

**Industry Seminar – 16 November 2016**

**Business Culture: Fiduciary Flags, Facts and the Future**

**Alice Joy, Assistant Director**

Good morning ladies and gentlemen. We thought it would be useful to share some key trends and statistics which we receive from a combination of the 2016 Annual Returns and your aggregated financial statements.

**Slide: Fiduciary Sector Staff Employed**

This slide shows a slight increase in the number of people employed in the sector reflecting a similarly sized increase in employment across Guernsey. To set the scene – from 2016 government statistics there are currently 32,291 people employed in Guernsey.

Of these some 3,526 work in the fiduciary sector – which is nearly 11% of the islands' workforce – an impressive number. In the earlier video clip, Gillian discussed with the team, key red flags to focus on during our 2017 onsite visit programme. Staffing and resources is always a key focus of our onsite visits. It can be tricky for our onsite teams to really get under the skin of a firm during a week-long full risk assessment, but data such as turnover of staff coupled with information on the length of time vacancies are left unfilled can give us a real flavour of a firm's culture.

**Slide: Fiduciary Appointments**

This slide shows the number of fiduciary appointments per full time member of staff, split between all staff and staff carrying out regulated activities. In her briefing to the team, Gillian touched on the importance of recognising whether staff are over-stretched as an indicator of operational risk.

The average number of appointments per member of staff for the whole sector is 14.76. Licensees in the privately owned local category have an appreciably higher average number of appointments of 19.61 per member of staff compared to the other ownership categories and this will be a focus of our onsite visits to these firms in 2017.

The concentration of appointments in the hands of one director can suggest dominance and potentially present a key man risk. It can also be a flag of difficulties with succession planning in an emergency scenario or over the longer term.

### **Slide: Fiduciary Assets**

This slide shows the value of assets under management that each member of staff is responsible for again split between all staff and staff carrying out regulated activities. What is striking to me is the large variation between the different ownership categories of fiduciary licensees with staff at international financial groups responsible for 60% more assets than staff at businesses classed as privately owned overseas.

### **Slide: Full Fiduciary Licensee data – percentage of total assets under regulated activities held based on asset type**

These charts illustrate the stability of the assets managed by fiduciary licensees. You will note that there has been a slight decrease in the percentage of assets held as liquid and near liquid assets since 2015. This may reflect a growing confidence as licensees feel they can reduce their cash safety nets and may reflect a greater demand to seek a return on assets held. You can see that the class ‘other diverse assets’ has seen a corresponding increase.

We were surprised to note an increase, albeit small, in the percentage of real estate held. It will be interesting to monitor next year’s figures to understand the impact of de-enveloping and other HMRC initiatives on the assets held by our fiduciary licensees.

### **Slide: Full Fiduciary Licensees – distribution of assets & total number of firms**

This slide shows a slight overall increase in the value of assets under administration by fiduciary licensees with fiduciary licensees owned by international financial groups enjoying significant growth in the value of assets under administration countered by smaller increases for lawyers and accountants and licensees owned privately and overseas.

The slide also shows the total number of fiduciary licensees is 154 a change from 155 last year reflecting stability across the sector. You will note a minor decrease in the number of full fiduciary firms owned by lawyers and accountants and those firms owned privately and locally, and this is off set by the small growth of firms owned by both international financial groups and privately owned overseas businesses.

As shown by the earlier video, consolidation and its impact on our fiduciary licensees is a frequent topic of discussion within the team.

When the Fiduciary Division and Authorisations Unit consider a change of control application, we assess the ability of the new owners to meet the minimum criteria for licensing and try to understand the new owners’ strategy for the business. When the Fiduciary Division carries out an onsite visit to a firm subject to consolidation, we consider the cultural impact of the new owners.

It is interesting to note that high level Group decisions about strategy can really filter down to staff on the ground in Guernsey with it soon becoming obvious as to when the Group sees a long-term focus for Guernsey. As Gillian reminded the team in the video, interviews with staff or examination of sickness and absence data following a consolidation, soon reveals firms where staff are being put under undue pressure to deliver returns or targets.

**Slide: Originating geographical location of licensees' new business**

This slide relates to the number of new client relationships generated in the past year – and is taken from the Annual Return.

There has been a 30% increase in new business coming from Russia, as compared to 2015. This was from a low base but perhaps reflects the political and economic instability that persists there. The Middle East also saw a very healthy increase in new business opportunities for our Guernsey fiduciary licensees, with a 29% increase again from a low base.

You will note that a fairly substantial amount of new business is designated as 'other'. The current annual return does not allow firms to record explicitly where this new business is coming from. Anecdotally, we hear of opportunities in South Africa but as a Bailiwick, we would like to get better data on where new business is coming from. As such Simon Taylor has begun a project to review the information we receive through the annual return and we will be working with industry and GAT over the coming months to deliver this. This will see some changes to the annual return form which will migrate to an online submission.

I'll now handover to Steve.