



Gibraltar: a vibrant and growing EU insurance domicile

Michael Ashton, of the Finance Centre, Government of Gibraltar, explains why Gibraltar's captive market continues to grow



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Gibraltar has a vibrant and growing insurance industry, so let's start with a few facts:

- Over the last 20 years Gibraltar's insurance industry has grown from just 12 licensed insurers to the present 56 licensed insurers currently writing new business.
- Gross premium income written by all insurance companies in Gibraltar was £3.2bn in 2011 and these companies held assets of more than £7.5bn.
- Gibraltar motor insurers currently write 10% of the total UK motor market.
- Household names such as Brit Insurance, Intercontinental Hotels, Novartis, and Tate & Lyle have chosen Gibraltar as a domicile for their European Union (EU) captives.
- In recent years Bermudian insurers Arch, Transatlantic Re and XL Insurance have established insurance companies in Gibraltar.
- Gibraltar's EU membership provides passporting rights in insurance, insurance mediation and reinsurance across all 30 EU and European Economic Area (EEA) countries.

Gibraltar

Gibraltar is a British Overseas Territory which is a self-governing and self-financing parliamentary democracy within the EU, located at the southernmost tip of the Iberian Peninsula. The territory covers 6.5 km² and has a land frontier with Spain.

Gibraltar 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 EU directives.

Gibraltar has an extensive and diversified service-based economy. The principal contributors to Gibraltar's economic base are financial services, maritime services, gaming and tourism. The economy is forecast to grow from £1.1bn to £1.65bn 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 Hon 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.

Insurance Industry

As mentioned previously, Gibraltar motor insurers currently write 10% of the total UK motor market and the number of motor insurers is expected to grow over the next few years.

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 business and makes Gibraltar an excellent location for run-off business. In October 2012 an insurance licence was granted for a run-off company set up to receive the transfer in of a legacy portfolio of an Irish company in administration.

Two of the three largest global insurance managers have operations in Gibraltar and there are also independent insurance 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.

A bilingual workforce in English and Spanish, two of the most widely spoken languages in the world, is of great benefit.

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Captives

Of the 56 licensed insurers there are 14 captives writing general insurance business with total gross premium income of nearly £500m 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.

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.

Unlike certain captive domiciles, Gibraltar insurance companies write both direct and captive business. 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.

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 subject to regulatory approval. 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.

PCCs

Gibraltar was the first EU jurisdiction to offer protected cell companies legislation in 2001 in conjunction with passporting throughout the EU. As a result, Gibraltar PCCs are widely used within insurance company structures 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 are likely to ensure Gibraltar's existing PCCs continued to expand.

Insurance regulator

The Government of Gibraltar takes regulation and compliance very seriously, whether it is complying with all EU directive obligations or the highest standards of regulation in financial services.



Gibraltar has no overdue transpositions of EU directives; one of the very few EU jurisdictions in this position, despite Gibraltar's size and lesser resources compared to most other EU jurisdictions.

The Financial Services Commission (FSC) is an independent statutory body corporate established by Gibraltar's Parliament. The FSC is responsible for the licensing and regulation of all financial services activity in Gibraltar.

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 a 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

The warm and sunny climate has undoubtedly played a part in attracting insurance professionals to Gibraltar and the opportunity to pursue outdoor sports such as sailing and golf are compelling. A new airport terminal 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 continue to grow and prosper. ☺