Bandwagon

The BWCI Group Newsletter

BWCI

Quarter 4 - 2016

Inside this issue:

BWCI Mind 10K Run

2016 Awards for Achievement

AWARDS FOR ACHIEVEMENT 2016

The deadline for entries for the six Business Awards in this year's Guernsey Awards for Achievement is fast approaching. Submissions need to be in by 12 noon on Wednesday 2 November.

BWCI's Innovation Award received a record number of entries last year, and we are hoping that it will prove to be a popular category again this year. Since it was launched in 2012, the award has been won by companies in the four different sectors of the local economy: insurance, healthcare, property and entertainment.

BWCI's Senior Partner, Stephen Ainsworth said *"The Innovation Award has a very wide appeal and is potentially open to all types of business."*

Once entries have closed the judging process will begin. The short-listed entries for all of the business awards will be announced in early December, but we will need to wait until the Gala Dinner on Thursday 9 February 2017 to find out which ones have been selected as the overall winners.

To enter BWCI's Innovation Award a business needs to have:

- Identified a new product or service and successfully brought it to market; or
- Adapted an existing product for a new market; or
- Demonstrated how the application of an innovative approach to product development, business processes or new technology has improved business results

Full details of all of the business awards and the entry forms are available from http://www.awards.gg/

Winners of the 2015 BWCI Innovation Award AON Insurance Managers (Guernsey) Limited

Looking Ahead to Guernsey Pensions Regulation

Guernsey Financial Services Commission

It has been announced that Guernsey's Financial Services Commission is to publish a high level discussion paper on a regulatory and supervisory framework for the provision of pension products.

The consultation period is expected to run for 6 to 8 weeks and the feedback received will then be used to develop the regulatory approach, with detailed proposals expected in 2017.

The key objectives of any regulatory structure that may be introduced would be to:

- improve the standards of investor protection
- enhance Guernsey's international competitiveness
- future-proof the regulatory regime ahead of the introduction of a secondary pensions system in Guernsey (currently expected in 2020).

The paper will be seeking feedback in a number of areas, including the scope of any regulations. The initial thinking is that the regime should be forward-looking, and apply to all forms of defined contribution arrangements.

At this stage it is not envisaged that defined benefit schemes would be included as, in the Commission's view, any rules around the solvency of such schemes would be a matter for the government to consider, rather than the Commission. However, this could change, depending on the feedback received.

At the time of going to press the discussion paper has not yet been released, but when it is published it is expected to be available to download from the Commission's website

http://www.gfsc.gg.

Jersey Pension Consultation

"seeking feedback from the public"
Michelle Galpin

Jersey's Minister for Social Security has just launched the first part of a review into the provision of retirement income entitled "Living Longer: Thinking Ahead". This initial stage, of what is expected to be a three year project, is seeking feedback from the public to help set the direction of Jersey's Social Security scheme and retirement income system for the next 30 years.

Ageing population issues

The review document provides some background to the financial challenges that Jersey will need to address in the coming years as a result of its ageing population; the number of people in Jersey over age 65 is projected to increase significantly over the next 20 years, from the current figure of around 17,000 to 28,000. The growth is due to a combination of factors, but predominantly the increase in life expectancy.

The review document quotes UK statistics where the average period in retirement after age 65 has increased dramatically from 13 years in the 1950s up to around 22 years at the current time. If the trend continues then in 50 years' time a person retiring at age 65 would, on average, be expected to live until age 93.

The report goes on to discuss the five main ways that people typically expect that they will finance their retirement years:

- Personal savings and wealth
- Working longer
- Social Security pension
- Private pension savings
- Workplace pension savings

Consultation Questions

The consultation, which runs until 10 January 2017, is seeking views on two key issues:

1 Income in retirement generally
2 The Social Security scheme

In relation to retirement income, views are being sought on:

- How to plan for the extra years in retirement that are anticipated due to increasing life expectancy
- What role individuals, businesses and the government should play
- What role the Social Security pension should play

In relation to the Social Security scheme, the review is seeking feedback on:

- Increasing the Social Security pension age from 67
- Limiting the amount of money people receive from the scheme
- Increasing the amount of money paid into the scheme

Timescale

A high level timetable covering all three parts of the review has also been published, with the final recommendations not expected to be considered by the States until mid 2019. Any changes to the Social Security arrangements would take time to introduce and it is currently envisaged that they would come into effect in the 2020s and 2030s.

	What will happen?	When?
ISSUES	Part 1 : Consultation and discussion groups	Oct 2016 - Jan 2017
ISSUES	Part 1 : Actuarial Report on the financial outlook of the Social Security scheme	Dec 2016
ISSUES	Part 1 : Feedback on what you have said	Mar 2017
OPTIONS	Part 2: More information on the scheme, our options and opportunities to tell us your views	Mar - Oct 2017
OPTIONS	Part 2: Consultation and discussion groups	Oct - Dec 2017
OPTIONS	Part 2: Feedback on what you have said	Mar 2018
RECOMMENDATIONS	Part 3: Final research and recommendations	Mar - Dec 2018
RECOMMENDATIONS	Part 3: Council of Ministers agrees on a plan to take to States members	Dec 2018
RECOMMENDATIONS	Part 3: States members consider the proposed plan and decide on the future direction of the Social Security scheme	Jun 2019
	The Social Security scheme is changed gradually	2020s and 2030s

Source: States of Jersey Living Longer: Thinking Ahead

Further details on the review and the online questionnaire can be found at: http://www.gov.je/Government/Departments/SocialSecurity/SocialSecurityFund/Pages/AboutTheSocialSecuritysustainabilityFund.aspx

What does Brexit mean for the Insurance Industry?

"Reinsurance is likely to remain less constrained"
Ian Morris

Brexit has led to a wide range of opinions as to what it will actually mean in practice. UK Prime Minister Theresa May has assured the world that "Brexit means Brexit and we are going to make a success of it." Clearly there are a huge number of issues to be considered, but we focus on the insurance aspects and the implications for the UK and its trading partners.

Solvency II

Significant time and money has been expended over recent years preparing for Solvency II, the EU insurance regulation standard. The Association of British Insurers has estimated that UK companies alone had spent around £3 billion preparing for its introduction.

The UK's Treasury Select Committee has announced an investigation into Solvency II, with responses invited by 11 November 2016. Depending on the Brexit terms negotiated, it may be possible to modify or even abandon Solvency II completely. It is perhaps ironic that the UK had a leading role in helping to define and construct the Solvency II regulatory regime which is now to be bequeathed to the remaining EU countries.

Whether UK insurers will want changes is not entirely clear. Those solely active in the UK may prefer a simpler regime. However, there is no guarantee that any alternative UK regime would be less onerous. In fact, companies that are part of groups that are active in the EU may prefer a single standard of regulation, rather than dealing with two different ones.

It is likely that any modified UK regime would retain elements of Solvency II, since it has become the de facto standard against which most regulatory regimes are judged. For UK insurers wanting access to EU markets it is likely that Solvency II (or an equivalent regime) would be a pre-requisite for access anyway.

Access to markets

Access to EU markets generally is likely to be a matter of lengthy negotiation, not least around the control of immigration. From an insurance perspective, the regulation of insurers with access to the EU market would need resolution.

There is no guarantee that current levels of access would be sustained. In such circumstances UK companies and Lloyds syndicates may want to explore access through companies established within the EU, such as Dublin, Luxembourg or Malta. Some entities are already investigating such options.

Equally, companies established outside the EU still wishing to to access the UK market (for example insurers of UK motor business in Gibraltar) will need to review their business models if access is constrained.

Of course it remains possible that revised terms post Brexit will include market access, but this seems unlikely without some undertaking to maintain compliance with Solvency II or an equivalent regime.

Impact on other jurisdictions

Guernsey, Jersey and the Isle of Man already effectively operate outside the EU and it could be argued that they are not affected by Brexit. However, just as the Crown Dependencies were covered by a specific treaty protocol when the UK joined the EU, their status may be reviewed as part of the Brexit terms.

These locations already have limited access to the EU and most of their focus is on reinsurance, for which Solvency II equivalence and direct access is not required.

Reinsurers based outside the EU can rely on other structures. For example, a Guernsey reinsurer could seek a rating. EU insurers can take credit for any reinsurance held with an entity based on the credit rating, and irrespective of the regulatory regime.

Other reinsurers may rely on collateral arrangements and/or parental guarantees. These provide security to the insurers and the location and regulatory status do not limit the credit taken for the reinsurance.

For the reinsurance market this could offer a model for the UK post Brexit. However, it remains to be seen whether the negotiations seek to maintain access for the wider market. If access is not maintained for direct business, it may be possible to write business through EU based entities and reinsure the business back to a UK entity.

Summary

Whatever Brexit brings, there will be opportunities to continue to trade in various ways depending upon the terms negotiated.

Reinsurance is likely to remain less constrained than the direct market and may provide a way forward if Brexit leads to a lower level of market access. It also suggests that opportunities remain for some of the smaller EU and non EU jurisdictions whatever the final format of Brexit.

Further Information

For further information, please contact Ian Morris at imorris@bwcigroup.com.

Manx State Pension Update

"it does not go as far as the original proposals"
Amber Buckingham

Just over a year ago Tynwald approved a high level framework to reform State pensions in the Isle of Man. At that stage, while the general approach to how the system would change had been agreed, the details of how and when the changes would be implemented had yet to be determined. More detailed proposals came back to Tynwald in July this year and were subsequently approved. These will now form the foundation of the new Manx State Pension from 6 April 2019.

What's changing?

Single Tier State Pension

Broadly mirroring the changes that were introduced in the UK from April 2016, the Isle of Man will also move away from a two tier State pension system. This will result in the abolition of the earnings-based State Second Pension "S2P"and the associated contracting out of S2P. It will be replaced with a new, single tier, State pension of £170 per week (in today's terms). This is less than the figure of £180 initially indicated in the 2015 proposals.

State Pension Age (SPA)

Previously the Isle of Man had decided not to adopt the UK's changes in SPA automatically. In fact, last year it had been mooted that the Isle of Man SPA could ultimately rise to age 74. This policy has been modified and legislation is to be introduced which will increase the SPA in the island to 67 by 2028. This would bring the Isle of Man's SPA back into line with the UK, at least for the time being. There will be a subsequent review of future SPA increases, but only after the UK has published the results of its own review into future increases, expected in 2017.

There will also be an investigation into the feasibility of introducing a flexible claim date for the State pension.

State Pension increases

The "Triple Lock" increase, where basic State pensions are uprated each April by the greatest of 2.5%; the increase in average UK earnings and inflation as measured by CPI, is to be removed. Instead, all State pensions will be increased in line with average earnings in the Isle of Man.

Qualifying years

The number of "qualifying years" of National Insurance contributions or credits required to qualify for a full State pension is to be increased from 30 to 35 years. This is to better reflect longer working lives. However it does not go as far as the original proposals, when a period of 45 years was proposed.

In addition, individuals will have had to have paid National Insurance contributions or have credits for a minimum of 10 years to become eligible to any State pension entitlement. This is to encourage people to stay in work for longer.

Manx Pension Supplement

The Pension Supplement, which was introduced as a "top-up" to the UK rate of basic state pension in 1993, will be phased out over a 20 year period from 2019.

Implementation and transitional arrangements

It is anticipated that the changes will come into effect for retirements from 6 April 2019. Pensioners who retire before 6 April 2019 will be unaffected.

There will be transitional arrangements to recognise an individual's entitlement accrued under the current rules. Consequently, those retiring from April 2019 will receive the greater of the single tier State pension in force at the time and what they would have received under the old arrangements.

Contracting out

Contracting out will cease from 6 April 2019, which is three years later than in the UK. In advance of this there will be a detailed consultation on the impact of ending contracting out. As in the UK, it is likely that schemes will need to undertake a thorough review of the GMP data held to ensure their records are complete and accurate. This could be a significant exercise and schemes should consider at an early stage if they may need any additional resources to carry out the review.

Revised IORP Directive

"may not affect UK pension rules"
Carl Hansen

It was easy to be distracted in June with the final run up and the aftermath surrounding the UK's referendum on EU membership. However, another event caught the attention of pension practitioners amongst June's political intrigue. After much discussion between EU stakeholders, a final draft of the revised Pensions Directive was made public. Since the EU uses the term Institutions for Occupational Retirement Provision, the revised Directive is also known as "IORP II".

The European Insurance and Occupational Pensions Authority (EIOPA) pushed for the revised Directive to include a standard approach to measuring solvency for pensions, similar to what was adopted under Solvency II for insurance companies. This idea met strong resistance from many in the pensions community, especially in countries where plans are funded via trusts instead of insurance. As a result, "Solvency II for pensions" was shelved early in the drafting process.

Practitioners in various EU countries still harbour fears that some sort of standardised pension solvency provisions will eventually be introduced. EIOPA seems to be searching for a larger role to play in pensions. Oversight of pension solvency would help to justify their existence. Also, the UK has been one of the loudest voices against "Solvency II for pensions." An unintended impact of Brexit could be that European solvency measures for insurance and pensions will eventually converge.

The original Pensions Directive (now deemed IORP I) has been influencing local European pension rules since 2003. While the primary purpose of the original Directive was to lay out a common framework for pensions to protect member benefits, it was hoped that the Directive would enable and encourage pan European pension plans to support the free movement of labour and services. In reality, only a handful of predominantly large employers have been able to overcome the legal and tax complexities to implement true pan European plans.

One of the impediments to pan European plans is a requirement in IORP I that cross border plans be fully funded at all times. While this is clearly an issue for defined benefit plans (especially in the current economic environment), it could also be an issue for defined contribution plans with a minimum guaranteed return. Practitioners were hopeful that this requirement would be eliminated in IORP II. Instead, the requirement remains but is softened somewhat by including language that plans may become underfunded, with some flexibility on how the local regulator can rectify the situation.

Will IORP II lead to a dramatic increase in the number of pan European plans? There are already a number of employers in the process of implementing such arrangements under the IORP I regime. The changes in IORP II are not likely to be sufficient to cause a significant increase in activity, especially among smaller employers. Sponsors still face a gauntlet of tax and labour law issues, along with resistance from unions and local employees. Providers are investigating an array of standardised products that may make it simpler and more cost effective for smaller employers to enjoy the benefits of a pan European offering. However, local regulators prefer to evaluate each situation on its own merits, instead of giving a one-size-fits-all approval for master trust type arrangements.

The revised IORP Directive is expected to come into effect at the end of 2016. Once effective, EU member states must revise local pension laws within two years to reflect the provisions of the Directive. With the recent announcement by the UK government that the Brexit process will commence in early 2017, it is increasingly likely that the specific provisions of IORP II may not affect UK pension rules. However, any employer with operations in the EU would be affected by the new Directive.

EU Pensions Jargon Buster

EIOPA	European Insurance and Occupational Pensions Authority
IORP	Institutions for Occupational Retirement Provision
IORP I	The first EU Pensions Directive
IORP II	The second EU Pensions Directive

21st Century Trusteeship

"effective trusteeship and governance arrangements"
Erin Bisson

The UK Pensions Regulator has issued a discussion paper with a view to improving the quality of pension scheme governance and trusteeship in the 21st century. With the increasing focus on defined contribution arrangements, the Regulator notes that to ensure good member outcomes there needs to be effective trusteeship and governance arrangements within the pension scheme.

Professional Trustees

The Regulator's research, carried out between November 2015 and January 2016, has found that the proportion of UK schemes with professional trustees has increased over the last 5 years. The research also highlighted that schemes which only had professional trustees were more likely to have better governance arrangements. The Regulator also found that professional trustees are more likely to hold relevant qualifications.

The discussion paper asks if it is appropriate for professional trustees to be qualified in some way. At present anyone in the UK can call themselves a professional trustee. Unlike the position in the Channel Islands and the Isle of Man, there is no independent body to regulate the standards of UK trusteeship.

If it can be shown that appropriately qualified trustees contribute to better member outcomes then such qualifications must be desirable.

There are already some initiatives from the Pensions Management Institute (PMI) and other bodies to raise the standard, through the development of new qualifications, such as the PMI's Diploma in Professional Trusteeship.

Trustee Knowledge and Understanding

The Regulator's research found that many trustees were unfamiliar with the Regulator's various codes of practice, including Code of Practice No.7: Trustee Knowledge and Understanding. This raises the question of whether trustees should have some form of mandatory training or perhaps a formal approach to continuing professional development could be appropriate.

Good Practice

As well as identifying areas where trustees "could do better", the Regulator also highlighted five key areas where it has observed good governance in practice. These are highlighted in the table.

Area	Good practice the Regulator observed
Effective chairing	Confident and knowledgeable chairs who skilfully managed board discussions, ensuring that enough space was given to trustee scrutiny and questioning and encouraging participation from all trustees.
Engaged trustees	Well-prepared and enthusiastic trustees who had taken the time to read their pack in advance of the meeting and were able to contribute fully to the discussions
Flexible and proportionate board structures and practices	Different models and practices adapted to the particular characteristics of and challenges faced by the scheme, such as establishing new sub-committees to better respond to change; regular reviews of control mechanisms to ensure that meeting frequency reflected need; forward planners to ensure training and meetings took place around key changes and events
Constructive and robust relationships with advisers and service providers	Trustees openly challenging and questioning their advisers to ensure a good understanding of what was being discussed or agreeing action plans with providers to get at the root of the problems identified in member complaints and improve the quality of their processes
Focus on members	It was clear that members' interests were at the heart of the discussions, whether it was in relation to discussing recent successful negotiations with the third party administrator to secure a lower-priced contract and better value for money, or discussions on the annual chair's statement and the importance of making it a useful tool for members rather than just a compliance exercise

Tea and Talk

Our Macmillan coffee morning

To support BWCI's staff mental health and wellbeing policy we have been encouraging everyone to take a short break from their desks and drop into one of our regular "Tea and Talk" sessions. With well over a 100 staff spread over four floors of Albert House, these sessions provide a great opportunity to meet and chat to other members of staff who we might not otherwise bump into during our working week.

We used our latest Tea and Talk session to take part in the Macmillan "World's Biggest Coffee Morning". We were delighted that so many of our staff supported the event, both making the delicious cakes and eating them. The funds raised were matched by the BWCI Foundation.

Jersey Baby Beans

Maria's Jersey Beans

What started out as a small project to design and create a "Jersey bean" toy for her young son Ollie, has developed into Maria Le Lère's latest fund raising initiative supporting Jersey's Baby Bean Appeal.

Maria set up a crafts group earlier this year, which makes and donates items to a range of local charities to support their fund raising. The Baby Bean Appeal is raising funds to provide 5 wireless baby monitors, which will provide expectant mothers with much more freedom to move around during labour.

It is also hoped that they will increase the chances of those with high risk pregnancies having a normal delivery. Having had a high risk pregnancy and labour herself, the cause is particularly close to Maria's heart. She said:

"I was tied up to machines, so understand what having the freedom to move about would mean."

All of the beans are checked individually to ensure that they comply with all of the relevant safety standards. The profits from the sale of every bean are donated to the Philips Footprints charity which is supporting the Baby Bean Appeal.

BWCI Mind 10K Run

And they're off !

We were delighted that so many people supported this year's BWCI Mind 10K run. A record 233 participants crossed the finish line and in the process raised over £4,000 to support Guernsey Mind's important work.

This is the third year that BWCI has sponsored the event, which is run in conjunction with the Guernsey Island Amateur Athletics Club. As well as entering a team of runners, BWCI staff also helped behind the scenes to process the entries and also to assist on the day.

Speaking before the start of the race, Guernsey Mind's Chair, John Curran, said that the event highlights the positive link between exercise and good mental health, as well as promoting a more open attitude towards mental health issues generally.

Guernsey
PO Box 68, Albert House
South Esplanade, St Peter Port
Guernsey, GY1 3BY
Tel +44 (0)1481 728432
Fax +44 (0)1481 724082
Web www.bwcigroup.com

Jersey
Kingsgate House,
55 Esplanade, St Helier
Jersey, JE2 3QB
Tel +44 (0)1534 880112
Fax +44 (0)1534 880113
Web www.bwcigroup.com

A member of Abelica Global