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NATIONAL REPORT FOR THE CHANNEL ISLANDS

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1. Introduction

The offshore British Channel Islands of Guernsey and Jersey are self governing dependencies of the British Crown. The United Kingdom is responsible for the foreign relations and external defence of the Islands but otherwise the Islands are politically independent (also from one another) and each has its own legislature.

Political independence however has not meant economic independence. In the first place, the currency in each Island is the pound sterling although each jurisdiction has issued its own notes and coinage. Similarly, inflation rates follow those of the United Kingdom because of the close trading links, although variations do occur from time to time.

The offshore British Channel Islands are situated closer to the north coast of France than to the south coast of the United Kingdom. Guernsey and Jersey are situated on the French side of the main shipping lanes and in fact nestle in the bay of St Malo to the west of the Cherbourg peninsula of Normandy and to the north of St Malo in Brittany. In France, the Islands are known as les Iles de la Manche or les Iles Anglo–Normandes, whilst in Germany they are known as die Kanal Inseln.

The Channel Islands have been known as a leading offshore financial centre for over 25 years. In both Islands major efforts have been made in recent years to ensure that the Islands maintain and are seen to maintain the high standards of the most reputable international financial centres of the world. For example, in Guernsey the Guernsey Financial Services Commission was set up and is a self financing statutory body which reports to the Advisory and Finance Committee, the senior committee of the Island's Government. The Guernsey Financial Services Commission administers legislation regulating Guernsey's banking, insurance and offshore fund activities and will also be regulating trust company management and insurance intermediaries.

2. European Union

The Channel Islands continue to monitor the developments towards a single European market. The Islands' relationship with the EU was set out in a special Protocol attached to the United Kingdom's Treaty of Accession. In general, this relationship is on the basis of "in for trade but out for all other matters". This arrangement was essential as the Islands could not cope with the complex legislation demanded by the EU nor with the other demands which would have been placed upon these small territories with booming populations. The close links between the Islands and the United Kingdom also confer major benefits to the United Kingdom. As a result of the favourable taxation treatment and freedom of movement of capital in and our of the Islands, much international money is invested in Guernsey and Jersey, which in turn is invested on the London Stock Exchange, thereby indirectly benefitting the United Kingdom economy. It is hoped that with the development of the EU harmonisation programme the same form of relationship can be established with the Union as a whole although it is still too early to determine the extend to which it will be possible to develop such a role.

3. Insurance Activities

The Insurance Business (Guernsey) Law, 1986 has now been in operation for seven years and has undergone a number of minor technical changes. The Law resulted in a welcome increase in the control of life assurance companies incorporated in Guernsey which enhanced the role of the Actuary. Of equal importance, this was achieved without the cumbersome procedures typical of many other larger territories. The type of business written by these companies in Guernsey is mainly related to personal savings arrangements for international expatriates and, as such, the Island perceives itself as being in competition with the Isle of Man and latterly the International Financial Zone in Dublin. The Isle of Man has, arguably, has been more successful in attracting new large life assurance operations, partly because there has been less pressure in the Isle of Man on population and housing. Supervision of international life assurance companies in Guernsey is conducted by the Superintendent of Insurance Business (part of the Guernsey Financial Services Commission) who is advised by a firm of consulting actuaries.

Guernsey is a major international centre for captive insurance and considers itself to rank second after Bermuda, but ahead of the Cayman Islands, Luxembourg and the Isle of Man. Captive Insurance is a business

area which Guernsey wishes to support. Accordingly in 1992 the Island introduced further flexibility into the taxation arrangements for Guernsey registered captive insurance companies. There are now four main bases on which captive insurance companies may be taxed. The individual company retains the flexibility of selecting the basis appropriate to its circumstances and is able to change its selection as required.

Jersey does not permit the establishment of life assurance companies (although companies established elsewhere may operate in Jersey through branches subject to certain controls) and only pure captives may be set up. The Island is now seeking to establish itself as an insurance as well as a banking centre.

4. Pension Arrangements

The structure of occupational pension scheme legislation differs between Guernsey and Jersey, but is substantially simpler than in the United Kingdom and generally reflects the simplicity of a time some 20 years ago in the United Kingdom. In the early 1990s both Islands undertook a review of matters relating to pension provision generally and occupational pension provision in particular. This has resulted in some harmonisation of the benefit limits for occupational pension schemes in the two Islands. In Jersey, on retirement, one quarter of the capital value of the retirement benefits may be taken as tax free cash, while in Guernsey the limit is 6/80ths of final remuneration for each year of service (up to 20 years to count) subject to restrictions if there are any retained benefits.

In both Islands, pension benefits, before commutation, are generally provided on a scale of 1/60th of final remuneration for each year of service. Faster accrual rates are now allowed in both Islands. In Jersey a two-thirds pension may be provided after 10 years whilst in Guernsey a 1/30th scale (with a maximum service of 20 years) may be applied subject to restrictions if there are any retained benefits.

Compulsory preservation only applies in Guernsey where any member who has completed 5 years' service on leaving has the choice of taking a refund of his own contributions, deferred benefits or a transfer to another occupational scheme or a personal pension. In addition if transfer values are provided where service is less than 5 years there must be no discrimination between transfer to other occupational schemes or to personal pensions.

Guernsey, like Jersey, has now published Practice Notes which set out the requirements for approved pension schemes in the Islands.

Personal pensions are permitted in both Islands and while similar to those in the United Kingdom they have various important differences. Simultaneous membership of personal pensions and an occupational pension scheme is permitted where the individual does not expect to obtain maximum benefits from the occupational pension scheme at normal retirement age. Thus simultaneous membership is available to almost all of the working population. In addition, in Guernsey, there are special arrangements with lower contribution limits for those without earned income and who make provision out of investment income or capital.

The reciprocal agreements between the Guernsey and Jersey tax offices and the UK Inland Revenue relating to pension transfers were revised and re-issued in early 1994. The revised agreements cover transfers between both occupational pension schemes and personal pension schemes where individuals move from the United Kingdom to one of the Islands or vice versa. The revised agreements specifically exclude transfers to or from UK arrangements and arrangements established in either of the Islands for non-residents of that Island.

5. Health Insurance

The provision and financing of health care differs between Guernsey and Jersey and both are different from the arrangements in the United Kingdom. In general there is less state provision in Guernsey and Jersey and greater reliance on private practice then in the United Kingdom. In this way the pattern is closer to that of North America although the cost levels are probably lower. Both Guernsey and Jersey provide a reimbursement payment which covers about half of the cost of consultations with the general practitioner or primary level doctor.

Insurance products are available to meet the direct costs of health care though the utilisation of such policies is not as high as would be desirable from a social welfare viewpoint. The position has been under review in Guernsey for the last two or three years and the Island's parliament agreed in 1994 to the establishment of an Island wide social insurance arrangement to cover the costs of the specialists (ie non-general practice or primary level) doctors and the direct costs associated with Hospital care. In Jersey the costs of the medical services provided through the Hospitals are recovered through general taxation. Thus, in Jersey, there

is no cost recognised at the point of delivery of the hospital care.

There is still the possibility for private (whether individual or group) insurance arrangements in both Islands to cover the part of the cost of primary level doctors borne by the individual and to provide private hospital accommodation rather than general ward accommodation within the Island's main hospital.

6. The Role of the Actuary

Guernsey has 11 resident qualified actuaries (including two locally qualified actuaries) and 5 actuarial students.

Consultancy advice is divided between a resident partnership, the United Kingdom based consultancies (including one with a local representative office) and the (United Kingdom) Government Actuary's department.

There are two resident actuaries employed by insurance companies and in addition a number of UK actuaries are known to spend a significant amount of time in Guernsey on life assurance company work.

In contrast to the North American scene (as considered to extend to such territories as Bermuda and the Bahamas) the role of actuary in Guernsey captive insurance is still thought to be a relatively minor one. It is pleasing that the comprehensive Guernsey Insurance Guide produced by the Guernsey Financial Services Commission does include an article on the role of the actuary in non-life insurance, but it does need one or two catastrophes to persuade the insurance community of the value of the actuary in such areas as technical risk reserving.