Guernsey Financial Services Commission

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Banking and Insurance

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Good morning and thank you for coming today.

In the next 20 minutes or so I am going to present an update on recent and future issues for the Bailiwick in banking and insurance. I will also talk about both these sectors in the context of Conduct; as well as discussing conduct issues around, for example, lending.

I will start with banking.

Slide: Banking

When I arrived in Guernsey in 2007 there were 47 banks here. Today there are 21. Some people have suggested that these two events – my arrival and the decline in bank numbers – are directly correlated. I would beg to differ and, in my defence, I intend briefly to list the impersonal macro-economic reasons for this decline; and then, in that context, reflect on whether prospects for the future are brighter.

There are three main reasons why the number of Guernsey banks has decreased. These are:
Firstly – Before 2007, every international bank, however small, wanted to fly its flag in at least one IFC jurisdiction; even if few made any money out of it. As global banking contracted and as hard-nosed commercial considerations took over, these banks closed.

Secondly - Before 2007, many banks were in IFCs to gather deposits and then upstream to their parent bank. After 2007, the world was awash with central bank liquidity. These IFC banks no longer served a purpose and therefore closed, and

Thirdly – After 2007, there was a major shake-out in the global banking industry. In Guernsey, as elsewhere, many branches and subsidiaries were closed or merged because of group retrenchment.

None of these three factors affected Guernsey alone. The same thing happened for example in Jersey.

So, what of the future? Sadly, the three factors itemised above are still working themselves through. For example, international banks are larger but fewer than before; and this works through to less demand for an IFC presence.

However, there are grounds to hope that new banks may eventually arrive. Perhaps the world will change such that overseas deposits to support a domestic balance sheet will again become attractive. Perhaps certain jurisdictions will locate banks in Guernsey. The BRICS are an example; and Guernsey has had some success here. Another potential area may link to the re-emergence of the popularity of Swiss Fiduciary Deposits due to higher interest rates – again an area of some success for the Bailiwick. Perhaps another potential new avenue is the adoption of new technology; not least to offer the retail public access to business apps. Here, we should perhaps look less to banks but rather to specialist and niche money/payment service providers.

So, the future is mixed. We have seen the worst of the post-2007 shake-out but the process may not yet be complete. On the other hand, there are some possible growth areas. Overall, I am optimistic.

It is also worth reflecting here on the fact that the 21 Guernsey banks offer a wide range of banking products to a highly differentiated and complex customer base; which is both retail and wholesale. Almost all banks here carry a very high credit rating. Sure, the sector would benefit from more competition, not least for example in the custody space, but the Bailiwick nevertheless has a highly developed banking sector. That is an important positive for doing business in the Bailiwick.

I would now like to turn to current supervisory issues for banks.

Credit risk is usually uppermost in the mind of any banker. That is true also for a supervisor; but perhaps less so in Guernsey, given that many banks here place much of their assets with highly-rated bank counterparties and investment-grade bonds. Nevertheless, for the six subsidiary banks in Guernsey, the Commission continues to undertake periodic credit stress-testing. In addition, last year the Commission looked at buy-to-let portfolios and this year it will be looking at Lombard lending. This is not so much because there is a problem in either of these areas – rather it is to check on these key credit exposures. The Commission keeps a close eye on branches through credit ratings and share prices as well as participating in supervisory colleges.

There is not enough time here to run through other types of risk. However, I will mention two. The first is cyber-security risk. Banks are in the forefront of mitigating this type of risk; not least with the support of head offices. However, local banks might still benefit from putting in place some real-time scenario-testing if they have not already done so. Katherine will later explain how the Commission is developing its own supervisory resources in this area. The second risk to be mentioned is financial crime where constant vigilance is needed. Banks cannot relax their guard around this type of risk; as Fiona has just said.

Looking to the future, in 2026 the Commission intends to start consultation around the final aspects of the post-2007 Basel reforms. The Commission has already put in place several elements of these reforms but we need to make a final push, starting in 2026.

This year the major issue is the creation of a banking resolution regime. The Commission has been working closely both with government officials and Guernsey banks to help shape a resolution regime that is fit-for-purpose. This has got to the point where the States itself is in the process of considering legislation in this current session. The implementation of a resolution regime is important not just to bring the Bailiwick up to international standards; but, also, to protect the deposits of people living in the Bailiwick. In addition, those involved either directly or indirectly in drafting the resolution law are aware of the need to create a resolution regime that works for the Bailiwick. This means a regime that is cost-effective for the banks and one that prevents any unintended contingent risk on local taxpayers. The creation of a Resolution Committee as a subsidiary of the Commission is the best way of achieving these goals. The continuing support of the Guernsey banking industry is vital to achieve this goal.

I will now discuss the insurance sector.

Slide: Insurance

The insurance sector in Guernsey is hybrid and covers many different types of insurers. The most important sector is that for captives. Given that this sector by number is already the largest in Europe and that some captives close or merge each year driven by developments at the parent level, it is statistically unlikely that there will a significant change in the aggregate number of licences from year-to-year. Nevertheless, Guernsey continues to do well in this sector with the aggregate level of captive licences bobbing around 330. This sector is supported in part by a hard market but also by the expertise of Guernsey's insurance managers. The types of risk insured within captives continue to grow as new risks emerge; so, this sector remains dynamic. The elephant in the room is the UK captive challenge; which the Bailiwick will need to meet.

In contrast, the alternative catastrophic market (or/ILS) shrunk in 2024 in net terms and in terms of licence numbers; although 2024 did still see new licences being issued. Let us hope that this sector picks up given the increased demand for such reinsurance, largely driven by climate change and its effects. Other potential areas for further growth are around DB pension schemes and life insurers transfer risk to third parties; and life branches. All this is promising.

There are 546 licenced insurers in Guernsey as opposed to only 21 banks. The Commission's supervisory approach to insurers therefore relies more on a thematic approach. In 2024, we undertook thematic reviews on insurers' credit risk, multi-occupancy buildings insurance and general insurance reserving – the last review being published on our website. Whilst for a few firms we found some weaknesses – and these we fed back individually – the general result for all these reviews was good.

Back in 2018 the Commission issued an internal thematic on the accuracy with which firms complete regulatory returns. The results of that review were poor and a letter to all CEOs was issued, saying that the Commission expected things to improve in the wake of this letter. Given that several years have now passed, the Commission will therefore be selecting some insurance returns in 2025 for material inaccuracies.

In 2024, the Commission continued to enhance the controls around general retail insurers. The one element still not in place is around disclosure; but we will be drawing this to a conclusion this year. In addition, the Commission will be looking more closely at how retail general insurers use their ORSAs both for capital and risk management purposes.

At the end of 2023, Global Insurance Group went into administration and has since been placed in liquidation; despite management and the Commission having come close to a rescue package. This firm was a Guernsey retail general insurer; focusing on health insurance for people around the world. Although the administrator has succeeded in transferring many policyholders to other insurers; others are likely to experience loss around both premium unpaid and claims. As the Commission has previously made public, for example in its 2021 Annual Report, this has not been the only general retail insurer over the last few years with difficulties. This sector continues therefore to be a focus for the Commission and, I hope, for insurance managers.

The Commission's regulatory solvency approach for general insurance was put in place more than a decade ago. It has served its purpose well. However, last year the Commission conducted an internal exercise using a third-party actuary to review our approach as a matter of good practice. Few issues emerged but we are talking with the local industry about whether any changes, even if minor, are required.

I would like finally, on insurance, to mention the Commission's involvement around the international regulatory community. This involvement gives the Commission the ability to advocate the importance of proportionality and cross-border supervision on a global stage. It also ensures that the Commission stays in close touch with other insurance IFCs. In 2024, for example, the Commission hosted a secondment for the Barbados insurance regulator.

Slide: Insurance

Moving on to Conduct, in 2023, the Commission created five new licence categories; mostly to facilitate the regulation of conduct around lending. In 2024, the Commission decided to allow the new regulatory regime a year to settle in before looking at firms in more detail. Consequently, in 2025, the Commission will a undertake thematic review of vehicle financing; this will encompass both the provision and sale of vehicle finance. This review will be published; probably early in 2026.

2023 also saw the introduction of Virtual Asset Service Providers ("VASP") regulation. In the following year, the Commission licenced its first VASP. This involved the use of our soundbox and this has proved a useful learning experience for all parties. Having said that, the jurisdiction continues to favour wholesale rather than retail VASPs.

2023 also saw the arrival of the licence regime for Financial Firm Businesses; which replaced the old Non-Regulated Financial Services Business registration system; with the prime aim of mitigating financial crime. This led at the time to several discussions as to which type of firms were – or were not – caught by this new regime. I suspect that such discussions will recur in the future. Under the previous regime we asked firms to consult their lawyers about whether the regime was applicable to them. We now ask the opposite – please talk to us rather than your lawyers.

Outside this new regime, the Commission continues to exercise its powers as a conduct regulator. The Commission has regular meetings with the Channel Islands Financial Ombudsman and this is useful to bring to light both general themes and issues at firms.
In 2024 the Commission looked at the quality of advice rendered by local life intermediaries. Over the last ten years this sector has seen many reforms. Our internal work suggested that these reforms continued to be effective in ensuring that Guernsey people receive appropriate advice around life insurance.

This year the Commission will also undertake a thematic review of life insurers to see how they treat life policyholders; though in this case the customers are mostly outside the Bailiwick.

In 2024, the Commission undertook a series of visits to banks looking at local retail and SME account opening. Here is what we found. The relevant banks generally open accounts in a relatively short time so long as customer documentation is in order. We found no instances of discrimination. However, banks can struggle to meet their own targets when they themselves fall well below their required staff levels due to local recruitment problems. There were also individual instances where the banks themselves accepted that their own account opening standards had not been met. The Commission continues to oversight this area and its interest helps good practice.

The key policy work for Conduct in 2025 is Equity Release. Equity release allows older homeowners to release some of the value tied up in their home. In the wake of the Commission's 'Lending, Credit and Finance Rules and Guidance' coming into effect in 2023, the States in 2024 indicated that it wished to see Equity Release included as an extension to these rules and guidance. Consequently, the Commission issued a Consultation Paper on this subject in December 2024; and we are currently working through the 19 responses.

In developing its approach, the Commission closely followed the UK. In part this was because the UK approach has been tried-and-tested, but also to facilitate the provision of finance for equity release in Guernsey from UK providers. Nevertheless, the UK regime has been suitably adapted to encourage the provision of local finance and to ensure that the rules and guidance for local intermediaries are appropriate to the Bailiwick.

This is a proactive project. It is based on the principle of 'build it and they will come'. The Commission has worked closely with Guernsey stakeholders and there is demand for this product in the Bailiwick; although the numbers are never going to be large given the size of our population. Given the latter fact, nobody can be sure that providers will eventually appear. All the Commission can do is build a regulatory environment that is welcoming and appropriately proportionate whilst at the same time ensuring that product purchasers are suitably protected. However, the Commission cannot ensure the ultimate success of this regime on its own, as traditional Guernsey customary law in respect of security and enforcement (saisie) was not designed with modern mortgage lending in mind. The States and other stakeholders will need to ensure that Guernsey customary law is updated so as not to deter the provision of finance.

This concludes my Cook's tour of banking, insurance and conduct. The last time I made a speech like this, I was preceded by Gillian. As a result, a large swathe of people left at the same time as Gillian left. So, this year I asked that I might precede rather than follow Gillian. Having therefore completed the warm-up act, I will now hand over to the ever-popular Gillian.