

ILS funds in Guernsey

Service area / [Investment Funds and Insurance](#)

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As described in an earlier [briefing](#), Guernsey has a thriving insurance linked securities (ILS) sector and is home to an abundance of ILS structures, including:

- hundreds of special purpose insurers (SPIs) writing billions of dollars of life and general risks for ILS funds and investors
- ILS funds, both private (often for a single, sophisticated investor) and blind pool managing billions of dollars of ILS assets
- 'A'-rated reinsurance companies established by large scale ILS managers writing billions of dollars of gross written premiums annually.

Facilitating this success is a bespoke regulatory regime that has been specifically designed for the sector. Fast-track authorisation rules enable SPIs to be established and regulated with immediate effect. These SPI Rules are designed to accommodate certain features that are peculiar to ILS transactions.

Guernsey's funds pedigree

Guernsey is home to a wide range of investment funds as the following credentials illustrate:

- There are more than 800 Guernsey-domiciled funds¹
- £263 billion in total assets under management, including over £100 billion in private equity²
- 119 London-listed entities with £46 billion in capitalisation³.

¹ *Guernsey Financial Services Commission – Q1 2018 investment fund statistics*

² *Ibid*

³ *London Stock Exchange – companies and securities data, 2018*

Carey Olsen advises over 70% of all Guernsey funds, the 10 largest promoters of Guernsey-domiciled investment funds by assets⁴ and nine of the world's top ten private equity firms⁵.

A number of European ILS managers raise and deploy capital using a UCITS fund (Undertakings for the Collective Investment of Transferable Securities). A UCITS is an open-ended fund, offering liquidity to investors through the right to redeem their interest upon notice (often monthly or quarterly).

UCITS are heavily regulated by the EU but the upside of this burden is market access as UCITS can be distributed to any investor throughout Europe (even retail).

Guernsey also offers a variety of categories of open-ended funds from Class A schemes aimed at retail investors to Class Q aimed at sophisticated and professional investors.

The extent of regulation varies depending on the type of investor. Schemes offered to professional or sophisticated investors, for example, are subject to fewer investment strategy restrictions or diversification requirements provided that adequate disclosure is made in the offering documentation.

Liquidity

The assets underlying an ILS fund (other than catastrophe bonds) can often be relatively illiquid. This is particularly true in the case of life ILS transactions, which tend to endure for a longer period of time than general insurance ILS.

⁴ *Monterey Insight's 2017 Guernsey Fund Report*

⁵ *Private Equity International's 2018 PEI 300*

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Structuring a fund as open-ended does not in itself provide liquidity for investors. As the credit crunch showed, offering redemption rights to investors based on liquidation of the underlying assets can be problematic. A number of well-known open-ended property funds had to suspend redemptions both in 2008 and following the Brexit vote due to the illiquid nature of the underlying assets.

Whether open or closed-ended, the listing of the shares in the fund on an actively traded stock market such as the London Stock Exchange (LSE), is an alternative way to provide liquidity to existing investors without relying on the prompt liquidation of the underlying assets. A listing enables existing investors to realise their investment through secondary sales to prospective new investors on the exchange.

Guernsey funds have enjoyed a close relationship with the LSE for decades and Guernsey companies have listed their shares on a number of other leading stock exchanges, including the NYSE, NASDAQ, ASX and TSX.

Guernsey also remains home to more non-UK LSE-listed entities listed than any other jurisdiction in the world. At the end of Q1 2018 there were 90 Guernsey 'financial' entities listed on the LSE main market (12.69% of the total number), making Guernsey the market leader for fund listings on the exchange outside of the UK⁶.

Globally, Carey Olsen advises 101 LSE-listed clients, which is more than double the number of any other offshore law firm⁷.

Global distribution

Although Guernsey is outside of the EU, its funds are able to be distributed to a variety of investors in a large number of countries throughout Europe, the Americas, Asia and the Middle East. Guernsey funds are currently promoted or sponsored in more than 55 jurisdictions throughout the world.

A listing on a recognised stock exchange can also aid distribution.

The International Stock Exchange (TISE), which is headquartered in Guernsey, hosts both ILS vehicles and ILS funds. TISE was the chosen exchange for the world's first listed private cat bond transaction and the first securitisation of TAKAFUL (Sharia compliant) insurance policies.

TISE is recognised by the UK's tax authority HMRC and the German regulator Bafin as well as other authorities globally.

Reputation for innovation

Guernsey likes to innovate. It was the first jurisdiction to establish legislation permitting the formation of protected cell companies in 1997. Since then it has also introduced the incorporated cell company and the SPI Rules.

More recently, industry has been considering the possibility of the establishment of entities that combine insurance and investment activity in one vehicle. Although at an early stage, this could present significant efficiencies for ILS fund managers.

An international partner

Guernsey also continues to lead the way in international compliance matters. It adheres to the highest standards of international tax and regulatory principles and is committed to ensuring that this continues.

The jurisdiction has given its full support for the transparency principles central to the current G20, Organisation for Economic Co-operation and Development (OECD) and EU tax initiatives and is working as part of the wider international community in the development and effective implementation of internationally agreed standards, including those set by the Financial Action Task Force (FATF) and the OECD.

Guernsey has been assessed as being amongst the best quality financial centres in the world when measured against the rigorous international standards for tackling money laundering and terrorist financing set by the FATF.

Guernsey also participates fully in numerous international initiatives such as the OECD's base erosion and profit shifting project and developing the global 'Common Reporting Standard' and the automatic exchange of information between tax authorities.

⁶ London Stock Exchange – companies and securities data, 2018

⁷ Corporate Advisers Rankings Guide, May 2018

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