so dramatic, but will still require review.

Implementation is still around four years away but, given the challenges, those affected would be wise to start considering the issues as soon as the final terms are issued.

Further Information

Please contact
Graydon Bennett at gbennett@bwcigroup.com.

On the Trail of Lost Pensions

"The powerful search facilities only require limited information"
Michelle Galpin

According to a statistic quoted by the former UK Pensions Minister, Baroness Ros Altmann, people will have an average of 11 jobs during their working life. This underlines that the days where the aspiration and expectation was a 40 year career with a single employer are long gone. An increasingly mobile workforce presents some pensions challenges; perhaps not immediately obvious in a DC pensions environment, but there can be pension implications from so many job changes.

How pensions are lost

The challenges of keeping track of workplace pensions become increasingly problematic, as the list of former employers grows longer. This is unsurprising since keeping pension scheme administrators up to date with changes in circumstances is probably not top of the list of priorities when moving house!

Scale of the problem

It is estimated that there are around £400 million in unclaimed pension savings in the UK. Being able to match up these funds with their owners should be a simple way to support people in retirement, for minimal outlay. However, the anticipated difficulty in tracking down these "lost" savings is often a disincentive for many from taking that first step along the road to locating their "lost" pensions.

A typical reaction is "well it won't be worth very much anyway as it was such a long time ago". In reality, the value of the "lost" pension might actually be quite substantial, particularly if it stems from membership of a UK final salary scheme after 1985 (when statutory deferred pension increases were introduced.)

New Tracing Service

The good news is that help is now readily at hand. The UK's Pension Tracing Service has launched a Department of Work and Pensions ("DWP") website, providing free online access to a database of 320,000 pension scheme contact details:
www.gov.uk/find-pension-contact-details

Search information

The powerful search facilities only require limited information; the name of either the pension scheme or the former employer (just part of the name will probably do). Type this into the search bar, hit return and a list of potential candidates appears instantly.

The search facility appears to be able to cope well with schemes that have been absorbed into another pension arrangement following a corporate transaction or other restructuring. This is because each employer listed has links to the pension schemes in which it has participated. In addition, where the scheme is still live, a link to the key contact is also provided. Even if the scheme is no longer live, that is not the end of the trail, as the website includes an online form to complete, seeking further information.

What about non UK schemes?

While primarily a resource for tracing lost UK pensions, some overseas schemes also appear to have been included within the database, presumably those with some UK connection at some point.

What the tracing service doesn't do

The tracing service will not provide details of the amount of any pension benefits. It is just designed to help those trying to track their pensions down to initiate the process. However, armed with a name and scheme contact details, those lost pension benefits should be considerably easier to claim.

First Steps in Tracing your Lost Pension

If you think you may have some pension entitlement but have lost contact with the scheme, here are a few tips to get you started.

1. Make a list of all of your former employers and any personal pensions and the approximate dates of membership.
2. Check for any paperwork you may have for the official name of the scheme or your employer.
3. Use the online tracing service to search for the contact details of the current administrator - www.gov.uk/find-pension-contact-details
4. Contact the administrator. The more information that you can provide the quicker it will be to establish if you have any benefit entitlement. They are likely to need your name, dates of membership and any reference number. If you can provide copies of any correspondence or statements detailing your benefit entitlement then so much the better.

BWCI's 2017 Bursary Launched

Toby Birch
BWCI's 2016 Bursary Winner

We are pleased to be able to announce the launch of our 2017 undergraduate bursary. Now in its 11th year, BWCI's bursary scheme has been specially designed to support local students wishing to study for a degree at university. As well as providing financial support, our bursary students participate in a structured training programme during their summer vacations, throughout their course.

While we invite applications from all local students meeting the criteria, preference is given to those studying for degrees in maths, economics, or other subjects with some mathematical content.

Application forms can be downloaded from our website: https://www.bwcigroup.com/bursary

Short-listed candidates will then be invited to an interview, before the recipient is chosen. For further details about the bursary scheme please contact our Senior HR Manager Alison Hawkins, (ahawkins@bwcigroup.com)

Closing date for applications
10 February 2017.

Trust Exam Success

Matt Southwell

We are pleased to report that Matt Southwell has recently passed the Trust Creation: Law & Practice exam which is the first milestone along the route to the STEP Diploma in International Trust Management.

Matt, who joined BWCI in 2006, already holds the Investment Operations Certificate of the Chartered Institute for Securities and Investment.

Matt is a manager in our Pensions Administration team and is based in Guernsey. He is the account manager for a number of our Channel Islands and international pension administration clients, and has also been involved in managing some of the Group's recent key projects.

Promotion

Andy Sarson

We are pleased to announce the promotion of Andrew Sarson to an assistant manager within our Pensions Administration team.

Andy joined BWCI 14 years ago, initially in our Actuarial Insurance team as an analyst. He subsequently became a senior analyst in 2007. In 2010, due to changes in business requirements, Andy moved into our Pensions Administration team.

Andy's promotion reflects his many years of hard work and service to BWCI.

Front cover image courtesy of VisitGuernsey

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