Guernsey Financial Services Commission

Industry Seminar – 16 November 2016

Conduct Unit Introduction

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Good day and thank you for coming. As is becoming the custom, I am going to speak today for 5 minutes or so before Rose talks to you for around 20 minutes.

I imagine that many of you are periodically asked 'what keeps you awake' in terms of your business concerns. That is a question I too am sometimes asked and today I would like to give you an answer as far as the insurance sector in Guernsey is concerned.

There are naturally caveats. Regulators on the whole did not see the 2007 Global Financial Crisis coming and so, in a sense, were not kept awake by the threats that later materialised with such dramatic results. Also, my perspective here is Guernsey might well be different from that of a regulator in London, due to the difference composition of the insurance sectors in Guernsey and London respectively. Nevertheless, with these caveats, here are my thoughts.

I would like to start with the areas where I think threats are less material.

The Guernsey insurance sector is small and there are insufficient insurance companies in Guernsey to supply the needs of the local community. For that reason, the Commission allows insurance companies, either general or life, to provide products locally subject to their jurisdictions. We have deliberately excluded a few European Community countries from our list of acceptable jurisdictions, but, broadly, almost all Community insurers can provide products to us in Guernsey. In practice most providers are based in the UK, even if they may be part of a bigger non-UK Group. And, in fact, the number of providers is relatively limited.

As these companies do not need our individual permission to insure in Guernsey, we cannot be sure who they are and how much of the local market is owned by each company. However, we do through the intermediaries and our on-site visit know who these companies are. Our due diligence here is limited to general recognition and credit rating reviews. We do not for example participate in supervisory colleges. However, these companies are generally household names and are closely supervised by the UK authorities. This provides some reassurance.

I imagine that my counterparts in the UK are kept awake by longevity risk, given the guaranteed long term liabilities that exist in some firms and the lack of availability of long-term higher yield assets. For any Guernsey life company operating in this space this is also an issue here. On the other hand, many such companies have long since moved over to investment type products and I personally am not yet convinced that we are in permanent Japanese type deflationary environment. Also the Commission does not supervise corporate pensions, where this problem can be acute.

Turning to general insurance, profitability problems pose a challenge to Guernsey general insurers as they do in the UK. On the other hand the local market is in practice less competitive than in the UK, subject to local spikes. As for the more specialised general insurers, these operate in a series of often unrelated niche markets. There are always some quasi charitable general insurers in Guernsey which are small and whose business model is simple. As a sector therefore general insurance does not keep me up at night.

Turning to re-insurance it is true that there are risks. I personally believe that ILS yields are under-priced; although this is a market in which only the sophisticated play. We have recently seen some new reinsurers arrive in Guernsey, but these are rated.

So it should by now be clear that my nights are generally undisturbed, at least in terms of sectors. It is however when I start to think of intermediaries that my sleep becomes a bit troubled.

One aspect that worries me is the sales channel for insurance products. Here one has to ask – is there a future for a personal distribution channel in Guernsey? Or will we move over to robo-advice for life; and aggregators for general insurance? As a regulator, I am not here to defend any particular business market but I do get worried if the pace of change were to affect the performance and behaviour of firms

Another area that worries me is the sale of long-term life products. In recent years the Commission has carried out two thematics on this subject. The results have been in some cases dramatic. Some firms have gone out of business, others have been fined and several have engaged in remedial action programmes. While things have since improved, not least due to GFAS implementation, I am personally still not convinced that the sector as a whole is where it needs to be, even though we try to help firms through, for example, our annual Conduct day.

An area where so far little work has been done is general insurance intermediaries in Guernsey. Here again I have reason not to sleep. A while ago we carried out a thematic on opt-out add-ons and found the practice to be common. We asked all firms to rectify this whilst we went away and did some remedial action of our own on the AIR Code of Conduct. Despite this, our anecdotal understanding is that opt-out add-ons may have continued in some cases. In addition, there are issues around cost transparency – as highlighted in the UK by the FCA.

Generally, for both general and life intermediation, we regulate these sectors through on-site thematics. So, subject to timing and resources, I would like to undertake at some point a thematic on life sales and general insurance adherence to the new AIR code.

So there you have it. In terms of my overall view of the insurance sector, I have some concerns about both life and general insurance intermediaries in Guernsey and for that reason this is where we will be putting our resources so far as we can.

Thank you for listening and I will now hand over to Rose.