Bandwagon

The BWCI Group Newsletter

BWCI

Quarter 3 - 2016

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BWCI Promotions

Our New Partner

Andrew Mountford

We are delighted to announce Andrew Mountford's promotion to Partner with effect from 1 July 2016. Andrew joined us in 2004 as an actuarial trainee in our actuarial pensions consultancy team. He completed the actuarial exams in 2012 and subsequently became a Fellow of the Institute and Faculty of Actuaries in 2014.

BWCI's Senior Partner, Stephen Ainsworth, said: *"Andrew's promotion is a great addition to the partnership and reflects his years of hard work, dedication and development within BWCI".*

As well as advising a range of Channel Islands, Isle of Man and UK pension clients, Andrew also chairs BWCI's Actuarial Modelling Group. He has worked on the development of a number of our in-house models. He has also led the initial development of BWCI's Pension Projector, our retirement planning tool, which is available on Pension-Net.

Senior Management Promotions

Mike Freer

Alison Hawkins

Together with Andrew Mountford's promotion to Partner, we are delighted to announce six further promotions this year.

Mike Freer becomes our Senior Business Development Manager. Since joining BWCI in 2013, Mike's efforts have resulted in a significant expansion of our Blue Riband client base. In addition, Mike has been involved in restarting the Jersey Pensions Association. He is also the resident pensions expert on the Jersey Evening Post Business Panel.

Alison Hawkins becomes a Senior Manager in our HR team. Alison has played a leading role within BWCI's HR team for the last 5 years. She is a chartered member of the CIPD, and has just begun her second 4 year term on the local committee.

Other Promotions

Back row: Michael Jones (left), Matthew Hardy
Front row: Lilyanne Gamble (left), Katie Merrien

Katie Merrien joined us in 2006 as an actuarial trainee, and having progressed through many of the professional exams, now becomes an Assistant Manager in our Actuarial Insurance team. Her colleagues, Matthew Hardy and Michael Jones who both joined in 2013 as Actuarial Trainees, are progressing well through the Institute and Faculty of Actuaries exams, and take on senior trainee roles in the team.

Island Global Research's Lilyanne Gamble becomes a senior researcher within the IGR team, reflecting her contribution to the development of BWCI's newest business area.

Fiduciary Team Strengthened

Michael McKay

We are pleased to announce the appointment of Michael McKay as Deputy Chief Executive of our Fiduciary business. This is a new position, which we have created as a result of the continued growth of our pensions trusteeship and administration business.

We anticipate further growth in both our Blue Riband range of leading pension products for local and international employers and individuals, and also in our bespoke trusteeship and administration services.

Michael is a qualified accountant and joins us with a wealth of experience in financial services in both Guernsey and the Isle of Man. As well as taking responsibility for some of our key clients, he will be working closely with both Steven Jones, the Chief Executive of our Fiduciary business, and with Stephen Ainsworth, our Chairman and Senior Partner, in managing this area of our business.

Stephen said: *"Michael will be playing a major role in driving the next stage of our development as a leading pensions provider."*

Channel Islands Financial Ombudsman

"the CIFO's final decision is binding"
Stacey Wilen

On 16 November 2015 the Channel Islands Financial Ombudsman (CIFO) opened for business. The CIFO provides an independent dispute resolution service for complaints involving financial services provided in or from Jersey, Guernsey, Alderney and Sark. Following the recent publication of the CIFO's annual report for 2015 and its complaint statistics for the first two quarters of 2016, we consider the scope of the CIFO's mandate and its experience to date.

Who can complain and about what?

Complaints can be made by individual consumers or micro-enterprises, irrespective of where they are based. Channel Island based charities may also be able to complain. Complaints can be made in relation to any of the financial services businesses listed below, provided that the service is provided in or from the Channel Islands:

- Deposit-taking, eg banking
- Credit, eg lenders
- Money service, eg cashiers
- Insurance, eg insurance companies/brokers
- Investment, eg investment managers
- Pensions, eg pension providers

Complaints cannot be made against lay pension trustees as they are not financial services businesses.

When can a complaint be made?

Only complaints resulting from an act or omission made on or after 1 January 2010 in Jersey and 2 July 2013 in Guernsey, Alderney and Sark may be brought to the CIFO.

Any complaint must be made within 6 years of the act or omission occurring or, if later, 2 years from when the complainant should have known that they had reason to complain.

In addition, a complainant needs to refer any complaint to the CIFO within 6 months of receiving a final decision from the financial firm concerned. This is provided that the firm has followed specific procedures in dealing with the complaint, including notifying the complainant of the CIFO and the 6 month deadline.

How is the CIFO funded?

No charge is made to complainants using the CIFO service. Instead, the costs are met by annual levies on financial service providers in the islands that fall within the scope of the CIFO. In addition, case fees are charged to the specific firms if they have a case referred to the CIFO.

What decisions can the CIFO make?

Where possible, the CIFO will seek to mediate any claim with the aim of coming to a solution that is mutually agreed and fair to both parties.

However, where agreement cannot be reached, the CIFO will investigate and determine a provisional decision. If this decision is rejected by either party, further investigation will take place and a final decision made by the CIFO.

The final decision may require that the firm compensates the claimant for any material financial loss and also for any material stress or inconvenience. The maximum amount that the CIFO can award is £150,000.

If accepted by the complainant, the CIFO's final decision is binding and no later court proceeding may be brought on the same issue.

What does CIFO expect from firms?

The CIFO expects firms to have adequate complaint handling procedures in place so that as many complaints as possible can be resolved between the complainant and the firm, thus minimising the number of unresolved complaints being referred to the CIFO. The CIFO has produced a model procedure for firms, which will be kept under review in light of actual experience by the CIFO. This model procedure is available online at:

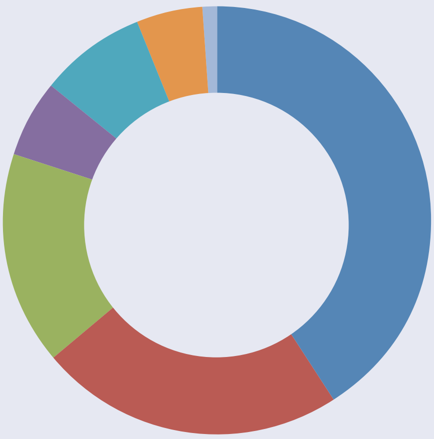
https://www.ci-fo.org/wp-content/uploads/2016/01/151116-CIFO-model-complaint-procedure.pdf

Experience so far

The recently published statistics indicate that a total of 340 complaints were received by the CIFO between 16 November 2015 and 30 June 2016. Around 61% of these have been closed. Many of these have been due to the complaint being outside of the CIFO's mandate. However compensation has been awarded to 26 complainants so far.

This limited experience means there is still some uncertainty over likely outcomes for consumers and financial services providers alike. However, the CIFO has just published its first case studies on its website to illustrate the types of complaints reviewed since November 2015. These include details of the approach adopted to resolve them.

Quarters 1 and 2 2016 Complaints Sector of Business Activity



- Banking
- Insurance
- Investment/Funds
- Non-Bank Money Services/Credit
- Pensions
- Trust/Fiduciary
- Non Financial Service Related

Sources:
CIFO Complaint Statistics for Q1 2016 and Q2 2016

Brexit - The Future

"The islands could play a useful part in this"
Mark Colton

The referendum campaigns were widely criticized as misleading, and in the aftermath of the results there was back-pedalling from the Leave proponents. It has also provoked a feeding frenzy in the media. So it has been difficult to find anything firm on which to base decisions.

I previously described Brexit as a wall of uncertainty advancing like sea fog. We are now in the metaphorical fog, and I am reminded of the man who found himself in the thickest of literal fogs, with only his walking stick for aid. He tapped nervously to the front, back, left and right, and felt nothing. He concluded he was on a small outcrop with the abyss on all sides. He stayed frozen to the spot, racked with fear. When the fog cleared, he found that the end of his stick had broken off. The questions and answers that follow try to identify how much is abyss, and how much is broken stick, and what we do next.

QUESTION
Is the vote on Brexit binding?

No. The referendum result was advisory.

QUESTION
How would Brexit be implemented?

Article 50 of the Lisbon treaty is the most frequently mentioned mechanism. The proposal to leave the EU (the "withdrawal agreement") would need to be presented to Parliament with a Government Explanatory Memorandum for 21 sitting days before it could be ratified. If it is not ratified, then the Government can present it again, and the process can go on forever if it keeps failing to be ratified. Reading the newspapers suggests this matter is in doubt, and may be a prerogative of the Government, acting without the assent of Parliament. There was no such indecision in the House of Commons' own research paper (see below).

QUESTION
Is there any documentation to help inform on this topic?

Yes: the House of Commons' research paper, "Leaving the EU" dated 1 July 2013.

This is a useful reference document, where many of the key issues have been thought through, and this article draws on its content.

QUESTION
What does "Leave" actually mean?

No-one knows, including those who advocated leaving.

Everyone is united in wanting to have trading relations with EU members, and there are numerous examples of how other countries achieve this, including Switzerland and Norway. But access to the EU market always has a price. The UK's existing arrangement actually struck a good balance: access to the market but with a rebate, outside the Euro currency, and outside the Schengen Area (so that the UK kept its border controls).

QUESTION
Has a country ever left before?

Yes: Greenland, although it left the EC, the forerunner of the EU.

The decision mirrored the UK's, with the vote being 52% to 48% in favour of leaving, with a turnout of 75% on 23 Feb 1982. There was only one material point of negotiation: fisheries, but it took three years before Greenland finally withdrew.

QUESTION
Will Article 50 be triggered straight away?

Almost certainly not.

The Conservatives have elected a new leader (and maybe Labour will too), and there is the possibility/probability of a general election. Also, Article 50 starts the clock running to exit but there are no guarantees on negotiations. So the UK could find itself exiting the EU with no agreements at all on trade with the EU, or penal ones, because it ran out of time. Article 50 can only be triggered by the country seeking to withdraw. There is only downside to pressing the button before a country is fully prepared for the consequences.

QUESTION
What are the issues for Europe?

Having the UK leave the EU is not good for the remaining 27 countries for all sorts of reasons. The risk is the rise of nationalist movements in other member states following the UK's lead. Brussels can play hardball with the UK, in the hope of bringing member states into line, or pursue urgent reform, which might take the sting out of potentially destabilizing forces.

Pensions for EU officials (which include 3,000 from the UK) are paid by the EU budget. The EU expects the UK to pay a lump sum to close its exposure. London views the pensions as too generous and the responsibility of EU institutions. The estimated lump sum is a huge € 60bn.

QUESTION
What does Brexit mean for the Crown Dependencies?

Jersey, Guernsey and the Isle of Man are already outside the EU, except for the free movement of manufactured goods and agricultural products, granted under Protocol 3 of the UK's Treaty of Accession. This Protocol would fall away under Brexit and an alternative looked for. The UK will have to undertake negotiation on the islands' behalf, because they are not sovereign states so are not free to choose their own relationships with the EU.

Each island has a significant finance sector that already has EU relationships that are not expected to be affected by Brexit. However, the role the UK plays in the EU and the health of the UK's finance sector are important factors. An adverse impact there would be felt in the islands. The EU indicated interest in attracting investment across the world, in its Green Paper on Capital Markets Union, 2015. The islands could play a useful part in this, but have also seen hostility from the EU when branded as tax havens. There may be new opportunities however, as the UK looks to new, non-EU, global trade.

QUESTION
What does this mean for investments?

Global equities quickly shrugged off the news, and the UK stock market held up well as investors realised that weakened Sterling was good for international revenues that made up over 70% of revenues of UK listed companies. Corporate bonds' spreads widened, but Government bonds' prices rose. Other "safe havens" such as gold, also appreciated in value. In the longer term the consensus is that there will now be a drag on economic growth. Central banks are making a concerted effort to maintain stability, which means more low rates. For those with base rate tracker mortgages this is good news.

QUESTION
What does this mean for Defined Benefit (DB) pension plans?

Trustees have by now become familiar with the news that pension deficits increase. For most, the immediate impact is likely to be a rise in deficits as gilt yields fall yet again. However, much can happen between now and the next valuation date. There are lots of options to consider in the meantime, such as an asset liability study to optimize investment strategy, potentially leading to the introduction of a liability driven investment (LDI) strategy.

QUESTION
What does this mean for Defined Contribution (DC) pension plans?

All focus is now likely to be on the default option, which in most cases is likely to be a form of "Lifestyle", a carefully phased move in the investment mix as members move through their career towards retirement, since this is where most members invest. The questions to be asked (quickly) include:

- UK equities (too much?)
- European equities (too much?)
- Other equities (too little?)
- Equities approaching retirement (too much?)
- How has the investment manager performed?

QUESTION
Property funds are suspending dealing - what does this mean?

Property funds are full of illiquid investments. We only have to reflect on our own house moves to recall the considerable period between wanting to sell and moving in/out. If panicky retail investors fear that the UK property market is in trouble then only so many of them can encash before the pause button is pushed. This is not just a reflection of illiquidity it is also to prevent a "fire sale" at deeply discounted prices that helps no-one. Funds aimed at institutional investors do not seem to be experiencing difficulties. Brexit may be bad for commercial property if the economy slows, although this could actually improve yields if supply becomes restricted. Additionally, weak Sterling makes the UK more attractive to international investors. Moreover, people are not going to stop Internet shopping, so warehouses will still be in demand.

The Leave vote has already left pollsters, pundits, politicians and political parties red-faced: there's no need to swell their numbers. Some careful thought and advice from your consultant will help decision-makers with their next steps.

The New Pensions SORP

"auditors have a range of views"

Carl Stanford

The 2015 revision of the Pension Schemes' Statement of Recommended Practice (the Pensions SORP) has resulted in some significant changes to the information that trustees need to include within pension scheme accounts. These changes, which take effect for accounting periods commencing on or after 1 January 2015, follow the release of Financial Reporting Standard 102 (FRS102). For the first time the standard includes specific requirements for pension schemes. While these are less onerous than the requirements for other financial institutions, they are still fairly detailed and also require a back year restatement.

The principal changes introduced by the latest Pensions SORP relate to four areas:

1) Fair Value Hierarchy For Investments

Pension schemes must provide a split of the assets held within each asset class by a specific valuation hierarchy of fair value, reflecting the availability of a quoted price for the asset and the level of market activity for the asset. There is also increased disclosure around the methods used to determine fair value where the absence of a suitable market value requires a valuation technique to be used.

2) Investment Risk Disclosures

Both Defined Benefit (DB) and Defined Contribution (DC) pension schemes now have to disclose information in relation to certain investment risks, including:

Credit Risk: The risk that the value of an investment reduces due to the failure of a counterparty to discharge their liability. This typically relates to bond, cash and derivative holdings, with additional disclosures relating to derivatives.

Market Risk: This consists of currency risk, interest rate risk and other price risk - the risk from the movement in the market value of an investment other than from interest rate risk or currency risk.

The Pensions SORP requires that the disclosures should include a scheme's exposures to each risk and the trustees' policies and processes for managing these risks. The methods used to measure the risks should also be disclosed.

There are also specific disclosure requirements in relation to pooled investment vehicles, including the nature of the pooled vehicles and associated direct and indirect investment risks.

3) Valuation Of Annuities

While previously trustees could account for any annuities held in the name of the trustees at zero value, FRS 102 introduces a requirement to value annuity assets at fair value. There is some flexibility about how this may be done, but it would typically be on the ongoing funding basis, unless the scheme was preparing to wind up.

4) Actuarial Liabilities

Based on the most recent actuarial valuation, trustees are required to disclose within the trustees' report the scheme's actuarial liabilities, together with the method and assumptions used to value them.

Our Experience To Date

The complexity and amount of information needed to prepare the disclosures under the new SORP has resulted in many trustees turning to their investment advisers for help. We have already assisted a number of clients in this area and, based on our experience to date, of the lessons learned so far are:

- It is worth starting the exercise as early as possible. This is because often information has to be obtained from a number of different sources and then analysed and collated to produce the disclosures.

- We have found that some of the data has not been readily available and has had to be specifically requested from the scheme's investment manager(s) in order to complete the disclosures. This may take longer than expected, particularly in this first year, where a back year restatement is also required.

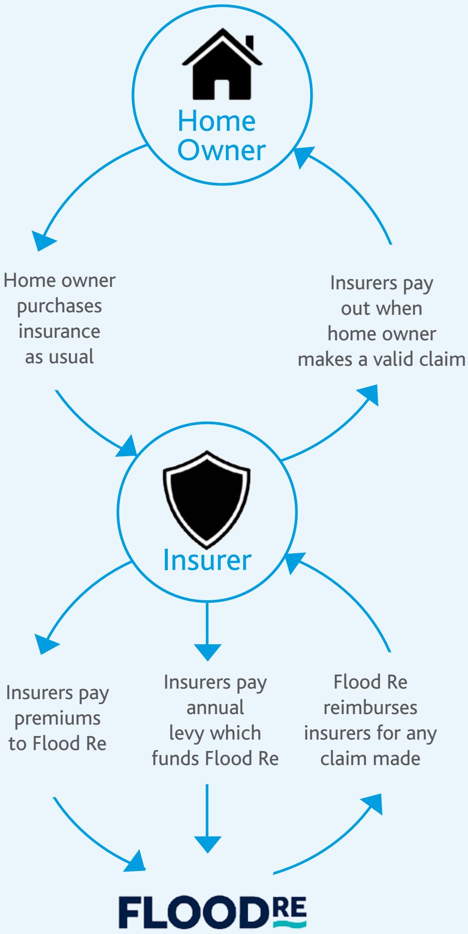
- While investment risk disclosures are required for both DC and DB schemes, the disclosures are simpler for DC schemes if scheme members make the investment allocation decisions.

Final Thoughts

As with any new requirement, the changes will take a little while to bed down. Unsurprisingly, firms of auditors have a range of views as to how the new Pensions SORP should be interpreted, but hopefully a consensus will emerge in advance of next year's round of accounts.

Flood Re Insurance Scheme Launched

"the availability and affordability of flood insurance should significantly improve"
Clair Le Poidevin



Recent large scale flood events continue to plague the UK, highlighting the impact of severe flooding, including the difficulty experienced by those affected in subsequently finding affordable home insurance. Fortunately the situation has improved since April, with the launch of Flood Re. Developed by the insurance industry in conjunction with the UK Government, Flood Re is the first scheme of its kind, anywhere in the world, seeking to address the issue of affordable insurance cover.

What is Flood Re?

Flood Re is a reinsurance company, owned and managed by the insurance industry, set up to enable insurance companies to insure themselves against losses due to flooding (much like a captive). As it is a "not for profit fund", the premiums charged can be lower than in the general reinsurance market. Flood Re has been designed to be in place for 25 years, with specific aims which are set out in the table.

How it works

Flood Re reinsures the flood risk part of a home insurance policy from the insurer in return for a premium. If there is a claim the insurer pays out and then recovers its costs from Flood Re.

The cost of setting up Flood Re, which is estimated to be over £20 million, was met by the insurance industry. Individual insurance companies have also spent many millions more on their own systems.

The fund covering the cost of claims comes from two sources; the premium paid by the insurer on each policy and an annual levy.

The premium is based on Council Tax bands and range from £120 per annum to £1,200 per annum. The actual overall premium charged to the customer is set by the insurer, rather than Flood Re, and includes additional risks such as fire and theft, not just flooding.

The annual levy is payable by all insurers authorised to write home insurance. It has been set at £180 million per year for the first five years and will be split between insurers based on their market share.

Which policies will be reinsured?

A property will only be eligible to be admitted to the Flood Re scheme if it is being used for residential purposes, was built before 1 January 2009 and is located in England, Wales, Scotland or Northern Ireland.

However, the final decision on whether a policy will be reinsured with Flood Re will be if the price of the flood insurance is less than the premium charged in the direct market.

It is anticipated that around 350,000 households will benefit from Flood Re, which is about 2% of the total eligible market.

Impact on home owners?

Home owners will see no difference in the way they buy their home insurance, or in the way they make a claim. However, by the very existence of Flood Re, the availability and affordability of flood insurance should improve significantly.

In practice, the homes at greatest risk of flooding are likely to be reinsured through Flood Re. As a consequence, the additional perceived flood risk will not lead to a higher premium for the home owner. This is because part of the cost will be met through the insurance industry levy. Therefore, insurance cover will continue to be available to home owners in flood risk areas.

Impact on Crown Dependencies?

The Channel Islands and the Isle of Man are excluded from the Flood Re scheme, so it is not expected to have any direct impact. At this stage we are not aware that any limitations on the availability of insurance apply in these territories. If flooding or other extreme weather events do become a recurrent issue in future then Flood Re may provide a template for a possible solution.

What happens in the longer term?

The insurance industry is hoping that the UK Government will take steps to help control and manage flood risk. If this is successful then over time the role of Flood Re may diminish. However, if insufficient action is taken then the need for Flood Re could continue beyond its anticipated 25 years.

Aims of Flood Re

- Enable flood cover to be affordable to households at highest risk of flooding.
- Increase availability and choice of insurers for customers.
- Create a level playing field for new entrants to the insurance market and existing insurers.
- Allow time for the Government, local authorities, insurers and communities to become better prepared for flooding.

Mike's Charity Stroll.... just 48 miles!

Mike Freer

Mike Freer, who is based in our Jersey office, has recently been able to tick off 'The Around Jersey Island Walk' from his bucket list. Not only is this a gruelling 48 mile endurance test, it involves getting up very early for the 3 am start. Mike completed the walk in 15 hours and 48 minutes.

Mike said: *"It was a 'must do before I can't' test of mind over matter. At the 20 then 30 mile marks I did think 'why'? The atmosphere, support and pure adrenaline encourage you to push your body that bit further than ever before (well certainly in my case). I had the obligatory blisters to prove it!*

Am I pleased - yes to have survived, it was brutal at times, especially on the north coast cliff paths. But on reflection, to see the sunrise across the south coast at 5 am, the stunning views on the north and west coast and the encouragement from all the volunteers at each of the drinks stations makes you smile and say Yes, but never again!"

The most important aspect of the walk is the money raised for local charities from this annual event. Over the last 26 years since the event began, more than £2m has been raised.

Mike is grateful to all of his colleagues and friends for the generous sponsorship and to the BWCI Foundation who very kindly doubled his sponsorship collected.

BWCI Bursary


Toby White
2016 BWCI Bursary Winner

BWCI's 2016 bursary has been awarded to Guernsey Grammar School Sixth Form student Toby White. He is currently awaiting the results of A levels in Mathematics, Further Mathematics and Chemistry and intends to study Mathematics at the University of Exeter.

Toby said *"I was delighted to be offered the bursary and am looking forward to working at BWCI every summer for the duration of my University course. This opportunity will provide me with valuable experience and give me further insight into working life, as well as preparing me well for after University."*

As well as financial support throughout his university course, Toby's bursary includes work placements in both our actuarial consultancy and administration teams.

Alison Hawkins, BWCI's Senior HR manager commented *"Once again we were really impressed with the level of bursary applicants and delighted that Toby accepted. Hopefully the work experience and award will benefit him during his university career".*

BWCI Mini Soccer Festival


Everton, winners of the 2016
BWCI Mini Soccer Festival

This year's BWCI Mini Soccer Festival saw over 250 players in 23 teams competing in the group stages to get through to the last 16. The top 8 teams then went on to the knock-out stage for the BWCI Shield, while the remaining eight battled for the BWCI Plate.

We were delighted that a total of six UK professional academy teams took part. Two of them, Everton and Southampton faced each other in the final. After a goalless draw last year's winners Everton retained the trophy after a penalty shoot-out.

The final for the BWCI Plate was an all Jersey affair, with St Pauls overcoming St Brelade to take home the trophy for the first time.

Festival chairman Martyn Banton said: *"Once again the BWCI Festival has delivered another fantastic experience for all who have enjoyed participating. We have seen some really impressive performances, but perhaps more importantly the Festival was played in great spirit."*

Front cover image courtesy of VisitGuernsey

Keep Guernsey Green AWARD

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