Industry Conference – 11th March 2025

Investment, Fiduciary and Pension Division Sectors:
An Opportunity to share key trends. Themes and look forward

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Slide: Statistics – Strategic Decisions

To set the scene

We are supplied with data via regular regulatory returns. We value this immensely and want to thank all of you who have controls in place to ensure that the data we receive is accurate.

I am conscious that our rich data has multiple uses – for example it informs supervisory approach, it feeds international requests such as Moneyval, but it is also of wider industry interest as it provides insights into the overall health of our financial services sector. We regularly share data with industry representatives, but I will also share pertinent graphs with you today.

This graph may be familiar – it demonstrates the trend within the fiduciary sector that as a jurisdiction we moved towards higher value, more complex structures. This trend is now decades old and continues. In terms of a sectoral 'health' indicator – I would note far left axis – the material positive financial turnover figure of £400m for fiduciary licensees.

Slide: Statistics – Strategic Decision (2)

This is a new chart – illustrating that collective investment scheme investors have followed a similar trend to the fiduciary sector - we are predominantly an institutionally focused jurisdiction – and the NAV per investor has been growing.

Slide: Statistics – Licensee Employment

Employment is a useful indicator of economic value.

My key takeaway from reviewing both the Investment and Fiduciary sector employment numbers (data taken from our regulatory returns) is that these sectors make a very material contribution to our economy – c. 10% of everyone on the island – not much chance of being anonymous here as a regulator!

However we shouldn’t be complacent. There has been a small decrease in employment figures – from 7100 2023, to 6789 in 2024. We continue to see outsourcing and separately pan channel island businesses finding jersey an attractive base.

Slide: Statistics – Collective Investment Schemes

Another indicator that we can't be complacent is when we look at our collective investment scheme figures.

We have to place this chart in context:

- our connection to global markets,
- the sensitivity to FX movements,
- the investment style of our funds - PE making up c.50% of all funds, with listed, property, debt funds and VC funds also being major asset classes – and the challenges associated with each of these asset classes
- and the fact that CISs are only one part of investment structures on the island (for example do not include single asset or single investment vehicles)

However we can not pretend that the last few years can be described as anything other than ‘stable’ in terms of asset value and newly authorised and registered CIS within a year (48 for 2023 and 49 for 2024). We would however note that we have started this year with a positive number of new fund applications.

As an aside the Jan 2023 pick up in number of schemes only reflects us including suspended schemes within the total.

Slide: Statistics – Fiduciary ‘Asset’ Level

However, we have a lot to be positive about too.

We deliberately do not publish total fiduciary asset values due to variations in calculation and technical reasons – however analysis can be drawn from trends. It is clear that the value of corporate related activities – for example provision of directorships and company administration has been growing significantly.

The eagle eyed who read the full money val report will note at paragraph 50 , and I quote -
The TCSP sector is the main introducer of foreign business and investment in the Bailiwick. In 2023 the TCSP sector held a significantly high value of assets under fiduciary capacity, which by far exceeds the value of deposits held by Banks and asset value held by Guernsey CISs.

Slide: Statistics – Investment 'Asset' Level

We are conscious of the overlap between corporate administration by a Fiduciary and POI Designated Administrator. Many firms both regulatory licences.

This data comes from POI designated administrators – illustrating that they administer not only CIS. The £400bn for 2024 relates to £300bn for CIS, £100bn combination of non guernsey CIS and other securities; the additional £200bn relates to administration of other investment structures – NB there is some duplication with the Fiduciary Corporate relates activities in the previous slide – but it is not like for like as the previous slide also includes non POI Administrators data (eg pure fiduciaries).

Slide: Statistics – Fiduciary Focus

If we dig behind Fiduciary grand totals, we can also identity areas of jurisdictional specialism – pensions and PTCs being two good examples.

In terms of pensions - As at June 2024 there were just over 2000 pension schemes reporting to the Commission, with just over 117,000 members and assets of £10.7bn.
The overall picture for pensions has been pretty consistent over the past 5 years, but we are expecting Guernsey secondary pensions to drive up pension membership in the next few years.

Private Trust Companies was a particular area of focus for us last year as part of our Moneyval preparations. As at September 2024 there were 126 PTCs administered by 36 different fiduciary licensees. We have shared more specific data with Guernsey Finance and GAT on this recently as we understand guernsey is particularly well placed to offer PTC services.

The vast majority of PTCs are Guernsey incorporated – this is important because it underlines that we are a jurisdiction of substance, and in terms of assets - Liquid or near liquid assets are the most common, followed by private company shares – but PTCs also hold other asset types such as boats, thoroughbred horses, forests, loans receivable and interest in partnerships.

Slide: Geographical Source

In terms of where our business comes from – there are some clear areas of focus.

This slide reflects the Top 10 sources of business for both Fid and Investment – equal to three quarters (73% and 74% respectively) of all Fund investors and source of fiduciary turnover.

The Fiduciary data reflects the latest country of residence of the settlor of a trust, the founder of a foundation or the beneficial owner of a company.

The Investment data reflects the jurisdiction of residence of a natural person, the beneficial owner of a legal person (as per chapter 7 of the handbook) or the jurisdiction of incorporation of a listed entity – thus for example Guernsey maybe recorded if it is a guernsey legal entity and listed in London.

You'll note over lap for 5 key top jurisdictions for **both** for fiduciary turnover **and** as the location of fund investors - UK, USA, Guernsey, Switzerland and (new entrant this year) South Africa.

Outside the top 5, for fiduciary turnover is Saudi Arabia.

And for fund investors I wanted to highlight that the US is very significant, with Luxembourg also playing an important role.

Slide: Supervisory Recap

Turning to supervision

As a reminder – we continue with our risk based approach to supervision – it would be completely impractical for us to be with every firm every day - there are far more of you in industry [6789 number of people in IFPD regulated firms] compared to c. 30 supervisors – plus we would end up becoming native.

We therefore continue with our full risk assessment onsite visits on a rolling basis to the firms that would have the largest impact if they were to fail – 7 Fiduciaries and 3 Investment firms last year.
We undertake thematic reviews – client money last year, conflicts of interest this year.
And we undertake internal sector reviews - the clue is in the name here – internal and therefore we don't publish specific reports after them but where outliers are identified we do feedback to those specific firms bilaterally and use opportunities like this and our annual report to spread key messages.

Thematic Review – last year focused on client money. The good news headline was that licensees generally safeguard money appropriately, using suitable policies, procedures and controls. The sub heading was exploring where Fiduciary and Investment firms bank – and in the vast majority of instances this is still in Approved Banks in Guernsey, supporting that Guernsey is open for business.

This years thematic review relates to Conflicts of Interest across both sectors. Questionnaires are being issued in the next few months with onsite visits planned over the summer – thank you in anticipation for your support – we had 100% response rate to the client money thematic which helped the quality of the end report for all.

Two internal sector reviews for last year related to Pension fees – we now know what an outlier fee is and plan to ask questions accordingly; and PII notifications – we have a much better sense of trends here – including that the majority relate to UK tax changes for Fiduciary firms – with other significant causes relating to fee disputes and complaints regarding investment performance. Collective Investment Scheme PII notifications typically related to litigation against an underlying asset of the fund, or commercial disputes regarding the financial performance, directly or indirectly, of the fund, or the quality of administration services performed by the Designated Administrator.

Slide: Supervisory Observations

Reflecting on all our supervisory engagements throughout 2024, a number of key themes can be observed and shared:

- Governance remains a key topic. We have observed an increase in the number of independent Non-Executive Directors (NED) and consider that this has strengthened boards. On occasion we are told by a CEO that they don't want a NED because they 'wouldn't understand their business'; in our experience it's precisely this fresh pair of eyes that can be helpful. We understand that some licensees, especially smaller firms, may not consider a NED appointment to be a priority, however we are conscious that worthwhile NED development programmes exist within the Bailiwick offering the ability to take on 'upcoming' NEDs free of charge for a year.

- We have been pleased to observe some improvements in firms' culture, sometimes due to strengthened boards, enhanced understanding of the difference between a functioning executive and strategic board, and sometimes (and this is more anecdotal) apparently due to office moves to better equipped, open plan offices, or at least all employees being on one site. The importance of local mind and management remains.

- Our focus on data accuracy continues to sharpen. We have seen good progress from some firms in this area and encourage continued investment in systems and oversight controls to ensure we receive accurate data. If accurate data to enable the Commission to do its role efficiently and effectively isn't incentive enough, submission of inaccurate data acts as a regulatory red flag attracting additional supervisory attention; in our mind, if errors are occurring here where else is the firm making errors which might impact clients or financial viability?

- Optimism is a wonderful thing, however we regularly observe that firms (and when they are part of larger international groups, the relevant 'head office') underestimate the time and effort needed to remediate financial crime weaknesses, exit business and integrate acquisitions. Failing to properly plan in these important areas only leads to increased problems down the line. We would always prefer a well considered plan, than a rushed ‘ambitious’ timeline.

- One area that continues to concern us, and something we would like to focus more on in the future, are directors or trustees who sit on sub-economic structures without making adequate efforts to wind them up. It’s often unclear whether this is driven by nervousness, lack of resources, inertia or greed; but we take a dim view of anyone who continues to charge fees without appearing to take due account of the expectations of members/investors/beneficiaries/clients that the responsible individual will act in their interests.

Slide: International Themes

We are very conscious we are an IFC – a jurisdiction of choice and connected internationally in many ways. We therefore pay due regard to international trends and think deeply about the appropriate implementation strategy that is proportionate for the Bailiwick.

On this slide are a number of international themes, often on the agenda of regulatory meetings, potentially also on your risk registers.
I wanted to take this opportunity to share a little regarding how we are approaching each of these key topics.

No regulatory presentation would be complete at the moment without acknowledging the ongoing cyber security risk threat. Vigilance and preparedness for all of us remains a priority.

We undertook an ISSB – international sustainability standards board – discussion paper towards the end of last year. We were pleased with the 40 responses we received and intend to produce a feedback paper in the summer. There was consensus that any implementation in this space should be proportionate, not over burden firms and not impact the Bailiwicks competitive position.

As the title of this day indicates (enhancing the bailiwick through innovation, simplicity and ease of use) we are committed to reducing administrative burdens where appropriate. This is an easy thing to say, much harder to do as no one intends to create unnecessary burdens. That said we are open to feedback and where we spot an opportunity to do something simpler or easier without unduly impacting investor protection or financial crime controls – we will do so.

As Katherine will cover more after our break, We are resourcing our own capability regarding AI – both understanding local implementation, equipping our supervisors to understand changing businesses AND investing ourselves with a view to harnessing technological developments.

The global rise and importance of NBFI = Non bank financial institutions occupies many a regulatory lunch discussion. A few decades ago banks posed the most material systemic economic risk and regulatory frameworks – Basel – were designed accordingly. But today banks are not the only kid in town – asset managers and private equity funds (amongst others) manage trillions of pounds of assets – and there are live regulatory discussions about how to respond to this market evolution.

Geopolitics could be a presentation all on its own. For today's purposes, I am especially mindful of our US investor base, proposed UK tax changes and sanctions - but what I also know from my last decade here is that Guernsey is excellent at identifying opportunities in times of uncertainty and change.

We issued a policy statement last year regarding Tokenisation and continue to be open and supportive of potential business opportunities for the jurisdiction here.

Slide: Supervision Potential Future Focus

Our supervisory approach can be characterised as business as usual, likely to remain very similar for the year ahead,

To complement this, we are considering paying particular attention to

- The fees charged when structures near ‘end of life’ , including total expense ratio for small structures
- The adoption of AI within our financial services firm, especially any decision making models, and associated risk management considerations
- The adequacy of investment monitoring – including in the fiduciary sector where the function maybe outsourced and oversight patchy
- Plus continuing to police the perimeter to ensure a level playing field

Slide: Look forward and busting myths

And finally, looking forward, what am I trying to say:

Firstly, and importantly we want to engage and understand how things are going.
Our old chairman summarised that we want you to bring a coffee, not a lawyer. That remains our desire today.
I spend a fair bit of my time informally meeting with many of you, and I think this is to the benefit of the Island.

One myth some people raise with me is that if a business is in trouble and they come to the regulator, they will be on a fast track to enforcement. This is simply not true. Problems do happen – we understand this – I work with many businesses behind the scenes to reduce risk for the benefit of investors and the reputation of our jurisdiction.

During a recent coffee with a friendly fiduciary, a wise business leader who is in the audience today reflected that our interests – those of a financial services business and regulator - are aligned. Investment in compliance and governance ultimately results in long term shareholder value; plus a level playing field and being perceived as a well regulated jurisdiction helps attract business.

Thirdly - We are resourced, committed and open to supporting innovation – we want to see Guernsey flourish
We are constantly listening out for example of where we can improve our regulatory framework to support good business.
Towards the end of last year for example we were asked to review our Prospectus rules, Pension Providers being a PCC and issuing Unclaimed money guidance. We did all this quickly with good industry engagement.
This is an ongoing topic and we are currently exploring whether we can innovate to support more new fund growth – whilst also being mindful to protect investors and prevent financial crime.

So my parting message is that we are Open for business – there is a lot of talent in this room and we appreciate the community we operate in – we have a collective ability to be nimble and approachable and it is in all our interests to facilitating economic enablement.