

Guernsey focus

Stephanie Baxter took a trip to Guernsey to find out what makes the island's financial services industry tick

For a small island with only 62,000 inhabitants, Guernsey might appear to be a small fry in the ocean, but it might surprise many to discover that - unlike its larger counterparts - Guernsey has not only had a pretty smooth ride through the financial crisis but has also managed to break a few records in the process.

Its greatest achievements this year include receiving recognition from the International Monetary Fund (IMF) for its "high standard" regulatory infrastructure. Guernsey has long been viewed as a holiday destination with its close proximity to France and the UK, but the island's main income is generated from its financial services sector rather than tourism.

The island's finance industry contributes around 40% to the Crown dependency's total GDP, which could easily have led to its downfall during the economic crisis. But despite a 4.5% decline in the economy during 2008 the island is currently in a stronger position than other jurisdictions, with no public deficit and a well-supported state pension scheme.

Yet it is Guernsey's investment funds industry that has really taken off recently by moving past the £250bn mark at the end of December 2010 with a phenomenal growth rate of 40% over just one year.

Guernsey's focus on niche products has helped it to ride out the storm, says Jarrod Cowley-Grimmond, director of finance sector development for the States of Guernsey. Like most offshore jurisdictions, Guernsey has specialised in certain products to differentiate itself from the rest of the market. Over the past two decades the island has experienced a gradual shift from retail or equity-traded schemes to predominantly institutional niche funds.

While the Cayman Islands have concentrated on hedge funds, Guernsey has become well-known for its private equity funds, fund of hedge funds and closed-end listed funds. Investors are looking for those alternative funds now more than ever as well-regulated and secure products are set to become the future.

Paul Everitt, who is managing director at Fund Corporation of the Channel Islands, says that Guernsey will benefit from diversifying itself. Fund Corporation,

which was established in 2007, services clients with private equity, real estate and fund of hedge funds, but is getting demand in new areas. "We have clients who are looking to launch in many new areas: start-up hedge funds, real estate derivatives and more IFA-focused fund offerings," Everitt adds.

This need to diversify is more important now than ever as emerging fund domiciles such as Malta and Cyprus creep into the picture, citing concern that Guernsey and other well-established centres could lose out to the rising competition. Yet according to Mark Douglas, managing director at Mercator Fund Services Limited Guernsey: "Malta and Cyprus have tried to be new entrants, but we've got the history, the positive IMF reports and regulation that's developed over time."

Another potential threat to fund domiciles is the EU's Alternative Investment Fund Managers (AIFM) Directive which came under considerable scrutiny in 2010 for its potential threat to the alternative funds industry.

Despite the global uncertainty over the Directive, Guernsey's fund sector seems to have a pretty relaxed attitude to the new regulations. "Business as usual" is the phrase on everyone's lips. According to Neale Jehan, chairman of the technical committee of the Guernsey Investment Funds Association (GIFA), Guernsey will be in a better position than its European counterparts because the island is not part of the EU, unlike Malta for example.

"If you're not sitting in the EU then you're still open to non-EU investors without having the additional cost of the Directive, which means that your products will be more flexible," he says.

Although Guernsey does not have EU membership, the doubt over the directive has given the island an opportunity to go into Brussels to have some input in the formation of the new fund passport rules.

Guernsey is very proud of its strong regulatory network, but it has somewhat struggled to bring that message across in previous years. "The IMF visit and its subsequent positive report were catalysts for promoting Guernsey as a well-regulated jurisdiction," says Lyndon Trott, Guernsey's chief minister. The island's finance industry now hopes that this will encourage other

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funds to migrate or outsource their administration office to Guernsey.

The island's fund managers, law firms and ministers talk about selling Guernsey as an 'entire package' when bringing in investors and funds.

Not content with simply promoting the offshore centre as a 'tax neutral' destination, Guernsey's lawyers and fund managers bring in other factors such as its close relationship with London, relaxed lifestyle, beautiful landscape and zero public debt. But while a jurisdiction's fiscal stability and picturesque views might be important to some investors, there will be other more pressing factors such as low tax rates, expertise, and a well-balanced regulatory infrastructure.

There is also the question as to governments' future approach to so-called offshore tax havens, which have come under fire from governments' desperate attempts to draw in extra money in the face of huge public deficit. Guernsey has been caught up in this and is obviously keen to lose the title. Despite public furore in the UK over businesses relocating to offshore destinations to avoid paying tax, it is interesting to note that Guernsey's fund industry actually provides a net benefit to the UK. What's more, around 50% of investment from Guernsey-domiciled funds goes back into the EU, which is surely something that everyone would welcome, says Cowley-Grimmond.

A recent report by the OECD has helped to put Guernsey in a more favourable light by confirming that it has abided by OECD rules on transparency and information exchange for tax purposes. The island has taken this further in the first quarter of 2011 by signing these bilateral tax agreements with Canada, Romania and South Africa.

It is misleading to use the expression tax haven to describe Guernsey, says Andrew Walters, partner at Mourant Ozannes. He goes on to say that the island is now recognised internationally as a transparent and cooperative offshore financial centre and that the island has gone to great efforts to educate the outside world of this and to distinguish itself from other less cooperative jurisdictions. He says that these efforts have received a boost with the launch of a Channel Islands office in Brussels to give Guernsey and Jersey greater presence at the heart of Europe, headed by the current British ambassador to Bulgaria, Steve Williams, who starts his new job in April.

This major development was undoubtedly aided by Guernsey's presence in Brussels during the development of the Directive. The move to create a joint



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office is highly surprising considering the historically competitive tensions between the two islands. Jersey and Guernsey have not always seen eye-to-eye when it comes to regulation and tax rules, but the Directive appears to have brought the two closer together.

"The regulators don't always work together as much as they perhaps should," say Paul Wilkes and Jason Romer who are both partners at Guernsey law firm Collas Crill. However, Romer claims that while it is important for the two islands to co-operate where they can, the competition between them is also a vital element to driving new business. "Jersey and Guernsey are like twin brothers, pushing each other to innovate and do the best they can."

Guernsey has generally been regarded as the 'little brother' of the two in terms of its financial industry, but the Bailiwick has surpassed Jersey this year both in terms of the number of companies listed on the London Stock Exchange and its domiciled funds.

"Guernsey will continue to promote itself as a well-regulated international financial centre that complements onshore jurisdictions by providing a niche set of products and services to a global client base," says Peter Niven, chief executive of Guernsey Finance, which promotes the island's financial industry. Despite the IMF and OECD reports, Niven claims that Guernsey still has some way to go to overcome ingrained misconceptions and convince its detractors that it is a well-regulated international finance centre.

