

# INSURANCE COMPANY MANAGEMENT IN GUERNSEY

August 2010

Willis



We **communicate** with you to **understand** your business, providing the **expertise** and **creativity** to develop and **deliver** excellent captive **solutions**, and we do so with **passion**.

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# **SECTION 1 - INTRODUCTION**

**THE WILLIS GLOBAL CAPTIVE PRACTICE IS A MAJOR FORCE IN THE GLOBAL CAPTIVE INDUSTRY WITH OPERATIONS WORLDWIDE.**

Guernsey is the leading captive domicile in the European region with over 360 captives and in excess of 350 Protected Cell Company (PCC) and Incorporated Cell Company (ICC) cells licensed for insurance purposes. Annual insurance premiums exceed £3 billion and assets under management total more than £8 billion.

Guernsey has an outstanding reputation for innovation and professionalism in the world of international insurance. The expertise that the island has built up over many years combined with its strength and breadth of its Financial Services industry Guernsey offers clients:

- High quality professional insurance management
- First class governmental, regulatory and tax environment
- Stable democratic political environment
- Flexible, pragmatic and approachable regulator
- Excellent business infrastructure
- Convenient location, time zone

Willis has been established in Guernsey since 1981 and has built up a strong team managing in excess of 55 companies.



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# **SECTION 2 - CAPTIVE MANAGEMENT SERVICES**

**THE WILLIS GLOBAL CAPTIVE  
PRACTICE IS AT THE FOREFRONT  
OF INSURANCE MANAGEMENT  
TECHNOLOGY WORLDWIDE.**

Willis is one of the largest captive managers in Europe and has management companies in all the major reputable captive locations worldwide. Willis Management (Guernsey) Limited is a wholly owned subsidiary of the Willis Group, the world's third largest insurance broking organisation. It was formed in 1981 and now has:

- Over 55 companies under management
- Over 30 staff employed in Guernsey
- Gross written premiums in excess of £300 million
- Funds under management in excess of £1.5 billion

Our client base includes many major multinational corporations, including industrial and commercial operations, financial institutions, leisure groups and privately owned companies.

We serve wholly-owned and association captives, and mutual insurers on behalf of whom we underwrite in excess of 35 classes of insurance and life assurance on both a direct and reinsurance basis.

We offer a high quality full captive management service, encompassing all aspects of strategic development and administration.

We also provide a comprehensive consulting service, which includes the provision of feasibility studies and specific advice in relation to captive programme design, structuring and operation.

The experience, expertise and professionalism of our Guernsey team are the qualities that we believe set us apart from our competitors.

The core functions involved in captive management are carried out by Willis Management (Guernsey) Limited.

Willis has teams of professionals qualified and experienced in each of the relevant disciplines, which include:

- Insurance
- Accountancy
- Company Secretarial
- Corporate Governance
- Risk Management

These core functions are carried out on the Island in order to comply with local legal requirements and regulations and demonstrate that the captive has a true Guernsey base and identity.

Each servicing team benefits from qualified accountants and insurance professionals, supported by a number of experienced administrators. The office has a support infrastructure including a Compliance Officer, a dedicated IT unit, corporate secretarial expertise and a fully trained Money Laundering Reporting Officer.

Willis has established relationships with the Guernsey Financial Services Commission (GFSC), all major (and many minor) fronting insurers, reinsurers and broking houses to facilitate the smooth and effective administration of your captive insurance programme. Willis also has established relationships with all the major banks, investment managers, legal advisers, auditors, actuaries and other service providers to ensure the smooth running of the company. Whether your captive management requirements are for a cell, PCC or captive, Willis has a team of dedicated professionals available to deliver your requirements.

## **INSURANCE MANAGEMENT**

- Captive development and programme design
- Underwriting
- Premium administration
- Policy documentation
- Claims handling, administration and reporting
- Liaison with insurance and reinsurance brokers
- Maintaining underwriting accounts and statistics

## **ACCOUNTANCY**

- Management accounts
- Group consolidation reporting
- Statutory annual accounts
- Full accounting documentation including budgets and cashflow statements

## **COMPANY SECRETARIAL**

- Compliance with Guernsey regulations
- Provide registered office (if required)
- Act as General Representative
- Maintenance of corporate records
- Notice and Minutes of directors meetings
- Preparation of board papers

## **CORPORATE GOVERNANCE**

Subject to regular independent review and audit, compliance with the recognized international 'best practice' and the licensed Insurer's Code of Conduct through the production and maintenance of a Framework including:

- Procedure Manual
- Key Risk and Control Matrix
- Schedule of Key Actions
- Provision of Money Laundering Reporting Officer and Compliance Officer

## **BANKING AND INVESTMENTS**


- Cash management
- Monitoring of investment managers (if appointed)
- Monitoring currency exposures
- Authorisation and payment of expenses

## **CONSULTING AND TECHNICAL SUPPORT**

The Willis Global Captive Practice is an integrated captive service provider, providing management and consulting services from its operations based in all major reputable captive domiciles. Our Guernsey team is therefore able to offer access to the following:

- Nine professionally qualified staff based in Guernsey
- The wider experience and expertise of captive insurance available throughout the captive practice
- The substantial resources and expertise available throughout Willis





# **SECTION 3 - GUERNSEY AS A CENTRE FOR CAPTIVE INSURANCE COMPANIES**

**WILLIS IS PROUD TO BE  
AMONG THE VANGUARD  
OF INTERNATIONAL  
INSURANCE MANAGERS  
IN GUERNSEY.**

## INVESTMENT MANAGEMENT

An element of the financial return from any insurance company will consist of investment income generated from the company's share capital, from its premium income and from retained earnings. The establishment and execution of an appropriate investment policy is therefore very important. Criteria by which the investment policy should be judged include:

- Security
- Liquidity
- Yield

The purpose of the investment policy is to enable the captive's funds to be held in a form which is secure and liquid enough to meet the potential claims obligations, whilst obtaining the best possible yield on the funds. In the case of a global insurance programme, it is important to consider the currencies in which the assets are held against potential liabilities in order to reduce the risk from currency exposure, and to consider the claims profile of the company when establishing an investment strategy. Many captive insurance companies use professional investment managers, who follow formal guidelines laid down by the captive's board of directors. Guernsey has access to many reputable investment managers experienced in the particular demands of captive insurance fund management.

The appointment of an investment manager may be considered once the captive's funds reach the order of £10 million, dependent upon the shareholders' and board's attitude to investment risk. Tenders will normally be invited from a panel of investment managers and presentations made to the Board of Directors of the captive, who will then decide which manager to appoint.

Guernsey has a wide choice of professional investment managers available. It is advisable that the investment manager be accessible by the captive insurance manager as close liaison will be required.

Until a captive has sufficient funds to justify the appointment of an investment manager, the normal route is to place funds into fixed term bank deposits appropriate to cashflow requirements. This service can be provided by Willis under delegated authority from the board. Alternatively, a professional money broker or cash manager, or a bank's treasury service can be appointed, or funds can be invested in a managed money market fund.

Should the captive business plan include inter-company loans to a related group party, Willis would be pleased to negotiate the amount and terms of such a loan with the Insurance Regulator. We have wide experience of such negotiations and can advise on the likely outcome to assist in business planning.

## TAXATION

Guernsey taxation policies play an important part in its economic success. The adoption in 2006 of the 'Zero/Ten' corporate taxation strategy has maintained the Island's competitive position as a financial services centre.

Insurance companies in Guernsey fall within the 'Zero/Ten' regime.

There is 0% taxation on all forms of income for Guernsey registered companies with the exception of income derived from banking activity or development of property or land development that is taxed at 10% and Guernsey resident shareholders will be taxed on distributed company profits.

There are no other taxes such as capital gains tax, inheritance tax or stamp duties. In 2006, a personal income tax cap of £250,000 per annum irrespective of earnings was introduced.

Many companies look to comply with their parental Controlled Foreign Companies regulations by making the captive tax resident in the parent's tax domicile. Though not available everywhere, and not appropriate to all clients, Willis has extensive experience of such arrangements particularly with UK resident groups and can advise and assist in the administration of such arrangements.

## **INSURANCE REGULATORY POSITION**

Captive insurance companies are regulated in accordance with Guernsey insurance laws and the regulations issued by the Guernsey Financial Services Commission (GFSC).

## **CAPTIVES**

Authorisation to establish as an insurance captive must be obtained from the GFSC. There are ongoing requirements for the submission of an annual return in a prescribed format in addition to maintaining minimum solvency margins and adherence to a Corporate Governance Code of Conduct. A minimum paid up capital of £100,000 is required for an insurance captive establishing in Guernsey.

## **SOLVENCY MARGIN**

A captive is required to maintain an adequate solvency margin in respect of its entire business, which corresponds to the assets free of all foreseeable liabilities.

However, in March 2008 the GFSC introduced the concept of Own Solvency Capital Assessment (OSCA). The intent of this new capital regime is for the board of an (re)insurer to assess the appropriate solvency margin required in respect of all risks (not just insurance risk) that each company faces.

To assist our client boards in assessing the solvency levels required in a structured way, Willis has created a dynamic capital assessment model which reflects global 'best practice' and responds to the unique characteristics of captives whilst providing a formalised basis for the assessment of risk.

## **TIMELINE**

The GFSC normally approves applications for authorisation of captives within four weeks.

## GUERNSEY INDUSTRY STATS

TYPE OF LICENSEE	TOTAL *
INTERNATIONAL INSURERS	355
PCC AND ICC CELLS	326
INTERMEDIARIES	40
MANAGERS	21
DOMESTIC INSURERS	21

\* January 2010

FUNDS UNDER MANAGEMENT					
YEAR	2004	2005	2006	2007	2008
FUNDS £ BILLIONS	14.7	14.8	18.8	18.5	21.0

PREMIUMS					
YEAR	2004	2005	2006	2007	2008
PREMIUMS £ BILLIONS	3.3	3.2	3.4	3	3.3

## COMPANY ESTABLISHMENT

The licensing of a Captive Insurance Company is a relatively straightforward exercise, entailing the completion of an application form and the presentation of a business plan, which is normally based on a feasibility study.

Captives domiciled in Guernsey are regulated by the GFSC. They will not only be involved in the licensing process but will also take an ongoing interest in the progress of the captive as it develops.

The application form will require details of the ownership, share capital and share structure of the captive as well as personal questionnaires from each of the proposed directors of the Company. Administrative issues such as Registered Office, Company Secretary and Insurance Manager are also addressed.

The purpose of the licensing procedure is to ensure that the captive is being established for bona fide reasons and that it will be sufficiently capitalised to accept the underwriting risk which is proposed. The insurance regulations in Guernsey are designed to assist the development of captive insurance business.

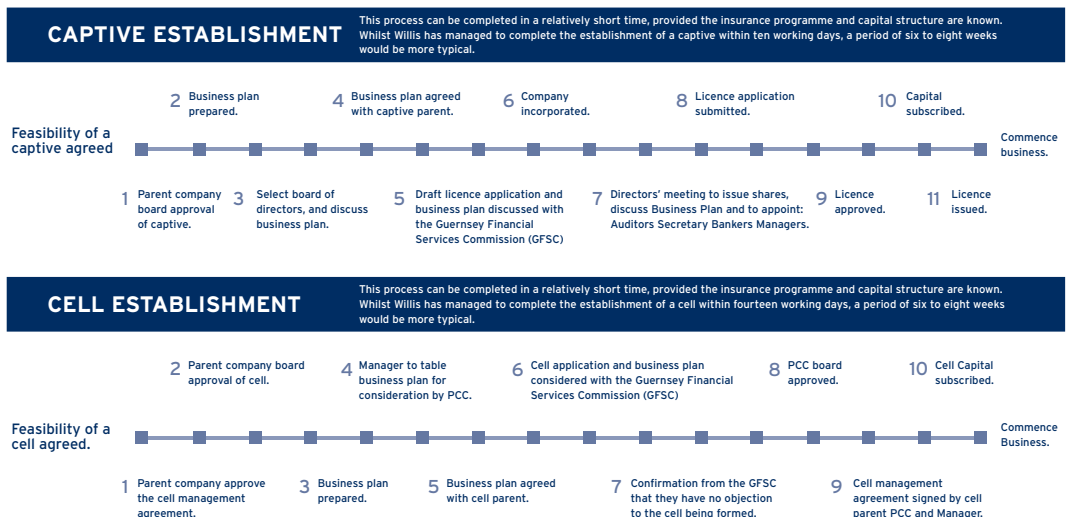
A detailed business plan must be submitted to the GFSC, including detailed five year financial projections, giving information regarding the proposed business, including programme structure, expected premiums/claims, operating expenses, investment income and reinsurance markets. This information is then used to produce a full financial plan over a five year period. Comprehensive due diligence must be undertaken to ensure compliance with anti-money laundering legislation.

Willis Management (Guernsey) Limited is experienced in the preparation and presentation of captive business plans as well as in the incorporation of captive insurance companies in Guernsey. We would be pleased to describe the full incorporation process and to explain the responsibilities of the captive management company under Guernsey regulatory regime.

## CELL FORMATION WITHIN A PROTECTED CELL COMPANY

Similar consideration as with a pure captive incorporation process applies. The main differences being the approval of the PCC's Board of Directors to form the cell and the completion of the Cell Management Agreement to access and utilise the cell within the agreement rules and regulations.

## CHECKLIST FOR ESTABLISHMENT



## ASSOCIATED COSTS

The costs associated with the incorporation, licensing and operation of an Guernsey based captive insurance company are very low compared with the financial benefit a successful captive can offer its parent.

Costs associated with the establishment and ongoing management of a PCC may be higher than those indicated below dependent upon the levels of complexity and activity of the vehicle.

Willis would be pleased to provide costings once additional information about the PCC has been finalised.

The annual costs to run a cell within an existing Willis facility will depend on the complexity of the business plan and the management time required to handle the cell. Typically, these can be half that of a wholly owned captive.

### COST OF ESTABLISHMENT

<b>APPLICATION FEE SINGLE PARENT CAPTIVE</b>	£4,370
<b>APPLICATION FEE PROTECTED CELL COMPANY</b>	£4,370
<b>APPLICATION FEE PER CELL</b>	£1,230
<b>STAMP DUTY</b>	NIL

### ANNUAL OPERATING COSTS

<b>MANAGEMENT FEE PURE CAPTIVE<sup>1</sup></b>	£30,000 - £40,000
<b>MANAGEMENT FEE OWN PCC<sup>2</sup></b>	£20,000
<b>MANAGEMENT FEE CELL IN A THIRD PARTY SPONSORED PCC</b>	£25,000
<b>AUDIT FEE</b>	(MINIMUM) £5,000

### INSURANCE LICENCE

<b>CAPTIVE</b>	£4,370
<b>PROTECTED CELL COMPANY<sup>3</sup></b>	£4,370
<b>CELL IN A THIRD PARTY SPONSORED PCC</b>	£1,430
<b>DIRECTORS FEES<sup>4</sup></b>	£5,000

### ANNUAL VALIDATION FEES

<b>CAPTIVES</b>	£500
<b>ICC'S AND PCC'S<sup>5</sup></b>	£750

<sup>1</sup> Typical fee for a simple insurance program but may be higher for more complex programs

<sup>2</sup> Plus £10,000 per cell dependent on insurance complexity

<sup>3</sup> Plus £1,430 per cell

<sup>4</sup> Typical fee per director, depending on nature of company and business written

<sup>5</sup> Plus £100 for each incorporated cell and £10 for each protected cell



# **SECTION 4 - WILLIS IN GUERNSEY**

**WILLIS' TEAM COMBINES  
LOCAL AND INTERNATIONAL  
EXPERIENCE TO PROVIDE THE  
MANAGEMENT STRENGTH TO  
DELIVER OUR CLIENTS'  
EXPECTATIONS.**

## BOARD CONSTITUTION

In most cases, a captive will have three or five directors, some of whom will be Guernsey residents and some of whom will be shareholder representatives. All licensed insurers in Guernsey are required to have at least one Guernsey resident director independent of both the parent company and the appointed manager. Willis would be pleased to introduce a number of potential local directors from a range of professional backgrounds and experience. Willis executives do not sit on the boards of companies we manage as we believe this creates a significant conflict of interest.

### BOARD OF DIRECTORS MEETING PACK

Prior to each Directors' Meeting, Willis will prepare and distribute to directors and approved interested parties a board pack containing information to assist the directors in the decision making process and keep them properly advised of the activities of the company.

### MINIMUM PACK CONTENTS

- Notice and agenda of meeting
- Minutes of previous meeting
- Status report of all matters arising from previous meeting
- Summary of insurance cover provided by the Company
- Manager's report, which will include:
  - Executive Summary
  - Underwriting Review (including reinsurance)
  - Claims Review
  - Financial Review
  - Any other business (e.g. new business, industry developments)

### FINANCIAL INFORMATION

- Management Accounts with comparatives as required
- Underwriting Accounts
- Claims information, appropriately analysed
- Other relevant information

### INVESTMENT INFORMATION

- Report by the Investment Managers (where appointed)
- Portfolio Valuation (where appropriate)
- Analysis of cash deposits

### CORPORATE GOVERNANCE

- Compliance Review
- Schedule of Key Actions
- Review of key risks and controls
- Review of management procedures
- Review of Corporate Governance framework

## KEY PERSONNEL

Daily supervision of our client companies is the responsibility of one of our Managers and/or Directors.

The majority of our staff have (or have made substantial progress towards) relevant qualifications in either insurance or accounting to ensure that a full management service can be offered in all aspects of insurance company management.

Development work is supported by our specialist Captive Consultants across the Willis Global Practice.



**Dominic Wheatley – Chief Executive Officer, B.Sc. (Hons.)  
MBA, FCII**

Dominic joined Willis in 1995 following eight years working as an underwriter in the London insurance market. He is CEO of Willis Management (Guernsey) Limited and Chief Marketing Officer and in charge of all marketing, sales and consulting activity across the Willis International Captive Practice. Dominic has extensive experience in the establishment and management of captives and niche insurance companies, underwriting a diverse range of corporate risks and third party/customer insurances. Dominic is currently Chairman of the Guernsey International Insurance Association (GIIA) and a member of the council of the Guernsey International Business Association (GIBA).



**Karlene Wright – Director, FCCA**

Karlene is the Company's Finance Director, she is also an account director and team leader and responsible for a portfolio of clients and all matters relating to the client servicing team. She is a member of our Accounting Task Force, a cross team committee charged with ensuring consistency of accounting standards and providing a forum for the consideration and transmission of technical accounting matters across the office. Karlene is also regularly involved in captive consulting projects.

Karlene joined Willis in 1998 following various posts with KPMG in the UK, New Zealand and Guernsey. Her experience encompassed a wide variety of company audits in the finance, commercial and manufacturing sectors, which included a number of captives.

Karlene is a Fellow of the Chartered Association of Certified Accountants.



**Richard Paris Smith – Director, ACII**

Richard has 25 years experience in the insurance industry, including 18 years within the London insurance broking market, undertaking a number of different client servicing and product development roles, both on the direct and reinsurance side.

His experience includes several years working with a team developing specialised insurance and reinsurance products, including alternative risk transfer and captive solutions. He was also extensively involved in arranging reinsurance for captive companies.

Richard joined the Willis captive team in July 2004, and leads one of our three client service teams. In addition to his team leadership role, Richard is responsible for the account directorship of a number of client companies, and participates regularly in captive feasibility and consultancy projects. He is also a member of the Insurance Technical Group which deals with technical insurance issues across the Willis International Captive practice.

Richard is an Associate of the Chartered Insurance Institute.



**Neill Brookes – Director, FCII, MIRM**

Neill leads a client service team and is account director to a portfolio of international clients. He is also a director of our Guernsey management company.

Neill has more than 20 years of UK and international underwriting experience specialising in liability business. He has worked extensively on underwriting risks associated with the oil industry having spent six years working in Saudi Arabia prior to joining Willis in 2002. Before that he trained as a casualty underwriter of corporate risks with a major UK insurance company and a leading German reinsurance company.

Neill is actively involved in our consulting business and advising on technical issues, specialising in captives with particular underwriting and risk complexity and unconventional structures, including both protected cell and incorporated cell companies. Neill is member of the Insurance Technical Group which deals with technical insurance issues across the Willis international Captive practice.

Neill is a Fellow of the Chartered Insurance Institute and an Associate of the Institute of Risk Management.



**Eddie Ballard – Account Director**

Since joining Willis in 2002 Eddie has assumed responsibility as Account Director for a broad selection of clients. His role in Willis includes managing client relationships, advising widely on technical accounting issues and new business projects. Eddie is also leader of the Willis Accounting Task Force which deals with technical accounting issues facing the industry.

Eddie commenced his career as a trainee with KPMG in Cork before moving on to become the Group Financial Accountant and later the Group Financial Controller of a large property group. Eddie's experience includes a lot of project work and he is heavily involved in our own Captive consulting business.

Eddie qualified with Institute of Chartered Accountants in Ireland in 2000.







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