



Industry Presentations – 23 November 2012

Fiduciary Division Presentation: The 2012 Fiduciary Return – an annual health check

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Good afternoon ladies and gentlemen.

It's great to see this hall full because you represent 12.84% of those employed in the fiduciary sector. I have been able to start this speech with a figure to two decimal places because of information from the annual returns.

One of our aims this year was to improve our statistical base for supervision and the annual return is one of our key sources for checking the sector's vital signs. This year the form was substantially overhauled. So firstly thank you very much for all the effort you put in to completing the return. The results and not least a 2 foot high stack of paper consisting of 190 returns attest to the work that all of you put into this. We are pleased with the results and we hope that you too find the output useful.

I am going to cover the results from the 2012 annual return, what information it has given us about the sector and what we are going to do with it. I will be showing you several charts and diagrams and these will be available from our website. Before I close I will also touch upon what place the annual return would play in Sentinel – the new regulatory operating platform you may have heard proposed.

Now much of the information asked for on this year's return was new – so 2012 will be very much the base year for a lot of these statistics. However we have been able to do some trend analysis as some of this data could be run against information we already hold from previous returns, from your audited accounts and from our own data on licences in issue.

I will start with who comprises the licensed community – the Commission supervises 190 participants in the sector. 39 of whom are individuals who are licensed to act as director, co-trustee, protector or executor. The remainder represent 151 trust companies holding full fiduciary licences. We also license 646 companies which are your joint licensees fulfilling corporate director, corporate trustee, company secretary and nominee shareholder roles but who all hold full fiduciary licences, the implication of which is that they too are subject to the requirements of the Fiduciaries Law including notification of changes to their directors.

Slide 1 – ownership of full fiduciaries

This shows the ownership profile of full licensees. Half the sector's participants are privately owned - the 2 blues - over a quarter are owned by large international financial groups which is marked in red, and the green which represent just under a fifth owned by professional services – the lawyers and accountants. Why would the profile of a licensee have any relevance to fiduciary supervision? Well it can be indicative of how a licensee's business is sourced and potentially relationship issues around knowledge and control of the client structure. Privately owned fiduciaries tend to network external professional services and have the relationship management whereas group owned licensees might have client referrals from other group centres and may not be the client's main point of contact with the group.

The remainder represent those groups which hold fiduciary licences as a bolt on to their main business - for example we license a number of fund and insurance managers as there are structures on the cusp of their work where the management and administration fall under the Fiduciaries Law.

The number of full fiduciaries has remained relatively constant since the law came in but this is in part due to two growth areas – from those financial groups whose main focus is not traditional fiduciary work and who obtained an ancillary fiduciary licence – and until earlier this year entrants into the pension sector.

We can cut the profile another way and establish the number and type of licensee in each turnover band

Slide 2 – number of licensees by turnover

The slide shows the number of licensees in each fee band over the last 3 years. Blue represents 2010, red 2011 and green this year figures. Figures in the lowest band have hovered around 35 representing over a quarter of fiduciaries, but the next largest grouping is at the other end of the scale where we have 32 fiduciaries – nearly a quarter with turnover of £4m of more. One would expect the profile of this group to include the international names but the split is actually almost even between the large financial groups and the privately owned. Whilst the dip in this chart indicates that small fiduciaries have not grown over this 3 year period the upward trend in the bands from turnover of £1m plus onwards indicate that medium sized fiduciaries have been growing.

We now move to assets under trusteeship (“AUT”).

This was the second year of collection and under this year's return it was a much harder task for you as we sought to break the values down between trust and company structures. The aim was to get not just a total because it was a recommendation from the IMF, but get a picture of who holds what sort of asset, how much of it and in what sort of relationship. From this we now have a much better picture on what the pension sector represents – and I

will come to that soon – but for us this information enables us to focus on the areas relevant to your business.

Slide 3 – percentage of assets under trusteeship

This slide shows that 40% of total AUT is held in liquid and near liquid assets – the large blue slice, just over 10% -which is the red - is in real estate and more than a third in private company shares and other trading assets – the green.

This information will help our onsite work because we will be able to focus on management and administration issues of the asset class or classes which form a significant part of your total assets under trusteeship such as real estate or mobile assets like boats and planes.

Now the total AUT figure has gone up this year but we are not convinced that this is solely down to increased asset values and new business. We had to query a large number of the figures and this led to some licensees restating last year's figure. There have also been large swings in total values for each of the five asset classes so we are uncertain of the accuracy of the figures and because of this we feel that publication would be premature.

Slide 4 – total assets under trusteeship

But what we can also show is the proportion of assets held by our various fiduciaries, and here fiduciaries in international financial groups hold the major share. This is the red slice.

For the first time we have figures showing from where current business is from.

Slide 5 – geographical split of business based on turnover

This chart is based on geographical split of business based on turnover – more than half of business is sourced from the Bailiwick, UK and European Union. A quarter of business is made up of business emanating from Africa, Asia and the Middle East.

The information shows that there is business from all significant geographical areas including Russia. Staying East there is business here already from China and a small amount from Australia and New Zealand. Turning to the other side of the world there are business lines from the Americas and Caribbean.

Slide 6 – geographical split of new business based on turnover

This information is extrapolated from just one set of results so it will be interesting to see how this develops over time.

Information on where business comes from helps the Commission on at least 2 fronts – when we have issues relating to a particular region of the world we will know the fiduciaries with a large exposure to that area. Taking 2012 there are at least 3 external factors pressurising the industry – Eurozone, French wealth tax and FATCA. Taking the last item the figures we have suggest that there is little US business here and it isn't expected to grow.

At licensee level this data will enable us to focus on specific issues that certain jurisdictions pose to that licensee such as the challenge to carrying out sufficient due diligence including source of funds and wealth checks or if they are jurisdictions with a higher exposure to the risk of corruption.

Bailiwick fiduciaries predominantly service the private client sector rather than corporate and this private client work represents 82%.

Slide 7 - appointments

We have always collected figures on the number of trusteeships and directorships. The blue line representing trusteeships shows that the number has fallen as has directorships represented by the green line. We have also plotted the figures on turnover - this red dotted line over the same period and with its upward trend we could conclude that fiduciaries have moved away from high volume work to high value work. You will notice a sudden drop in trusteeships from 2011 – we think this might be a reporting anomaly because pension trusteeships may have been counted on a per member basis in 2011 when we did not seek separately data on the number of scheme members.

I mentioned three of the 4 external events to tax the sector this year and our session wouldn't be complete if we did not refer to Qrops.

Slide 8 – assets under trusteeship held in pensions

When HMRC announced that Guernsey pension schemes would cease to qualify for Qrops status we found that we had held little data on the sector upon which to gauge the likely impact. We now have data indicating the size of the pension sector, which fiduciaries look after them and what this sector represents in terms of assets under trusteeship and number of members.

This slides show that in terms of AUT this market represents less than 5% of the total.

This is our retail end of the market with about 80,000 members of pension schemes. Most fiduciaries provide services to pension schemes but based on figures from the main providers we estimate that about 150 people work in the pension sector. A significant part of it has been closed now depriving fiduciaries in this market of an income stream from new business. Going forward we want to ensure that those members are not disadvantaged by this and we therefore intend to carry out a series of themed onsite visits to those licensees to review their trusteeship and administration of these closed schemes.

There is also data from the return which reflects the ultra-high net worth end of the market – the private trust companies (“PTC”), of which 150 are incorporated or managed and administered from the Bailiwick. In this area the use of PTCs is in the hands of around a dozen fiduciaries.

This is an area of interest not just because the client would typically be considered high risk because of who they are but because of the challenge to fiduciaries providing services to PTCs to have sufficient knowledge over these structure and retaining an element of control. For these reasons this too is an area that we intend to focus on in the future.

Now I have covered who you are, how much you look after and what your markets look like but how is this serviced?

Slide 9 – number of staff employed

The total number of people employed by fiduciaries, which include those working in areas such HR and IT, is 3,543 and of them 2,452 work directly on fiduciary activities. Based upon this figure of 2,452 half of the sector employs less than 10 staff and just over a quarter employ 11 to 25 people. The sector is made up of a lot of small players so it should be no surprise that half of fiduciaries outsource functions to some extent.

If we exclude the 16 licensees which are managed trust companies whose resourcing needs are met by their managing fiduciary, those outsourced functions comprise bookkeeping, compliance, investment monitoring, specialist administration and pension administration. We noted that large group licensees tend to outsource to other group companies.

The most frequently outsourced functions relate to compliance and this was most common amongst privately owned trust companies that are outsourcing some or all of the compliance functions to local specialist providers. If international financial group licensees outsource aspects of the compliance function, then it tends to be off island and within group.

This has been a first cut at what the returns tell us. There is data I have not touched upon and maybe this time next year there will be other pictures emerging. For instance the Guernsey foundation and as a prequel or trailer to this story this year's data tells us that there are 14 fiduciaries together holding 40 council member appointments, 6 protector ships and administering 21 foundations. Although total assets in these foundations is small compared to overall assets under trusteeship it is more than double the value in RATs.

We can and are drilling the 2012 return for more data to put to use within our supervisory work but I hope we have today given you something back on the current health of the sector. Looking forward to next year we intend amending the Annual Return regulations – not because we want more information but because we want to extend the deadline to send it in from end of July to end of August.

In addition it became apparent that more guidance on the forms' completion is required. This maybe something that Donald Rumsfeld would say but we gained an understanding of where you misunderstood. So we plan to issue this well in advance of next year's return falling due.

Slide 10 – Sentinel

Now I referred to Sentinel at the start. Sentinel is the new name for the Extranet project, but it is not a development solely to address online submission of notifications, accounts and

returns but a future operating platform for the Commission. There are five pillars to it which including an operating platform, online submission, data management and reporting but also the establishment of a risk-based supervision methodology.

We have always used information in the fiduciary return to help us target where to concentrate our supervision, and should this programme move forward, the information in the return will be fuel for Sentinel.

Currently opportunities are being explored by a team of Commission staff who are under the direction of the Chief Transformation Officer and this team will be reporting to Commissioners its findings in January. This team is in dialogue with other regulators including Jersey in respect of developing electronic submission of documents and information. The team is also discussing with other regulators how they have approached developing a risk based supervision methodology and the team is also in contact with software providers regarding the underlying technologies.

As I stated there are 151 trusts companies and 39 individuals licensed under the law. Nearly 2,500 individuals work directly in the sector. 12 people work in the fiduciary supervision. The Commission, like the industry has to determine on a risk based approach where we should prioritise our supervision – to do that we need the information we now ask for in the annual return.

Thank you