

An aerial photograph of Gibraltar, showing the city built on a rocky peninsula. The city is densely packed with buildings, and a large airport runway is visible on the left side. The sea is blue, and several ships are visible in the harbor. The sky is clear and blue.

A growing insurance domicile

Gibraltar's captive insurance industry has grown apace in recent years. With its unique position in Europe, responsive regulator and innovative approach to new captive forms, it has become an increasingly attractive choice for the industry, says Michael Ashton.



Over the past 20 years Gibraltar's insurance industry has expanded from just 12 licenced insurers in 1993 to the present 56 licensed insurers currently writing new business. In 2011 the total gross premium income written by insurance companies in Gibraltar was £3.2 billion and these companies held assets of over £7.5 billion. Gibraltar motor insurers currently write 10% of the total UK motor market.

Household names such as Arriva, Brit Insurance, Severn Trent, and Tate & Lyle have all chosen Gibraltar as a domicile for their European Union (EU) captives. In recent years Bermudan insurers Arch, Transatlantic Re and XL Insurance have established insurance companies on the Rock.

Gibraltar

Gibraltar is a British Overseas Territory and a self-governing and self-financing parliamentary democracy within the European Union. It is a separate and distinct legal jurisdiction and its Parliament is solely responsible for the enactment of all domestic laws and for the transposition of European Union directives.

The Government of Gibraltar is committed to the financial services industry which accounts for c.20% of Gibraltar's Gross Domestic Product. The economy is forecast to grow from £1.1 billion to £1.65 billion between 2011 and 2015 and the Government of Gibraltar has maintained a budget surplus throughout the recent economic slowdown that has affected much of the developed world. The Right Honourable Gilbert Licudi QC, Minister responsible for Financial Services has identified the insurance industry as one of the key areas of financial services that the Government is keen to expand and promote over the next few years.

Gibraltar has successfully transitioned from an offshore location to a European financial services centre and its EU membership provides passporting rights in insurance, insurance mediation and reinsurance across all EU and European Economic Area (EEA) countries and access to a market of 500 million people.

The ability to take advantage of direct writing into 30 countries has been a key factor for many of the companies that have established an insurer in Gibraltar.

Two of the three largest global insurance managers have operations on the Rock and Gibraltar also has independent managers with a significant number of insurance companies under management. Three of the 'big four' audit firms have a presence in Gibraltar as do other leading accountancy firms and there are also independent local firms. Insurers' legal requirements are well served with a wide choice of well qualified legal practitioners and 16 banks and building societies are currently authorised by the Financial Services Commission (FSC).

Captives and PCCs

Of the 56 licensed insurers there are 14 captives writing general insurance business with total gross premium income of nearly £500 million in 2011. Three of the captives are protected cell companies (PCCs) which collectively manage 32 cell companies. In addition, there are two PCCs writing life insurance business. Gibraltar was the

first EU jurisdiction to offer protected cell companies legislation in 2001 in conjunction with passporting throughout the EU and as a result, Gibraltar PCCs are widely used.

There is a market requirement for EU captives that can cede European risks where the parent is not licenced to write direct insurance in Europe or to access reinsurance markets. Gibraltar expects to build on its reputation as a gateway to Europe in the future.

Future opportunities

Captives—Captive owners are increasingly looking to maximise capital value and one way in which they can do so is to widen the use of their existing captives to write customer business. For example, an electrical retail group may write product warranty insurance. Subject to regulatory approval there may be opportunities to write insurance for sub-contractors in owner controlled programmes, insurance policies for joint ventures and insuring employee benefits such as medical benefits, personal accident and permanent health insurance.

In addition to providing an opportunity to write additional revenue, the ability to write direct third party owner business reduces the need for fronting arrangements. Thus leakage of income to the fronting company and the need for funds to be tied up with the fronting company's security requirements are both reduced. Importantly, in a world where responsiveness is a key business requirement the ability to make swift decisions to react to changing market conditions is paramount. The captive can quickly introduce changes to products and or rates without the need to go through a fronting company's compliance department.

Unlike certain captive domiciles Gibraltar insurance companies write both direct and captive business and therefore the insurance community has the skills and connections to assist captive owners with the front end solutions required in writing direct third party business.

PCCs—Following the promulgation of Gibraltar's Protected Cell Companies Act in 2001 the first PPC licence was granted in 2002, this was the start of the incorporation of PCCs writing both general insurance and life insurance business. The innovative nature of the PCC has led to one insurance manager creating almost 50 cells and its PCC being the largest in the EU providing solutions for both cell captives and fronting cells.

The cost efficiencies of using a cell captive as opposed to a stand-alone captive together with the uncertainties surrounding the implementation of Solvency II and its impact on EU domiciled captives is likely to ensure Gibraltar's existing PCCs continued to expand. These factors will almost certainly lead to the formation of new PCCs over the next few years.

A number of Gibraltar's insurance managers also operate in European captive domiciles that are outside the EU and offer Incorporated Cell Companies (ICC) and Risk Purpose Trusts (RPT) to their clients. There is every possibility that insurance managers will launch new products into the Gibraltar market over the next couple of years.

Motor, Long tail and Run-off business—As mentioned earlier Gibraltar motor insurers currently write 10% of the total UK motor market. It is expected that new motor insurers will be licensed in

2013 and 2014. Corporation tax is currently 10% and there is no tax for insurers on investment income. This attractive fiscal environment should offer favourable opportunities to write more long tail and in particular run-off business in the future.

A bilingual workforce makes Gibraltar an obvious choice for Latin American companies to establish a base within the EU and its close proximity to North Africa offers interesting opportunities for cooperation and business development.

Solvency II & Regulation

The delay and uncertainty in the implementation of Solvency II together with the soft reinsurance market has had an impact on the formation of new stand-alone captives in Gibraltar over the last few years. However, traditional fronting capacity in Europe appears to be reducing ahead of Solvency II and as a result Gibraltar insurance managers are experiencing an increased level of enquiries for PCC fronting cells.

The FSC is required to match the supervisory standards of the UK although it carries out its regulatory activities independently of the UK's Financial Services Authority.

The FSC undertakes to process insurance applications for authorisations in timeframes that are well below the statutory six month requirement. The service level standard for insurance companies is 18 weeks providing the applicant makes a full submission of the application with all accompanying documents.

There is general consensus that the FSC is an accessible regulator and that requests for changes to a licensed insurance company's business plan are reviewed in a timely manner. As one global consultancy firm remarked the regulator has a reputation of being business friendly and pragmatic whilst always robust.

As regulation becomes increasingly more onerous for insurance companies and the industry demands swifter decisions in an ever faster and competitive business environment the ability to be able to access an insurance regulator is a key factor in the choice of an insurance domicile.

Lifestyle—Gibraltar has been described as having a British work ethic with a Mediterranean lifestyle. The warm and sunny climate has undoubtedly played a part in attracting insurance professionals to the Rock and the opportunity to pursue outdoor sports such as sailing and golf are compelling. A new airport opened in 2012 with daily flights to an increasing number of UK destinations and Malaga airport is only a short drive along the coast and serves numerous European cities.

In summary, Gibraltar's insurance expertise, speed to market and lifestyle make it an attractive insurance domicile and one that is expected to grow and prosper over the coming years. ●

Michael Ashton is head of insurance business development at the Gibraltar Finance Centre. He can be contacted at: michael.ashton@financecentre.gov.gi



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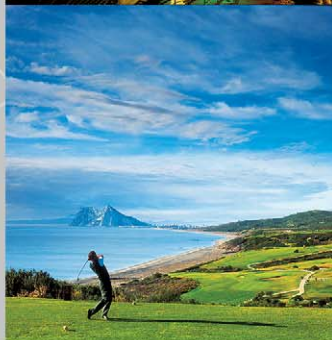
International financial
centre within the EU

Direct access to
EU single market in
financial services

Regulated to EU
and UK standards

Attractive fiscal
environment

High-quality
infrastructure



HM Government of Gibraltar
Ministry of Financial Services
Finance Centre Department
Suite 761, Europort, Gibraltar
Tel: (+350) 200 50011
Fax: (+350) 200 51818
info@financecentre.gov.gi
www.gibraltar.gov.gi