



Guernsey Financial  
Services Commission

## **Industry Seminar – 20 October 2011**

### **Insurance Division Presentation**

#### **Jeremy Quick - Director, Insurance Division**

##### **Introduction**

Good afternoon and thank you for coming today. I'd also like to thank everybody here for helping me get into my new role since March as an insurance rather than banking regulator.

I am going to speak for about 30 minutes; and then you will hear either Caroline (for insurers and managers) or John (for intermediaries) speak for another 20 minutes. There will then be another 30 minutes for Q and A.

Most of my speech covers issues of mutual interest to all licensees. There are some parts that just relate to insurers and managers and other that just relate to intermediaries – though of course managers are somewhere in-between as they share the same law as intermediaries. I still think it useful however for all parties to hear what the division gets up to as a whole so that our overall approach can be understood.

Today I am going to start off by talking about business trends. I'll then talk about changes in the insurance division. Next will come meeting regulatory challenges, together with some thoughts on sites and enforcement. I'll then talk about the need for more feedback and the Commission-wide work the division undertakes. I'll introduce the themes of the talks by Caroline or John and finish off by outlining next year's business plan.

##### **Business and Licence Trends**

I'd like to start today with something other than regulation, you will be pleased to hear.

So let us talk about business trends.

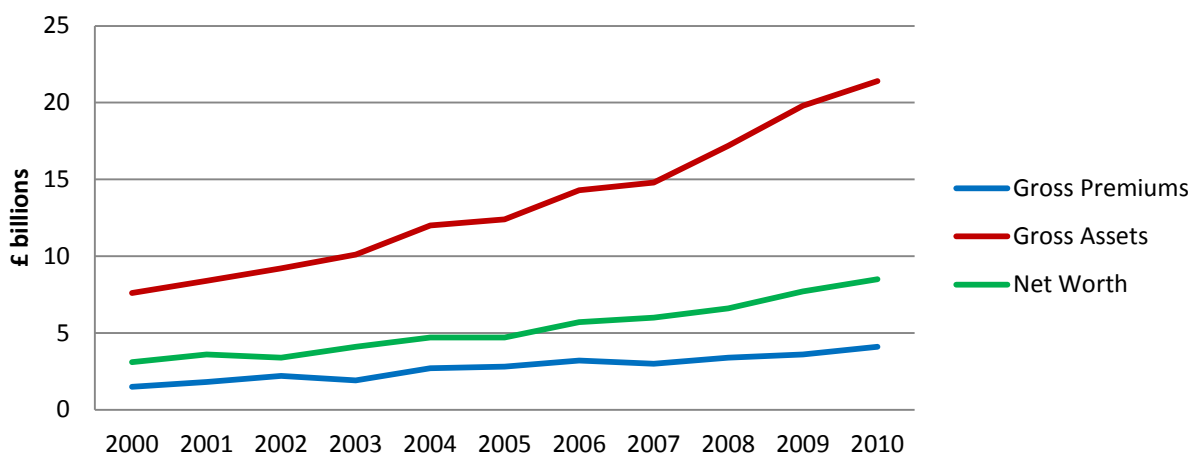
We received the end-2010 business figures in April and we can publish them here for the first time.

However, I have an admission to make. Whilst we were putting together the end-2010 numbers, we found some significant errors in past figures going back to 2005 at least.

This is not good and we are now busy digging back to correct these historic errors. We have to be 100% sure that these numbers are right. However we have taken the numbers that we think are correct at least back to 2005 and we have then indexed them to inflation to give a sense of the real trend.

And here it is.

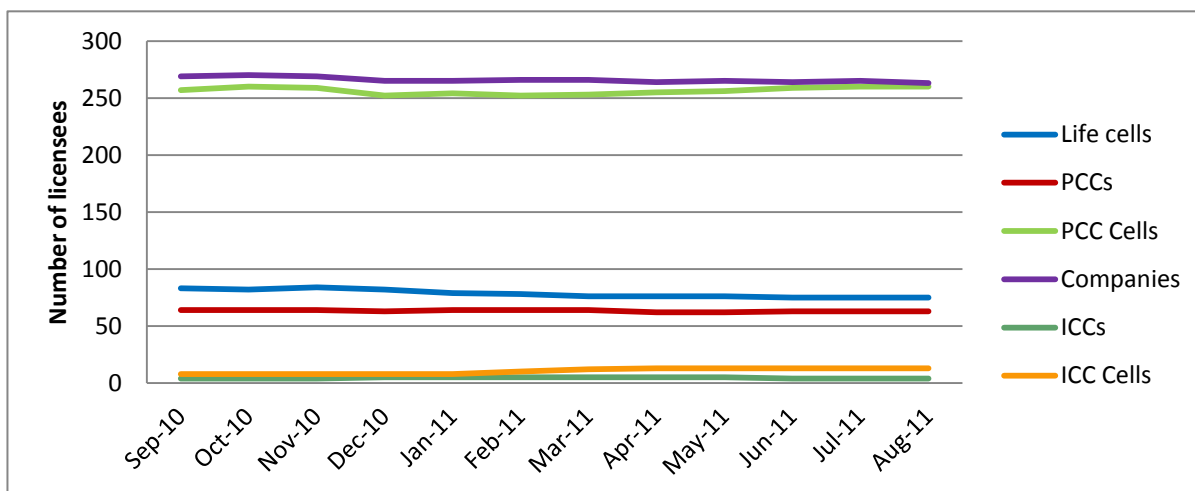
## Inflation adjusted statistics



This is generally good news. Even in real terms business keeps going up. The worst-performing number is premium; although this is flat rather than declining. This would appear because we are still in a soft market.

In terms of monthly licence trends, business in Guernsey is broadly stable. This is shown in this graph:

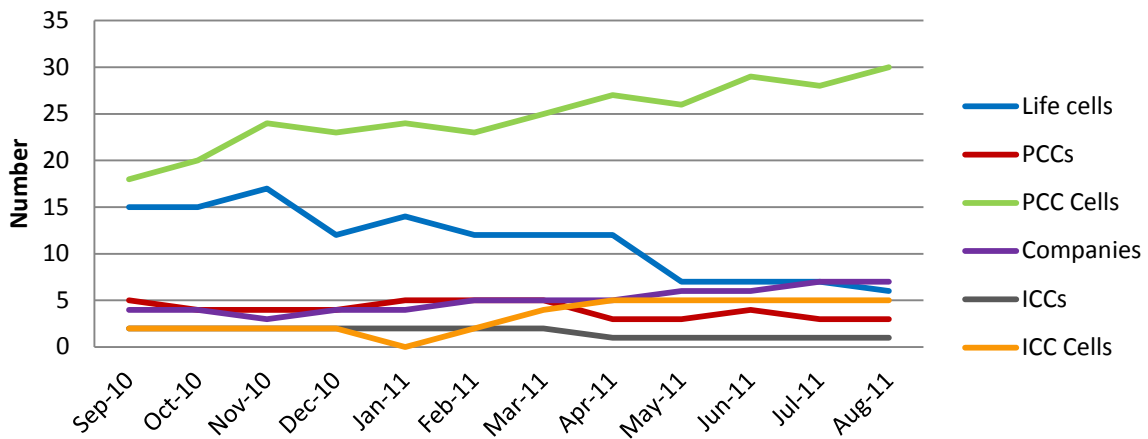
### August 2011; Last 12 months number of licensees by type of licence



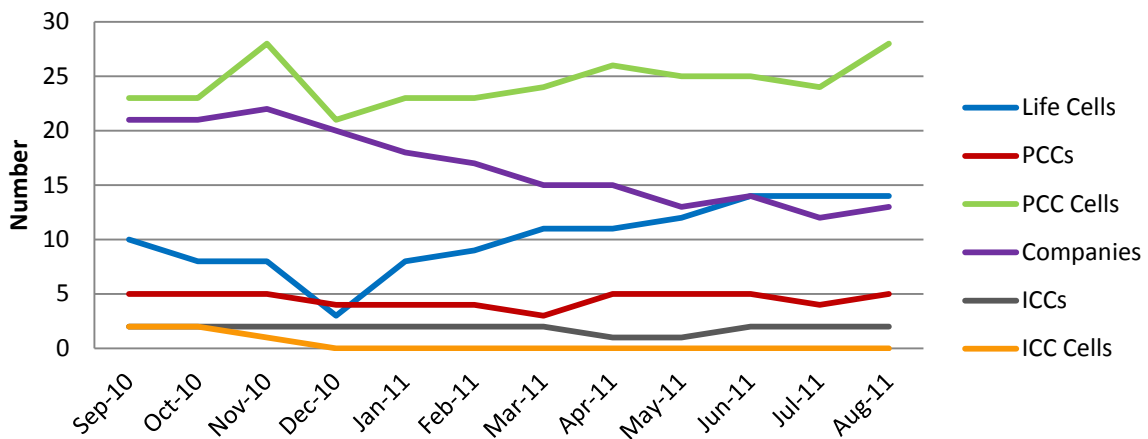
I guess that this graph shows continuity and that the jurisdiction appears to be sailing serenely through the current crisis. Indeed I can add that so far this year licence activity has equated in the first 9 months to 12 months last year – though this may of course slow down in Q4.

However this vision of stability is a bit misleading. Let me show you these two graphs for example.

## 12 month rolling summary of licences issued



## 12 month rolling summary of licences surrendered



You see here that about 100 licences come and go every year – that’s about 16% of the total. Quite a lot of this is firms re-positioning – for example closing one cell and opening another – rather than firms coming and going.

But turnover of this scale is significant. It means that as a division we have a lot of process work to do each year. Some of this is routine but some of it is challenging as new ideas surface. It also means that, in order to stand still, the jurisdiction needs a constant stream of new interest – that is so that it can make up each year for a loss of 8%. I think this makes the business model more vulnerable to change and why change has to be carefully managed both by you and us in Guernsey.

You are now likely to ask whether we have seen any marked business trends. I can’t say that we have. One that perhaps may be emerging is an interest in taking longevity risk – but really business remains as varied in nature as ever. We have however, noticed a marginal replacement in terms of turnover away from companies to cells, reflecting the business attractiveness of PCCs and cells in general.

Incidentally, we do not at present publish business trends for intermediaries. However, this is something we will be looking into in 2012 as part of the wider workstream to improve divisional statistics referred to above.

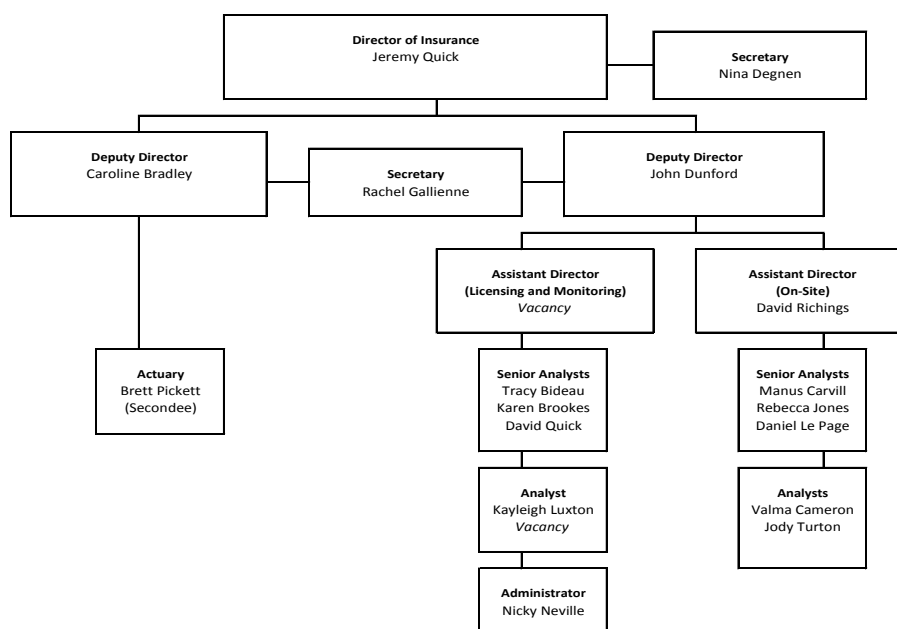
## Divisional activity

So now let us turn to regulation.

I'd like to start by talking about the divisional team. Over the last year the division has maintained much of its previous structure. As change can be costly this is no bad thing. One notable change has been the retirement of Mike Poulding and I would like here to thank him again for committed service to the Commission over the last ten years. However Mike continues to work periodically as a consultant covering actuarial work for the Commission; forming a tag team with Brett Pickett from BWCI.

I would also like to congratulate Caroline Bradley as she takes up her new role as a Deputy Director.

The present structure of the Division is set out here:



In term of recruitment, some of you will already have seen our advert in The Actuary. The main challenge is to recruit in a market where Solvency II means that actuaries are at a premium. Also we have to entice somebody to come to Guernsey without being able to offer a 15 year licence. I guess we suffer here from the same sort of recruitment issues that you face.

The other recruitment in hand is for an Assistant Director. I am keen to ask what sort of skills and expertise people think are required for this job. The insurance team consensus is that we hire somebody from the industry with insurance knowledge to help us primarily deal with licence issues. This sounds reasonable enough to me though I wonder if perhaps this is bit inward-looking and we need somebody to shake us all up a bit. I am also wondering whether an industry secondment would be an idea. Anyhow, I'd be interested in your own views about this either in the margins of this meeting or bilaterally.

One key point is that this is the first full year with the Division split between the licensing and monitoring team and the on-site team. This has worked well in that it has enabled each task to be properly resourced and focused. I intend to continue with it.

Apart from business-as-usual, we have also been taking at any one point up to three people from the division and allowing them to work on essential projects. I will explain these projects in more detail soon. However, this process is also working well, not least in providing a variety of different work for staff and because it is flexible.

In terms of change, I'd like to copy an approach from banking where the banking division has a close knowledge of the systems and controls at certain key firms as well as of the senior executives and board. I don't think we have that sort of close knowledge of key insurance firms and I'd like to develop this. In particular if we can develop a good bilateral relationship with these key firms we can forestall any surprises on both sides. Of course this is a time-consuming business and we will need to save time elsewhere to do this.

### **International activity**

That leads me on to our international work.

I think it vital that Guernsey is represented in IAIS and OGIS. That is why I am on the IAIS Technical Committee. It is also vital that we lead global thinking on captives and that is why Caroline Bradley chairs the IAIS working group on that subject – which by the way includes the US. In addition, there are new areas of international work that are opening up. For instance, earlier this month, John Dunford was at a regulatory college whilst I am undertaking some bilateral visits. I am also aware of the profile issues and that is one reason that I am speaking next year at Risk Minds in Geneva. There is also an educational advantage of being involved in global regulatory formation – which is why we are on the Solvency Committee of IAIS.

However, I do think that, when I started this job, we were on just a few too many committees at IAIS, especially when we have no particular locus to be on these committees and when that work was putting serious strains on our domestic work. So we have cut down on this sort of activity.

So the story here is that our international strategy cannot stand still and has to evolve with the times. But also that we have to cut back a bit on the travelling whilst still be active and fit-for-purpose.

I appreciate that this is the cue for somebody in the room today to leap up and ask for their licence fee back. However I have already indicated that I want senior management to be closer to some key Guernsey firms. This is an extra resource requirement.

In addition, there are a number of other initiatives, for which we need to free up resource. These will become clear as we go through this talk.

### **External Factors**

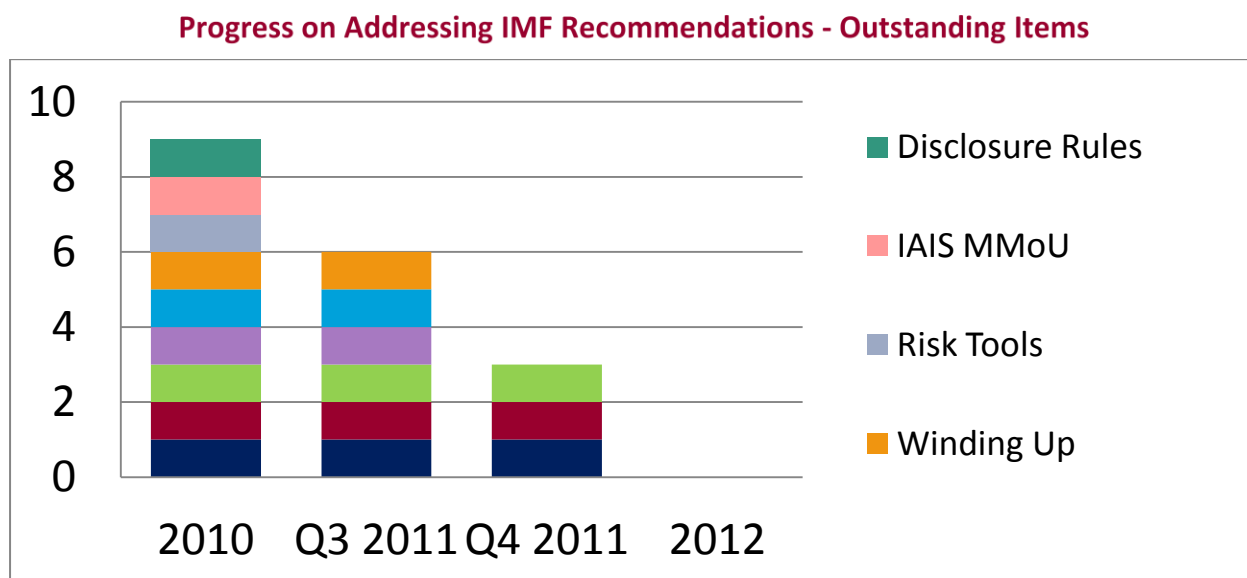
You will recall that in 2010 Guernsey received a fantastic IMF insurance report. What you may not wish to recall is that the IMF left us with a series of remedial actions that we

promised to implement. This promise was made because generally we thought the IMF had made some fair points.

These projects were no less than 9 in number. We have since been slogging away at them but we won't have finished them until 2012.

These projects mean that we have to juggle project work with business-as-usual. If there is a clash we will generally put BAU ahead of project work. But sometimes that is not possible if we are to meet regulatory deadlines and we want to avoid the position of us having to do piles of last-minute projects in front of the next IMF visit. So it is a balancing act.

The IMF projects are set out here:



It seems that it is in the nature of international regulation that, having scarcely finished dealing with one set of recommendations, we now have to deal with a new set. I refer of course to the new IAIS Core Principles that mostly come into effect this month.

We are currently conducting an extensive gap analysis around these core principles. Just to give you a sense of the task, there are 399 pages of text in the new 26 IAIS Core principles. We are working through these pages, but we cannot yet size the extent of the changes that will be required. Nevertheless it is likely that this gap analysis will produce significant additional work that will need to be undertaken in 2012 and probably into 2013.

Solvency II also rumbles on. We have of course no intention of going for equivalence at present. There are some in the industry who believe that the Commission has a long-term objective to apply Solvency II in Guernsey. I can honestly tell you that, if that is the case, it is certainly not in my annual objectives! On the other hand, we would be crazy to think we can just ignore developments around Solvency II; intellectually that would be like studying modern music without at least listening to Schoenberg – even if you don't end up liking the sound.

But there are sound business reasons for remaining attentive. For example, were Bermuda to get partiality – whereby it could run two regimes one compliant with Solvency II to certain firms and the other non-compliant – then we would be bound to take note of this; though I cannot say what we would then conclude.

We also need to be aware that, like it or not, Solvency II might start to impact on how the IMF interprets the new IAIS core principles – even if this is only in small things like wording. In this context, ignorance is not bliss and, in the end, could be costly if we end up have to re-engineer minor stuff. So we have been keeping the channels open with Brussels, reading the regulatory press and looking in detail at the EIOPA Equivalence Assessments of Switzerland, Bermuda and Japan.

Another international regulatory requirement is the division's contribution towards the jurisdiction's financial stability, to conduct annual stress tests of key insurers. The Commission received the input from the industry on this in September 2011 and will be analysing this through October 2011 with a view to publishing feedback and a statement by end-year. This is likely to become an annual event. We are still working and will publish the results due course. One early, albeit unsurprising, observation is the exposure to re-insurers

### **On-sites and Enforcement Sanctions**

I'd now like to turn to on-sites and enforcement actions.

The ability to undertake credible onsite visits has become one of the international hallmarks of effective regulation. According to the IMF, and the feedback I receive informally, the Division fulfils this requirement well. This year we have continued our onsite programme and are set to complete our quota of around 20 or so firms. In previous years we undertook more on-sites but that, in order to keep up this number, we were finding that quality was suffering. So as quality is more important than quantity, 20 or so a year is fine. This means that everybody receives a visit every four years but some may receive one every two years, depending on the risk profile. In addition, we see key managers, intermediaries and key insurers for review meetings at least once a year.

I would like now to tell you about Commission-wide initiatives around on-sites.

Firstly let's talk about the on-site process itself. I think everybody is happy about the early part of the process. One morning a lucky MD receives a letter from the Commission saying that it will conduct an on-site at such and such a time on such and such a subject. The onsite then takes place. If a problem is to emerge, it usually emerges as part of the post onsite procedure. It may be that the firm will start to produce reams of new evidence after the visit that it should have produced before the visit in order to avoid some sort of adverse comment from the Commission. It may be that the Commission will feel the need to highlight all sorts of issues that may not actually relate to regulatory breaches; but rather simply good practice, guidance or peer behaviour. Sometimes, this on-site process can result in a lot of time being used up that is not ultimately in their interest of either the firm or the Commission.

So recently we have begun to try to rationalise this process. We have put in new internal timelines for on-site completion and we are subjecting ourselves to greater internal discipline to raise only issues that are really important. For this half, we are still experimenting across all the divisions with the new processes but over 2012 we would expect great standardisation to occur across the Commission. This is all about efficiency so I hope that you will welcome this. It will mean that you may not get as long post on-site letters from the Commission as you may have got in the past. I hope however that you will welcome that.

The other area that we are tightening up on across the Commission is enforcement procedures – and Sam spoke about this earlier today. Now let's be clear about this, I would expect that

enforcement sanctions are not the norm for insurance licences. But, if we have to go down this road, we want to make sure that we get the process over within a reasonable timeframe and that we get the right result. So, internally, we are about to put in place strict time guidelines. In addition, we have also received over the last year some fantastic training from Sam about the legal tightness of the enforcement letters we send. Now this for some of you may reflect a change of style from the more chatty missives in the past, but we have to be legalistic in this area as in some cases we do end up in a court process.

So these two changes to post on-sites outturn will be felt over the next year. Together they will result in a sleeker and tighter process which will mean that our time – and your time – will be spent more efficiently.

For the avoidance of doubt though I want to emphasise that a ‘clean’ on-site report does not mean that your systems and controls are in line with regulatory expectations – we cannot check everything in the time we are with you. Nor does it mean that you are following best or even good practices. You need to look to other third party assurance for these things – such as internal audit or external consultants.

By the way I also want to say something about enforcement sanctions. Some people take the view that regulators live for enforcement sanctions and like nothing better than taking licensees to court. Let me tell you that nothing is further from the truth. Enforcement sanctions are fraught with risk, involve lawyers (enough said the better), and can involve personal trauma – and often not just for the licensees. However, any regulator worth his or her salt recognises that sometime enforcement sanctions are the only way to pick out the bad apples. This year for example the Royal Court banned Mr Nicpon from being director for 15 years.

So, I want to leave you in no doubt that we will pursue enforcement sanctions when it is appropriate to do so. We’d much rather have regimes where this is not necessary but then we do live in the real world; even in as nice a place as Guernsey...

## **Feedback**

I would like by this time to have published review of the things we had found during this year’s on-sites. The reason why we have not yet done this is simply time – although Manus gave you this morning some AML/CFT feedback. My personal impression is that there is rarely any material enforcement action that results from on-sites and that we are finding that most firms are in line with our regulatory expectations; or at least are keen to correct problems once they are uncovered. So, well done!

One option here – apart from publishing general comments on sites – is to change the process such that we do thematic on sites – on specific topics. For example, claims handling. This is something I’d like to pilot in 2012.

I’d like to say a few more words feedback generally. If you look at our website and compare what the Insurance division does with what say Banking division does or even for what the JFSC and FSA do, then we don’t do very well as a division. This is not good. On the one hand, how can we talk about transparency when we don’t publish our thoughts? And also our website is our shop window – we want new licencees to look at it and see a vibrant division in evidence.

So I want to see more feedback on our website. Of course to get on our website, the process takes a long time as we have to slog through first internal processes and then external processes. But by the end of this year I hope to have the following new pieces on the website:

- Actuarial Standards
- Stress testing
- Oscas
- Revised business statistics

Next year I want to see – among other things –

- Feedback on the onsite
- Better general statistics
- Outsourcing

I hasten to add that the purpose of this greater transparency is not to give you more guidance – as that becomes sclerotic quasi-rules. The aim is to get everybody aware of the issues of the day and to get the industry to contribute more to the development of policy. It is also good to have more tinsel in the shop window.

### **Commission-wide initiatives**

One other challenge from the industry in recent years has been why the Commission's divisions can't work together more.

We have taken this point on board – although we continue to think that a divisional approach best fits your own business models and is therefore more business-friendly.

So I want to tell you about few areas that the division has been working across the Commission. One is – on post on-site work – where the division actually led the initiative (other than the enforcement bit).

Another area is a Commission-wide risk tool. This is being led by our Policy and International Division. What we are trying to do here is to ensure that firms that across the Commission pose the greatest risk to our regulatory objectives are the ones that receive the greatest allocation of regulatory oversight. This may seem obvious but it is not easy comparing say an insurance intermediary with a fund administrator or a bank. In addition, we also have to feed in the extent of the threat to financial stability in Guernsey. We are still working on this but its good example of how difficult it can be to create Commission-wide approach but also that we are working towards this.

Another example is the Extranet. This project is being led by Carl Rosumek and it is a project that will have the greatest impact on funds rather than insurance licensees. However, let me tell you a story to illustrate why this is important to us.

Every April or so, many of you send us your annual returns. Now, you may have noticed that our letter box is rather small. So the annual returns can't fit into it. As a result every year we have to come into the Commission at the week-end simply to meet the post man with his box of goodies. And what do you think we do with the hundreds of annual returns we receive? Well, we prioritise them according to their risk grade. Then we start to go through them in order. Piles of key statistics are scattered about in each annual returns on different pages. So for us it's a hard slog manual process. Of course you make mistakes which we then have to

chase up through e-mails and calls, we make inputting mistakes and the whole process takes ages. In fact I am told that for some annual returns – the least risky – we are looking at them up to 12 months after they arrive.

Well, this is crazy. We need to undertake therefore two tasks. Firstly we need to think hard about what statistics we really need – although any change here will be slow as so many of the requirements are hard-wired into laws. Secondly, we need to automate the process.

This is where the extranet project comes in and why it is so important. I can reveal to you that our cost benefit analysis suggests that the division will only save about £20k pa once the Extranet is up and running so cost saving is not really the point – though this excludes any saving you will be able to make from automation. The main advantage for us is that it will enable us to do what we are doing better, more efficiently and more accurately.

By the way, I can assure you that the point of the project is not to shift the above inefficiencies from us to you. It has to be win-win for all of us.

There are other Commission-wide projects on the go. There is no time to tell you about all of them here – for example the harmonization of regulatory laws is a mind boggling exercise – but I wanted to leave you in no doubt that we are doing our bit here.

Another area often raised is co-operation with the JFSC. One jazzy thought here is that we could supervise Jersey insurance companies whilst Jersey supervises Guernsey intermediaries. I don't know what you think of that idea. But if you really want Jersey-Guernsey cost-savings, then that is one option! Ok I am not being entirely serious but I'd be interested in comments in the Q and A session.

## **Solvency**

Well so far I hope that everybody has been following me. I'd now like to venture into the murky world of solvency so those of you not too interested in this can have a rest for a few minutes.

As an ex-banking regulator, I should also caveat by saying that all this is new to me as well. In addition, Caroline Bradley will talk to the insurers and managers in the next breakout session, far more eloquently than I and will not attempt to steel her thunder here.

However, it seems to me that the biggest challenge facing us is not Solvency II but the new IAIS requirements on solvency.

The big requirement is the one that requires all firms to have a confidence period. So let's consider this.

One option is to have your own model. Now is that practical on Guernsey? Does this mean that you have to run the big models that say the UK insurers talk about with all sorts of assumptions about correlation and distribution techniques named after strange-sounding central Europeans? Or is it ok to run a simple mono-line model to cover expected loss using either internal data or a combination of internal and external data? Well, we don't know at present. But if the latter, then perhaps we could run Guernsey models?

Another option is to stick all the data we have in Guernsey together and so create one big local database. We then model that and produce from it a standardised hit on premiums that

equate to a particular confidence level. But is this practical? Do we have the ability to gather this data? And how detailed should it be? And, if we do all this, will our result differ from that already done along these lines by EIOPA? And, if it ends up much the same, why bother to do it in the first place?

Another option is simply to import the pre-cooked approach. The only one around is from EIOPA. But then we know that this application would end up shrinking the number of licences. Is that what we want?

And, while IAIS talks about a confidence period, it does not say what it should be. So should we aim at the same as EIOPA? Or could we aim at something lower? Could we perhaps have different confidence periods depending on the nature of the insurer – that is lower for captives than life companies?

Can we just ignore this bit of the Core Principles? Can we let everybody do what they like?

Well, as you can see, I am here just asking questions. The key point at this point is to make sure that we are actually asking the right questions. And there are and will be lots more questions – such as for instance the definition of capital and premium. At this stage, let's not even pretend that we have the answers – though we do have lots of ideas! Caroline will talk in more detail on this.

Whilst pondering these questions, we should also ask ourselves where the OSCA helps us at all. Now you have all been hammering away on OSCAs for the last 4 years and you have not yet received much feedback. Well, in the next few months you will receive a document from us that currently runs to 46 pages. So I hope you are ready for this. Again, Caroline will give you a more detailed insight into this – and I gladly admit that there are bits of it that I can only understand if I have not touched alcohol for a week.

However here are my thoughts on the OSCA.

Yes, some of the approaches are statistical enough to potentially lead to model approval – if that a possibility generally. However other models would require extensive use of external data and scenarios such that I wonder whether such an approach will be cost-effective.

Yes, some approaches are qualitative and make perfect sense in terms of a risk-based approach for economic capital. But such approaches would not tick the box for regulatory capital.

No, there is no consistency amongst insurers and managers as to which approach – either quantitative or qualitative – makes best sense. And the likelihood of getting consensus together is in my opinion low.

No, even amongst that taking quantitative approach, some use a Solvency II approach and others do not. Also, the actual confidence period differs.

Yes, in some cases OSCAs have made a difference to risk-managed. But in other cases the boards are to some extent going through the motion as compliance exercises.

So, the OSCAs don't really help us tackle the IAIS question about the confidence period. However, I do think they most definitely tick another IAIS box about having a risk-based approach and I therefore think that they should be continued.

I personally am doubtful that the Commission should seek to harmonise OSCAs methodologies and, frankly, I am not sure that you would accept this. But I'd be interested to hear your thoughts on this in the Q and A session.

## **Intermediaries**

When I took over this job, I was told that the intermediary bit was easy as far as thinking went. This, of course, has turned out to be nonsense.

The first question here was how we as a regulator ensure that local intermediaries only place Guernsey residents with good insurers – most of which of course are off-island.

I think we all today probably agree on where we want to be. That is that none of us have a problem with the use of the large UK insurers – Ok and probably a few French ones too - but that, realistically, you cannot expect the Commission to conduct any sort of realistic supervision over such insurers. We probably however don't want Guernsey intermediaries using wonky insurers, and that probably includes some in the Community as well from more far-flung areas.

But how do we write a policy that delivers this? Our initial review suggests that the jurisdiction has had several goes at this but, at each go, has forgotten to rub out the previous attempts. We therefore at present have several policy positions; some of which are contradictory. So we have got to clear up this mess.

One way forward here is for the Commission to set out formal criteria and thereby legitimize all insurers from a particular jurisdiction – such as the United Kingdom. An additional option for life products would be to set a minimum credit grading for the life company in qualifying regimes. We continue to work on policy options here and these will, in due course, will be translated into a consultation document.

The next policy challenge is the RDR.

I'd like to make a few preliminary remarks on the RDR. First of all, the RDR has been rumbling on in the UK for a very long time. In my personal view Guernsey should have sorted out its view on the RDR sometime ago. This is important for you because you need to know where we are going on this so that you can adjust business models and secure any qualifications required. Jersey has already published its consultation document so we are now playing catch up. So, I had set it as a priority for the Division to deal with RDR.

Second, I am sure that, after this conference finishes today, somebody is going to say that our approach to RDR is inconsistent with that of our colleagues in the investment business division. The reason why they will say this is that we both chose to approach RDR from our particular points of view – either from the insurance angle or the securities angle. We thought that this was best as a) we would both talk to the people we knew in our respective industries and b) this would act as a sort of control – we were more likely to be right if we both ended up at the same place if we took different paths. Now it so happens that we have walked our path a bit quicker than the investment business division and we, as a division, now have a more defined view on RDR.

Third, what I am about to say is the view of the Insurance Division. It is incidentally based on the findings of our own intermediary survey. This survey broadly also saw merits to RDR;

though it also highlighted issues to which we are very alive. As I have said above, we have not yet agreed a joint-line with our colleagues in investment division. And there is as yet no Commission-wide view – and that in any case can only be promulgated by the Commissioners themselves. The political authorities will have a view taking into consideration wider economic issues. And of course all this will involve consultation with you.

On the other hand, it would be very odd if I were to stand before you today on this hot topic and tell you, after all the work we have done, that the division had no view on the RDR, especially as you know that we have been asking several of you what you think for the last 6 months. I think you would then rightly say I was either not being level with you or had been slow to address an issue important to you and on which time is running out.

So what do we think about this? Well, given what we know at present then broadly and on a preliminary basis the insurance division is in favour of the RDR; although this not of course an immutable view and may change either through further argumentation or after further consideration of the practical issues. Our view is also of course one among many.

This is not because we think that RDR is the best thing since sliced bread. It certainly is not this. For example, let's say you have limited means and are not used to using an intermediary. What would you do if you wanted to make a life insurance investment? Well, under RDR you either have to spin the dice on the internet or you'd go to your bank – but they cannot advise you on an execution-only basis - and they will sell you a limited product range.

RDR will not address any of this so it does not really solve the problem of retail financial sales. Now if you think we should innovate on this, then please say so. But my general sense is that we are followers not leaders in this area.

However the RDR is surely better than what currently is allowed. The key elements of RDR are that if you buy something you should know the price – that seems fair enough. The other point is that you should only be sold something as important as long-term life product by somebody who is suitably qualified. That seems right too.

Now there may be other options. One option is to do nothing and this may be acceptable if there is perceived to be no real problem in Guernsey. Another option is to implement a Guernsey version of RDR – although it is my view that this approach can often end up as being more expensive than taking something off the shelf. But we should consider this. We also have to remember that we are not always masters of our own fate in Guernsey. For instance, if we do not apply RDR, will the UK insurers be willing to deal any longer with Guernsey intermediaries? Lets us not forget this business reality amongst all of this.

There are lots of practical issues on RDR that will need sorting out. The most significant of these is qualifications. Again we have an answer to this but I would be the first to agree that it is not perfect. Now it may be that as we look at the practicalities of RDR implementation (especially on this topic), we will change our mind and it may be that in the consultation process we will hear persuasive arguments against RDR. But this is what we think today.

However, John Dunford will speak to you in more detail on all this later.

## **Future Risks**

It is I think traditional for a regulator at this point to give a view as to what risks lie ahead in the next year. Well, I have no particular insight into this. I guess I could caution you about

counterparty risks as the banks topple over like nine pins. Inflation or even deflation creates all sorts of challenges. Historically low yields for life companies do the same. Who knows?

What I can say is that so far the insurance industry has had a fairly easy time. Now lots of insurance people say that this is because insurance companies are great at managing risk or that their business model is inherently safer than that of banks. All I can say here is that was the sort of talk we heard from banks before 2007. Also, the less hubris felt before a crisis, the more chance you have of getting through it. So I suggest we all need to get ready at what is going to be thrown at us – because I have a feeling that we due something!

## **Future projects**

In the meantime, what is our business plan for 2012? Well, here it:

- Maintaining BAU in terms of on-sites, licensing etc and enforcement
- Completion of residual IMF projects
- Continuing gap analysis of the new IAIS core principles, and in particular the solvency requirements
- Likely additional gap filling as a result of this work
- Completion of the work for intermediaries around RDR, recognised insurers and policy holder protection
- Better statistics both for regulatory purposes and for reasons of financial stability; as well as to bring Guernsey up to standards attained elsewhere and
- Piloting thematic onsites

A key theme for 2012 will be corporate governance; which David Richings covered earlier today.

I think we all agree that corporate governance is very important – both for business and regulation.

My view is that it's really very difficult to gauge the quality of corporate governance from things like on-sites, prudential meetings and third party reviews. I certainly do not believe that there is some magic indicator. In practice the quality of corporate governance only becomes clear when a) things start going seriously wrong – which usually occurs when corporate governance is bad and b) when a crisis occurs and the board does not react in an effective manner.

So, as I see it, the Commission, other than in exceptional cases where anybody with eyesight could see that the board was not credible, has to act reactively in this area. That is just the reality. However, it is important that, once we have concluded that the board is not fit-for-purpose, then we act to correct the position and do not tolerate the old status quo.

Improving corporate governance has to be done on a case-by-case basis and is a subject for constant vigilance. In that sense the new corporate code is only an evolutionary rather than a revolutionary step. And of course we have had the insurer code for several years anyway.

Finally there is AML/CFT; as considered by Manus Carvill this morning. In the past the insurance sector has not been the focus of international attention for AML/CFT. However the sector is slowly becoming more visible; as for example a recent MONEYVAL typology suggests. In addition general insurers are not exempt from the Handbook in Guernsey – and I

recognise that this come at a business cost. However, I would urge all licencees to maintain vigilance on this subject not least as it is the one single area where damage to the jurisdiction can most easily be brought.

## **Conclusion**

To conclude, the Division continues to bear a heavy policy workload in the context of former IMF requirements and new IAIS obligations; as well as having to deal with several consumer protection issues for intermediaries. Meanwhile the Division continues to deal with a steady flow of everyday business. In order to undertake the policy work, we need continued constructive engagement from the industry and, for BAU. Managers need to appreciate –as of course they do – which they generally have to take their place in the line for BAU. Business is likely to be tough as the UK teeters on recession and commission, despite catastrophic losses, continue to be soft. Next year therefore looks as if it will be tough.

However, we need to remember our strengths too. We have in the managers a proven ability to innovate products and keep up a supply of new customers. We have a set of insurers that are generally strongly capitalised. And we have intermediaries who are well and long-established to serve the local community. So, I am therefore confident that we will weather any challenges that are thrown at us.