Gibson STRATEGY

# Guernsey Private Wealth Report 2020/21

## Contents



Photo credit: Livingroom

## Foreword Guernsey Private Wealth Report 2020/21

Dear Reader,

We are delighted to present this Guernsey Private Wealth Report 2020/21. A total of 84 Guernsey based individuals participated in the independent research study, comprising 28 private clients (HNWs, UHNWs, HVRs, entrepreneurs) and 56 private wealth professionals (trustees, investment managers, family office professionals, private bankers, insurance brokers, estate agents, lawyers, tax advisers). All have taken part in qualitative interviews, sharing their expert views on and experiences of the Guernsey private wealth sector.

In section one, we set out the backdrop to Guernsey and its private wealth sector, including its history, Island life, population and international finance centre. We include details of the Guernsey Financial Service Commission, We Are Guernsey, private wealth in numbers, relocating to Guernsey and the Guernsey property market.

In section two, we investigated Guernsey real estate and private wealth themes, specifically family offices, substance, traditional and alternative investments, green and sustainable investments, collectibles, cryptocurrency, succession planning, philanthropy and global citizens.

Finally, in section three, we researched the current unprecedented COVID-19 pandemic and the future trends in the Guernsey private wealth sector.

We would like to thank all the participants who kindly shared their insights and in particular our sponsors – Aberdeen Standard Capital, Cazenove Capital, CooperBrouard, EFG, Lancaster, Livingroom, Opus Private, Ravenscroft, Rossborough, Sancus, Skipton International, Trust Corporation International and We Are Guernsey.

We hope you enjoy reading the report and welcome your feedback. We are committed to assisting global private clients and global private wealth professionals with thought leadership in order to help influence their private wealth strategy. If you require any further information, please do not hesitate to contact us. We look forward to working with you in the future.

Stuart Gibson

Dr Stuart Gibson CEO,
Gibson Strategy Limited

# Executive Summary

Family offices. Patriarchs and matriarchs of high-net worth (HNW) families are truly global. With that comes complexity in terms of geographic spread, multiple jurisdictions, extended multi-generational families and subsequent complex tax and legal issues. Family offices are looking for jurisdictions which are robust in terms of political and economic stability, quality of service providers, privacy, data security and reputational risk. Family offices are more unique, complex and sophisticated than ever before, and are looking for simplification of services and structures in a well-regulated jurisdiction with a robust legal system. Family offices require a suite of specialist services, ranging from global wealth structuring, tax planning, succession planning, investment management and compliance to full concierge services. There is a significant increase in the professionalism of global family offices and their service providers. Family offices are committed to transparency but maintain the right to their privacy. At present, the demand to establish multi-family offices is increasing, higher than that for single family offices. Furthermore, the regulatory environment is increasing for all family offices.

Substance. Substance requirements are so significant that they are influencing where HNW families set up base for their family office. Economic substance is a doctrine in tax law, which states an arrangement must have both a substantial purpose and an economic effect, aside from tax, to be considered valid. As complex and multi-jurisdictional arrangements, family offices must guard against the risk of accusations of lack of substance – that their means and motives are contrary to the letter or spirit of the law – and should look to ensure they demonstrate otherwise.

Beyond traditional and alternative investing. The choice of asset classes has exploded in recent years. Age and personal history shape private clients' investment approach more than the size of their wealth. Private clients can be distinguished based on whether they take an aggressive or a defensive approach to investing, and whether they adopt an active or a passive role in decision-making. Private clients' personal approaches can lead to wealth managers extending the range of their offerings.

Green and sustainable investing. There is growing interest in ESG among wealth management private clients and close association between ESG and philanthropy. Wealth managers and private clients increasingly see positive action and profit as not mutually exclusive. A massive generational shift is underway in life philosophy and investment objectives. "Ownership" and personal involvement are important for ESG investors.

Collectibles. For the majority of UHNWs, collecting is a passion rather than an investment strategy. Collectibles are also seen as a way to safeguard value. Collectibles pose challenges that traditional investments don't. Wealth managers need to access expert knowledge and specialised services, including structuring, tax planning, valuation and insurance. Guernsey has developed awareness and expertise in several key areas.

Succession planning. Succession planning is unique to each family, with no set model or structure applying to everyone. Bespoke solutions are needed. How and when family members are brought into businesses or included in wealth management vary among cultures and ages. Tax is no longer the main reason behind succession planning; wealth preservation is usually the overriding objective. With the increase in transparency and push to share wealth information, political and other risks need to be kept in the frame when creating structures for transferring wealth to future generations.

Philanthropy. A large amount of charitable giving in Guernsey is conducted anonymously. There is a significant rise in charitable AUM. Younger generations are changing the philanthropic landscape. Guernsey residents are notoriously good at giving, yet still believe there has been a significant increase in philanthropy from within the Island in recent years and their private clients in general are incredibly philanthropic.

Global citizen. Families are more likely to be spread across many countries, hold multiple passports and have investments in several jurisdictions. Physical meetings may be less viable in future and technology may be the way forward. Communication challenges need to tackle diverse age groups as well as multiple time zones. A knowledge of the rules in several jurisdictions is needed to service a global client base. Links with service providers in a variety of jurisdictions, as well as opening offices in multiple locations, may be helpful to service a global client base.

COVID-19 pandemic. All respondents believe COVID-19 will inevitably have an impact on future business but the significance of this is likely to vary, with most (71%) expecting it to be minor. A reduction in business-related travel, face-to-face client contact and consequential costs, seems certain, which will surely help those businesses which expect to see a decrease in their number of clients, income generation and profit, whilst they potentially need to reduce their fees.

## 1.1 Guernsey - A Brief History

*"The island of Guernsey is steeped in history that dates back thousands of years"*

The island of Guernsey is steeped in history that dates back thousands of years. Recent archaeological discoveries indicate people have inhabited the Island since 5,000 BC. Numerous prehistoric remains have been found, an example being the Les Fouillages burial ground.

Romans called the Island Sarnia and used it as a trading centre. It's thought that they arrived in Guernsey around 56 AD and stayed here for some 250 years. The discovery of a Roman ship 'The Asterisk' points to the importance of the Island for those who chose to colonise it. Following the withdrawal of the Romans and the arrival of the Dark Ages, Guernsey's history becomes more uncertain. However, we know that St Sampson founded a church here and that, in the 7th century, a group of Bretons selected the Island as their home.

11th century documents show that the chief landowners were the lords of Saint-Sauveur (hereditary vicomtes of the Cotentin), the vicomtes of the Bessin, the abbey of Le Mont-Saint-Michel, and the Duke of Normandy.

### Castle Cornet

When William Duke of Normandy became William I, King of England, in 1066, the Channel Islands became possessions of the English Crown. King John lost control of Normandy in 1204 but the Channel Islands remained in the possession of the English Crown. This meant that the Channel Islands needed to be defended against the French. To this end, Castle Cornet was built on a small island off the Guernsey coast, to defend the busy trading harbour of St Peter Port. The castle had a strong natural position, surrounded by the sea and only accessible on foot at the lowest tides. Before the enlargement of the harbour and the building of the Castle Emplacement, Castle Cornet was nearly a mile offshore.

The following centuries saw successive island governors supervising the building of new outer walls and fortifications around the medieval fortress, creating the basic outline of the castle still visible today. During the 19th century, the harbour was extended, and a wooden bridge was built across to Castle Cornet. Following the Second World War, the bridge was replaced with the concrete structure that can still be seen.

During the German Occupation of the Channel Islands, the castle was known as Stuzpunkt Hafenschloss (Strongpoint Harbour Castle) and throughout the Second World War it housed Luftwaffe flak (anti-aircraft) units. Many modifications were made to it as the defences once again had to be brought up to date for modern warfare. A number of structures from this period, including personnel shelters and gun emplacements, remain today. Once war was over, in 1947, King George VI handed Castle Cornet as a gift to Islanders.

### Governance

The Channel Islands were put in the charge of a warden and sometimes granted to a Lord, following separation from Normandy in 1204. From the end of the 15th century however, Guernsey, along with Alderney and Sark, was overseen by a Captain (later governor), an office abolished in 1835. The duties devolved upon a lieutenant governor. Because the warden could not conduct sessions of the King's courts regularly on all four of the main Channel Islands, his judicial responsibilities on Guernsey fell to a bailiff. This bailiff came to preside over the Royal Court of Guernsey, in which judgment was given and the law declared by 12 jurats (or permanent jurors). The Royal Court has survived substantially in this medieval form, administering the law of Guernsey founded on the custom of Normandy and local usage.

The bailiffs' practice of referring difficult points of law to local notables gradually evolved into Guernsey's deliberative and legislative assembly, the States of Deliberation. In the 19th century the States of Deliberation emerged as a legislative assembly, administering the Island through executive committees. The bailiff of Guernsey presides over the assembly, while the British sovereign is represented by the lieutenant governor. Governmental and judicial proceedings on Guernsey are conducted in English, the principal language for most of the Island's inhabitants, though a small number of residents speak a version of Norman French known as Guernésiais, or Guernsey French, as their first language.

### Inhabitation and liberation

Guernsey was never dominated by any one great landowning family. The early growth of commerce in St Peter Port, with later smuggling and privateering and 19th century industrial development, weakened what remained of the feudal landlords' power. During the Second World War, many of the Island's inhabitants were evacuated to England before the German Occupation from July 1940 to May 1945.

Of Guernsey's 40,000 population, 17,000 were evacuated to England.

During the war years, the Channel Islands were the only British soil occupied by German troops and huge numbers of defensive positions were built as part of Hitler's Atlantic Wall. The materials and effort spent on the Atlantic Wall were totally disproportionate to the strategic importance of the Islands, but Hitler was convinced that the British would try to recapture them. However, the British Government had already decided in 1940 that the Channel Islands could not be defended without huge loss of life. By 1943, over five thousand foreign slave workers were working on Guernsey, many of whom lost their lives from exhaustion and starvation. They were guarded by a garrison of 13,000 German troops.

After the D-Day Normandy landings in 1944, the Islands became cut off from the rest of Europe and food and fuel supplies dried up. Life became steadily worse, with both the occupying forces and islanders suffering from starvation. The cold winter of 1944 made life almost unbearable. However, by the end of December, a lifesaving Red Cross ship, the SS Vega, docked at St Peter Port with much needed supplies and was to make several more trips up to May 1945. Finally, on 9th May 1945, the German Commander surrendered, and the first British Troops landed in St Peter Port from HMS Bulldog.

Many reminders of the German occupation remain. Fortress Guernsey is a conservation programme started in 1993 and responsible for the restoration of several German watch towers and bunkers, which are now open to the public.

The story of the Nazi occupation is told at the Occupation Museum, located near the airport.

Every year Islanders celebrate their freedom on Liberation Day, 9 May, which is a public Bank Holiday.

### Guernsey today

The population is mainly of Norman descent, with an admixture of Breton. St Peter Port and St Sampson are the main towns. Dairy farming, with the famous Guernsey breed of cattle, is largely confined to the high land in the south. Market gardening is concentrated chiefly in the north, where greenhouses produce tomatoes, flowers and grapes, mostly exported to England.

Tourism became an important part of Guernsey's economy in the 20th century. The house in St Peter Port in which the French author Victor Hugo resided from 1855 to 1870 is now a museum. The Island relies increasingly on airline services and is served by an airport at La Villaize. There are shipping links with Jersey, Alderney, Sark, Weymouth and Saint-Malo.

Today, Guernsey is recognised as one of the world's premier International Finance Centres (IFC).

## 1.2 Guernsey – The Island

| | |
|---|---|
| Official name: | Bailiwick of Guernsey |
| Geographical area | 33.39 square miles / 63.4 square km |
| Coastline | 50km |
| Terrain | Mostly flat with low hills in the southwest of the Island. The easterly coastline of St Peter Port contains a number of low-lying sandy beaches, becoming more elevated and hillier as you head southwards. |
| Capital | St Peter Port |
| Official language: | English |
| Currency | British pound sterling / Guernsey currency of the same value (1:1) |
| Government | Parliamentary democracy |
| Population | 62,792 (31st March 2019) |
| Economy | International Financial Services, Tourism and Hospitality, Retail, Creative Industries, Agriculture |
| Parishes | Guernsey is divided into a total of ten ecclesiastical parishes, each acting as civil administration districts with limited powers. The main body in each parish, the Douzaine, is usually made up of twelve members known as Douzeniers. Their responsibilities include the supervision of the polls at general and parochial elections, granting permits to build near to highways, issuing dog licences and ensuring that hedges are cut. They also organise the collection of rubbish, administer the parish cemeteries and carry out other routine administration tasks. |
| National symbol | Guernsey Cow, Donkey |
| The Guernsey Flag |  |

### Geographic location

Located in the English Channel, within Saint Malo Bay and directly north-west of Jersey, Guernsey lies just a short distance to the east of both the islands of Herm and Sark. Guernsey is the second largest of the Channel Islands, although, in reality, it is actually a relatively small island, being around 14.5 km/9 miles in length and a mere 5 km/3 miles wide. Guernsey is situated some 70 miles (113 km) from the southern shoreline of England and it is 30 miles (48 km) west of Normandy, France. Guernsey is roughly triangular in shape. With Alderney, Sark, Herm, Jethou and associated islets, it forms the Bailiwick of Guernsey.
Its capital is St Peter Port.

### Languages

English is the official language. French is still used for administrative purposes and Guernésiais, (also known as Dgèrnésiais) is the local language, unique to Guernsey.

### Climate

Being warmed by the adjacent Gulf Stream, the climate in Guernsey is amongst the mildest and sunniest you might experience elsewhere in the British Isles. The Island experiences up to 2,000 hours of sunny weather each year; May to October tend to be the hottest months with average daytime temperatures of between 20°C and 25°C. April, May and June are often the driest months of the year.

### Is Guernsey tax free?

Guernsey is not tax free; it is self-governing and has its own system of taxation. It does have a favourable personal and corporate tax regime with no Capital Gains, Inheritance or Value Added Taxes (VAT). Companies do not generally pay tax, although financial services companies pay 10% tax and it is 20% for utility companies.
Guernsey includes all the islands in the Bailiwick, with the exception of Sark (including Brecqhou and Jethou) for income tax purposes; the income tax rate is 20%.

### Government

Guernsey's government is a parliamentary representative democracy – a state where a few officials are elected to represent the general population. The country is not independent as it is legally identified as a Crown dependency. Queen Elizabeth II is the official chief of the state represented in the dependency by a Lieutenant General.

*"Guernsey has a global reputation of being an international financial centre of excellence."*

The monarch is hereditary, meaning that the head of state inherits the position and the citizen has no choice of who sits in this chair. The Crown representative, the Lieutenant General and the Bailiff are selected by the monarch.
The Chief Minister, who serves as the president of the Policy and Resources Committee, is voted in by the States of Deliberation. This is the deliberative assembly of Guernsey. It is made up of members referred to as People's Deputies, who are elected every four years.
The Royal Court Building is home to Guernsey's parliament or what is referred to as the States of Deliberation. It has been in existence since the 1800s, although renovations and extensions have been done sporadically over time. Apart from housing The States of Deliberation, The Royal Court is also home to criminal and civil courts.
Guernsey does not have any political parties. Instead, those who run in elections must be non-partisan.
Guernsey, in common with other Crown dependencies, has never been part of the European Union and its citizens have no vote in the European Parliament.
Guernsey's government issues its own internationally-recognised driving licences and is responsible for its own vehicle registration. Guernsey plates consist of up to five digits, with no letters. Plates may be either silver on a black background, or black on the white/yellow backgrounds as in the UK.
The Island also has its own telecommunications and postal services; post boxes in Guernsey are painted blue.

### Is Guernsey part of Great Britain, the United Kingdom or the British Isles?

Jersey, Guernsey and the Isle of Man are part of the British Isles. England, Scotland and Wales make up Great Britain, while the United Kingdom includes Great Britain and Northern Ireland. Guernsey is a British Crown Dependency.

### What are the Crown Dependencies?

The Crown Dependencies are the Bailiwick of Jersey, the Bailiwick of Guernsey and the Isle of Man. The Bailiwick of Guernsey includes the separate jurisdictions of Alderney and Sark and the islands of Herm, Jethou and Lihou. The island of Brecqhou is part of Sark. Jersey, Guernsey and the Isle of Man are not part of the UK but are self-governing dependencies of the Crown. This means they have their own directly elected legislative assemblies, administrative, fiscal and legal systems and their own courts of law.
The Crown Dependencies are not represented in the UK Parliament. The Crown Dependencies have never been colonies of the UK. Nor are they Overseas Territories, like Gibraltar, which have a different relationship with the UK. The Crown Dependencies, with the exception of Sark, each employ their own distinct Civil Services. The Crown Dependencies have responsibility for their own domestic policies. Nonetheless, the relationship between the UK and the Crown Dependencies has always been close. The legislatures are known as: States of Jersey (Jersey); The States of Deliberation (Guernsey); The States of Alderney (Alderney); The Chief Pleas (Sark); and The Court of Tynwald (Isle of Man).

### Does Guernsey have the same legal system as the UK?

Guernsey has a directly elected legislature and operates a system of consensus government through multi-member Departments and the Policy Council. The latter is constituted by the Minister from each Department and chaired by the Chief Minister. Alderney has a legislature comprising of a President and 10 members all elected by universal suffrage. Sark has a directly elected legislature of 28 members (Conseillers) who serve on a number of committees.
The Queen is the Head of State of each island and the Lieutenant-Governor on each island is Her Majesty's personal representative. The Crown is ultimately responsible for their good government, the UK for the defence and international relations of each Island. The Crown exercises its responsibility for the islands through the Privy Council and it also makes appointments to the Judiciary on each island, through the Ministry of Justice, on the request of the Island authorities.
Like other Crown dependencies, the Island's parliament is responsible for all aspects of government, with the exception of foreign relations and defence. Her Majesty's Government is reimbursed by the Island for any service performed on its behalf in those areas.

### How did Guernsey become self-governing?

Guernsey, together with the other Channel Islands, was part of the Duchy of Normandy before the conquest of continental Normandy by the French King Phillipe-Auguste in 1204, following his defeat of King John of England at Rouen. The defeat signalled England's loss of continental Normandy, which had been united with the English Crown since the invasion of England by William the Conqueror in 1066. Guernsey, part of the Duchy of Normandy for more

than a hundred years at that time, made the decision to remain loyal to the King of England.

Since then, the Island has pledged its allegiance to the English Crown but not to the British Government. As such it is not part of the UK, remaining autonomous in relation to its domestic affairs, including taxation. However, in practice through the Crown, the British Government is formally responsible for the Island's defence and its international relations.

### Guernsey's constitution

Islanders pledge their allegiance to the Crown, but not to the British Government – where they have no representation. They cannot be called for military service outside the islands, except to rescue the Sovereign if captured by enemies. However, they elected to serve their King in two World Wars and fought with courage and conviction. Guernsey is in the Commonwealth but is self-governed, with its own traditions, taxation, laws, money, Norman-French language and character.

Despite their rich Norman heritage, Islanders are proud to fly the Union flag – if only to remind them that England, since 1066, has been one of their oldest possessions – and, over 800 years on from the historic events of 1204, Guernsey and England are still the closest of friends.

### The working population

All employees require an up to date 'Right to Work' document issued by the Guernsey Housing Department to confirm they are lawfully housed and permitted to work.

The size and make-up of Guernsey's population is regulated by the Population Management Law. This Law is designed to make sure that the Island has the right mix of people supporting its economy and community, now and in the future. It also aims to support local businesses by providing Permits designed for specific jobs, allowing Guernsey to attract a diverse range of skilled people where needed, to strengthen the Island's workforce.

Population Management Law also determines who can live in certain accommodation. Guernsey's properties are primarily split into two 'Housing Markets', the Local Market and the Open Market.

Guernsey has a global reputation of being a financial centre of excellence. There is a huge selection of job sectors including Banking, Trust Management, Fund Management, Insurance, Accountancy, Compliance, IT and Private Wealth Management. In addition, there is a thriving entrepreneurial commercial industry in Guernsey including Marketing, Advertising, Sales & Customer Service, Procurement, Retail and Hospitality.

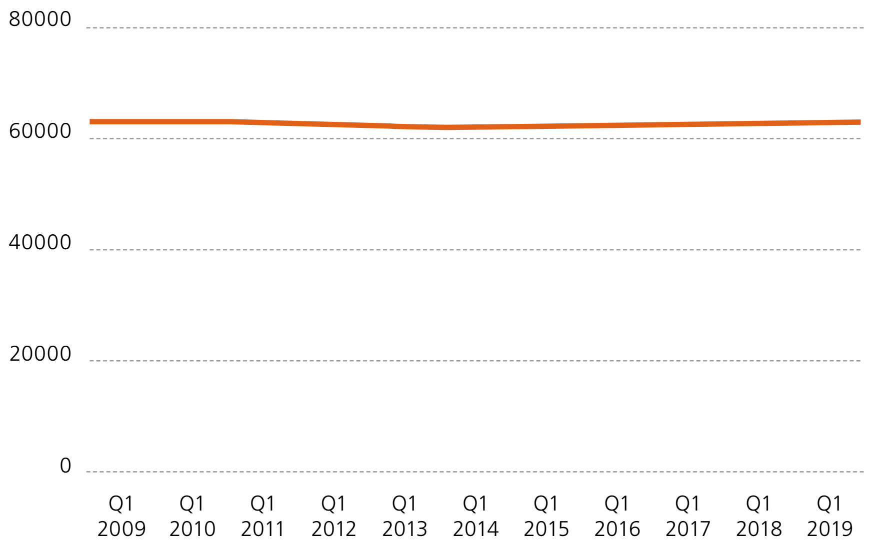
## 1.3 Guernsey – The Population

The total resident population for Guernsey, Herm, Jethou and Lihou on 31 March 2019 was 62,792.[1]
The report also highlights:

- Since the previous year's census, the population had increased by 459 people (0.7%)
- During the year ending 31st March 2019, the largest annual increase (3.1%) belonged to the number of people aged 85 and over
- At the end of March 2019, 49.7% of the total population were in employment
- 30.2% of the population lived in St Peter Port, the most populated parish
- 91.1% of the population lived in Local Market housing units and 8.0% lived in Open Market units
- 82.5% of those aged 16 to 64-years-old were either in full-time education, employed or self-employed at the end of March 2019
- There are slightly more females than males (50.5% and 49.5%) living on the Island and the average lifespan for females is longer than that of males.

As the number of deaths was greater than the number of births for the year ending 31 March 2019, the natural growth was -42 which appears to be a growing trend on the Island.

Figure 1: Total population, 2009 to 2019




[1] Guernsey Annual Electronic Census Report, 30 January 2020

Source: States of Guernsey

The population has remained stable over the past ten years, with the average population for that decade being 62,496.

Figure 2: Age range of population

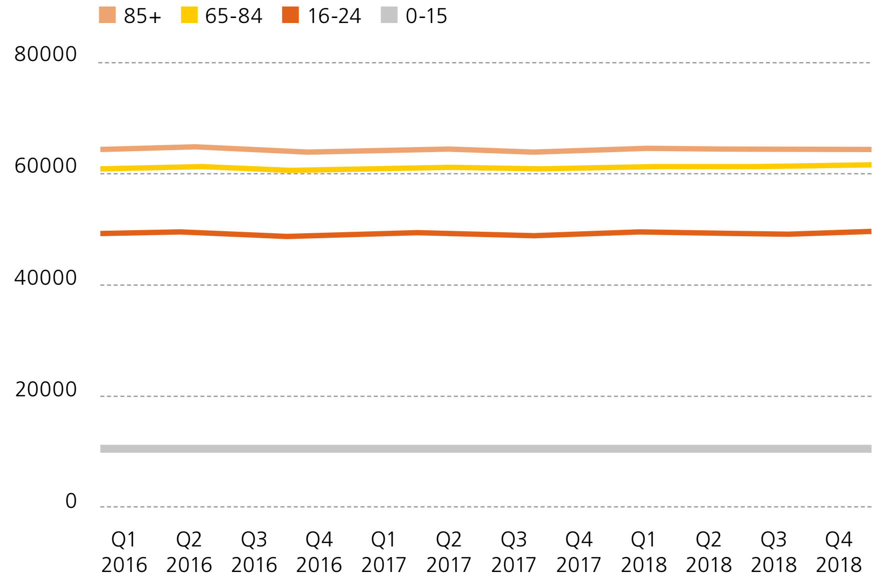
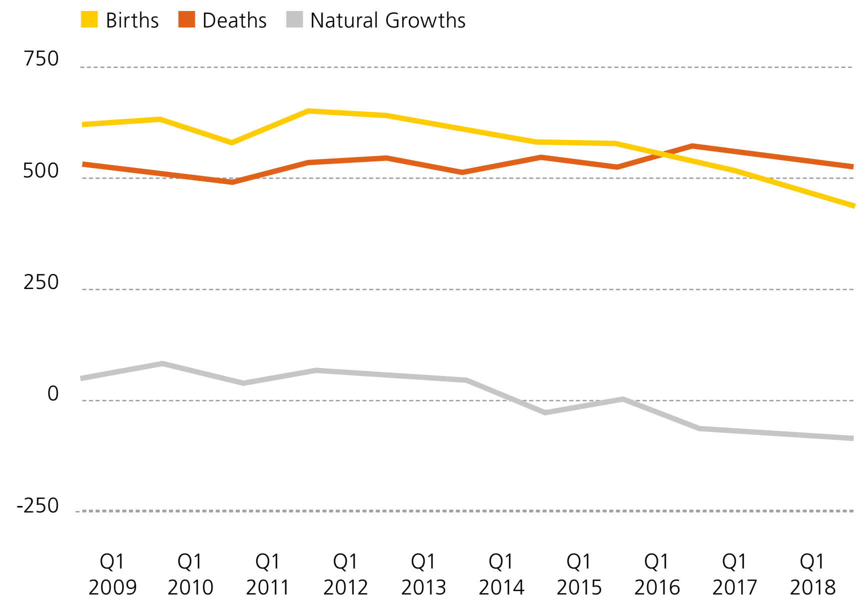



Figure 3: Births, deaths and natural growth, 2009 to 2019



Source: States of Guernsey

The majority (64.5%) of immigrants who arrived during the year ending March 2019 were new to the Island.

It was reported that Locate Guernsey helped 35 wealthy individuals relocate to the Island in 2019; this was 11 more than the previous year, an indication of the Island's appeal to HNWs and business owners and suggests a "growing awareness of the benefits of Guernsey."

Figure 4: Immigration, emigration and net migration, 2009 to 2019

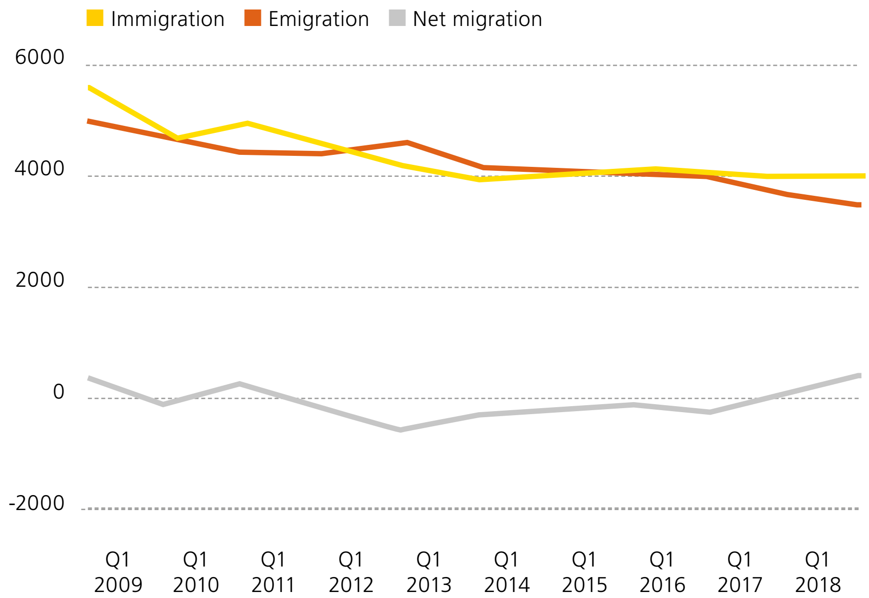



Figure 5: Migration by length of stay (during the year ending 31 March 2019)

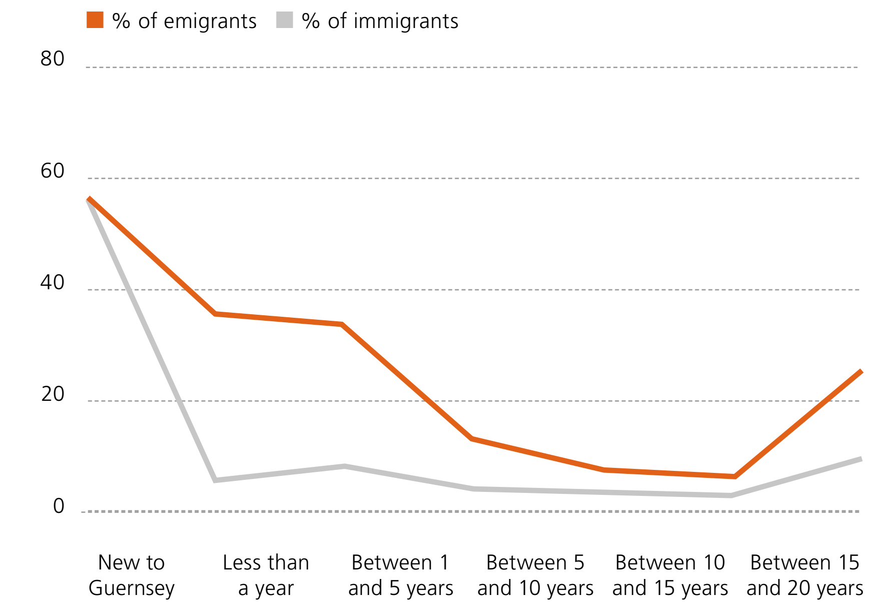
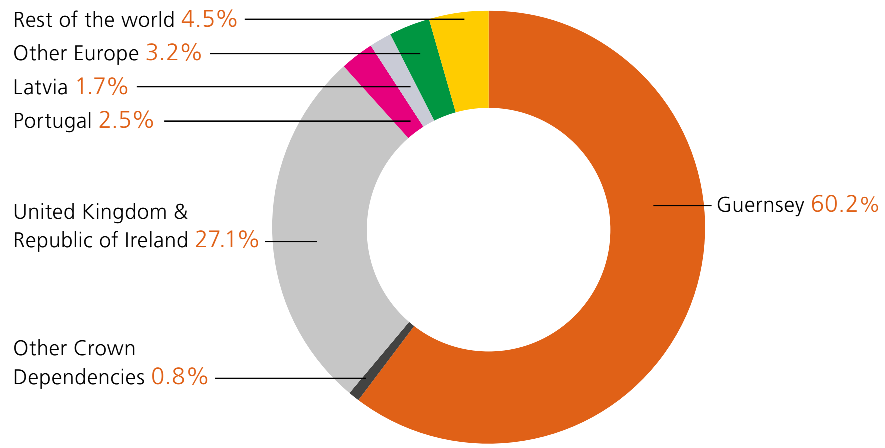
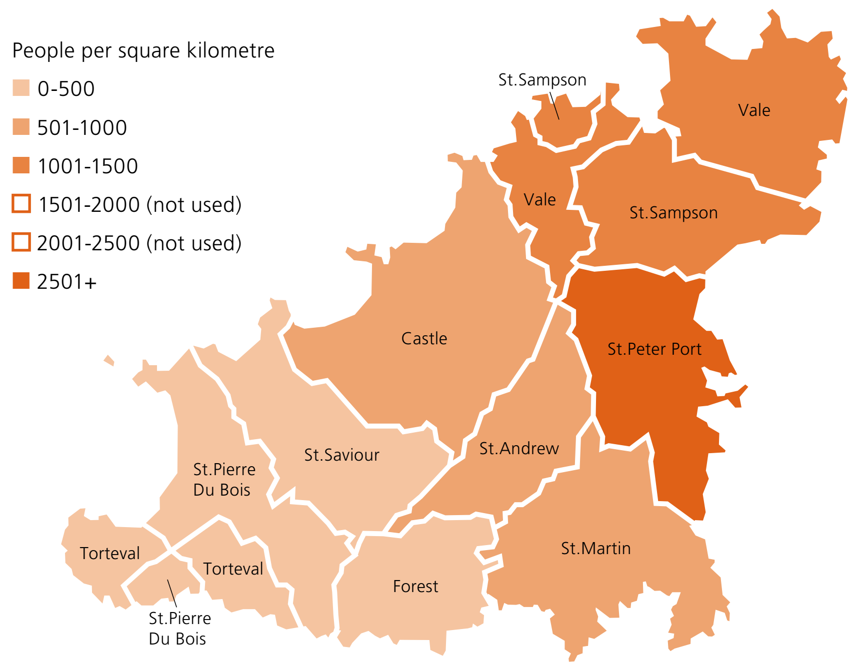



Figure 6: Place of birth (at 31 March 2019)




Approximately 36% of people living in the Channel Islands reside in Guernsey. The total population of Guernsey is approximately 38% less than that of Jersey.
Figure 7 shows the pattern of population density across the Island.
St Peter Port has the highest population density at 18,958 people (30.19% of the population) and 2,962 people per square kilometre, a slight increase on the previous year. The population density of St Peter Port is more than double that of St Sampson, which has the next highest density (1,423 people per square kilometre).
The lowest population can be found in the parish of Torteval.

Figure 7: Population density map (at 31 March 2019)



*"A leading international fiduciary centre"*

## 1.4 Guernsey - The International Finance Centre

Guernsey is recognised as one of the world's premier International Finance Centres (IFCs). Guernsey Finance, the promotional agency for the Island's industry internationally, is often the first port of call for potential clients looking to utilise Guernsey's financial services expertise, particularly in captive insurance where the Island is ranked the number one domicile in Europe and fourth in the world.

Increasingly, Guernsey is seen as a global financial centre of choice for many reasons. The Island has an impressive history in financial services, and its funds offering has been a major part of that over the past four decades.

The Guernsey Investment and Funds Association (GIFA), representing the industry, is now 30 years old.

Guernsey has many financial services industries. As an IFC, the Island provides first-rate services in numerous fields such as Banking, Fund Management and Administration, Private Wealth and Insurance, amongst others. The Island's regulatory and fiscal environment is also perfectly suited to enable businesses to flourish.

For more than fifty years, Guernsey has been one of the world's best-regarded and most successful IFCs. Across the various industries mentioned above, that strong reputation is based on five key strengths:

- Core services of a very high quality
- High regulatory standards
- A compliant and transparent tax regime
- Innovation as a hallmark of problem solving and creating new opportunities
- Guernsey's positive relationship with the UK

### Banking

The sector provides products ranging from international wealth management, retail banking and savings through to institutional business and specialist lending. Some of the most highly-respected names in international finance have chosen to locate their banking in Guernsey, establishing subsidiaries or relocating their entire operation, alongside independent, boutique providers.

The Island's banking sector has very strong connections to other financial services sectors, offering a variety of services to institutions and individuals. These include credit services, frequently used as a wealth management tool when lending is required for investments; savings accounts at competitive offshore rates; treasury services used to access money market and foreign exchange services and custody services, which ensures efficient and confidential asset management. Guernsey also has its own Depositors' Protection Scheme.

### Fund management and administration

Guernsey funds can access Europe. Guernsey is not in the European Union (EU) and, as a result, it does not have access to the funds passports available to Undertakings for the Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs) in the EU. This, however, can be a benefit for Guernsey funds. Firstly, a number of key European jurisdictions can be reached, by way of the National Private Placement Regime (NPPR, for non-EU funds) faster than utilising the passport route, and in some cases more cheaply. Secondly, a Guernsey fund operating under NPPR has to comply with eight articles of the Alternative Investment Fund Managers Directive (AIFMD), whereas an EU-based fund would have to comply with all 71 articles. Finally, an EU-based fund must be either UCITS or AIF – a Guernsey fund does not have to comply with the requirements of either directive, but instead can make use of the flexible regulation available in the Island.

Funds based in Guernsey are promoted or sponsored by institutions in more than 50 locations around the world, underlining the Island's first-class reputation as a centre of excellence for funds. As of 2016, £225 billion worth of funds were under administration or management in Guernsey by over 50 fund managers, custodians and administrators. They are complemented by award-winning lawyers, investment advisers, accountants and stockbrokers.

There is vast experience in dealing with asset classes such as funds of hedge funds, private equity and property that are becoming ever-more popular amongst investors' portfolios. A wide range of products are available, including non-Guernsey and Guernsey open and closed-ended investment funds.

The Island also has expertise in using a wide range of investment vehicles including unit trusts, Protected Cell Companies (PCCs), Incorporated Cell Companies (ICCs) and limited partnerships.

### Innovation

Guernsey has a history of innovation in the Fund space. Decades ago, Guernsey pioneered the umbrella fund and since then the first protected cell companies. In 2018, Guernsey showed its pioneering spirit again and put itself at the forefront of environmentally friendly regulation with the advent of the Guernsey Green Fund, the world's first regulated green fund.

Another key innovation resulted from cross-sectoral work between the funds industry and the insurance-linked securities (ILS) sub-sector of the insurance industry. This has resulted in the world's first dual-regulated insurance and fund product, whereby a single PCC can have some cells that are funds and others that are insurance transformers.

The GFSC is open to innovation and has a regulatory 'soundbox' for innovation. In 2018 it undertook two key initiatives. Firstly, it held a 'Soundbox Sprint' competition in Guernsey, a chance for firms to bring their best ideas before a panel of experts.

The other initiative was to join the Global Financial Innovation Network, joining other financial services regulators in the world in creating a 'global soundbox' for innovation.

### Global distribution

One key point when choosing a fund jurisdiction is the distribution footprint it can achieve. Guernsey funds have pedigree in many key markets and are known to many regulators in the world. There are many facts about Guernsey global fund distribution. Here are a few key highlights:

- A Guernsey fund enables managers to reach markets representing 80% of global wealth
- Guernsey is in the top four jurisdictions (outside the US and Canada) for Regulation D private placement into the US
- Guernsey is one of the top four jurisdictions for registering funds for sale to retail clients in South Africa
- Guernsey has a retail fund sales Memorandum of Understanding with Switzerland and is one of only three jurisdictions outside the European Union/European Economic Area to have one
- All types of Guernsey funds have been successfully registered for retail sale in Bahrain
- A Guernsey umbrella fund is one of only four non-UCITS to register for retail sale in Luxembourg
- Guernsey has all three regulatory Memoranda of Understanding with the Chinese regulators, allowing it to reach the widest range of Chinese investors currently possible.

The global reach of Guernsey funds and Guernsey's positioning as a quality global financial centre make the Island an attractive proposition for establishing funds. GIFA members are ready to assist with launching funds in Guernsey.

### Financial crime fighting

As with all jurisdictions, Guernsey is assessed against the recommendations set out by the Financial Action Task Force (FATF), an intergovernmental organisation established to develop policies to combat money laundering and terrorism financing.

Guernsey is measured for compliance against these recommendations by MONEYVAL, a permanent monitoring body established by the Council of Europe. MONEYVAL last judged that Guernsey was compliant or largely compliant with all but one of the 49 recommendations and special recommendations.

### Tax transparency

Guernsey continues to lead on tax transparency and meeting global standards through intergovernmental information exchange agreements, which help to enhance further its reputation as a responsible and transparent financial centre.

Currently, Guernsey has Tax Information Exchange Agreements (TIEAs) signed with more than 50 jurisdictions. Guernsey has been given 'tier one' status by the Organisation for Economic Co-operation and Development (OECD), which requires a minimum of 12 signed Tax Information Exchange Agreements.

### Substance

Guernsey is an island of substance. The financial services sector is the largest group of employers in Guernsey. In the funds space there are fully staffed fund administrators, custodians, fund managers and investment managers, as well as a large group of experienced non-executive directors (NEDs).

When the aforementioned AIFMD came into force in the EU in 2014, Guernsey fund managers had to show sufficient substance to avoid being seen as 'letterbox entities'. This was a test that was met and exceeded, down to a combination of staff within firms and NEDs together with decades of experience managing funds.

Early in 2019, Guernsey was assessed by the EU Code

Group and its legislative and regulatory environment was found to be compliant with the EU's requirements on substance and placed on the 'white list'. A number of other funds' jurisdictions remain on the 'grey list' and one was even temporarily added to the 'black list'. Again, as a jurisdiction Guernsey met international expectations, especially as the EU gave the Island a list of requirements beyond what is applied in its own fund jurisdictions.

As Guernsey prepared to go into 'lockdown' during the Coronavirus COVID-19 pandemic in March 2020, GIBA[2] promptly issued guidance on how its companies could ensure they continue to comply with substance requirements. This guidance stressed the need for flexibility; for companies to keep appropriate records to evidence that travel restrictions were accountable for usual substance requirements not to be in place and that the use of virtual meetings was necessary, or to appoint alternate on-island directors if considered more appropriate.

### Private wealth

Guernsey has long provided private wealth management services to clients across the globe. As a leading international fiduciary centre, the Island's status is built on its expertise, experience, innovation and a well-regarded regulatory regime.

Guernsey is home to one of the UK's larger regional branches of the Society of Trust and Estate Practitioners (STEP) with more than 600 members. This is made up of both large and many smaller independent operations. Alongside these businesses there are hundreds of licensed individuals who provide expertise as directors, co-trustees and trust protectors.

Guernsey is also home to many award-winning fiduciary firms and innovative structures. The Island introduced the Guernsey Foundation, which has several unique features making it a more attractive option than can be found elsewhere. The Guernsey Foundation is particularly strong in asset protection, estate and succession management, and private wealth planning for globally mobile individuals and families.

Guernsey was one of the first jurisdictions to introduce an effective licensing and supervision system in relation to trust administration services, company management and ancillary services. It is the businesses that manage and provide fiduciary services that are regulated, rather than the trusts themselves.

### Insurance

In Guernsey, the PCC was born and it continues to be extensively used.

For a small island, Guernsey's insurance sector has a big reputation. Guernsey is Europe's largest captive insurance domicile and the fourth largest domicile in the world. Risk management solutions in Guernsey are characterised by high professional standards and world-leading innovation.

Across a wide range of other areas (such as employers' and public liability, motor, property damage and business interruption, employee benefits as well as life and health insurance) large amounts of business are written by insurance entities in Guernsey. Insurance policies are also featuring as components of wealth management plans and are popular with high net worth individuals.

The first Guernsey captive insurance operation was started in 1922 and now there are nearly 800 international insurance entities in Guernsey. 40% of UK FTSE 100 companies have a captive presence in the Island.

### Regulation

In Guernsey, the regulatory regime in financial services has an inherent connection to the Island's excellent reputation in those sectors, finding a helpful balance between robust protection and recognition of new opportunities.

The Guernsey Financial Services Commission (GFSC) is the Island's financial services regulator and is an approachable and pragmatic regulator, ensuring Guernsey firms apply quality regulation that is recognised in the international community.

The GFSC is a full member of the International Organisation of Securities Commissions (IOSCO), the international body for securities regulators. While the Island is aware of EU directives and regulations, the GFSC applies IOSCO standards, which are the international standard of regulation in the fund space.

When looking at EU regulation, the Guernsey fund regime has now twice been assessed by the European Securities and Markets Authority as being worthy of the AIFMD third country passport, a process that has been stalled in the European political process.

Sources: Captive International; Locate Guernsey; Christopher Jehan, Chair of the Guernsey Investment & Funds Association (GIFA)

[2] GIBA gives guidance on COVID-19 and Substance Requirements, 20 March 2020

## 1.5 Guernsey Financial Services Commission

In Guernsey, the regulatory regime in financial services has an inherent connection to the Island's excellent reputation in those sectors, finding a helpful balance between robust protection and recognition of new opportunities.

### Who is it?

The Guernsey Financial Services Commission (GFSC) is the regulatory body for the finance sector in the Bailiwick of Guernsey and has been operating for nearly 30 years. It seeks to secure good regulatory outcomes with "integrity, proportionality and professional excellence",[3] thereby generating confidence in the Bailiwick as a jurisdiction.
GFSC is an independent public body funded entirely by the licensees it regulates by charging fees. It is accountable to the States of Guernsey, which is responsible for the Bailiwick's financial services industry and for establishing the regulatory regime.

### What it does

The Commission supervises and regulates over 2,000 licensees from within the banking, fiduciary, insurance and investment sectors. The Commission does this in accordance with standards set by international bodies such as the Basel Committee for Banking Supervisors, the International Association of Insurance Supervisors, the International Organisation of Securities Commissions and the Financial Action Task Force on Money Laundering.

### How it does it

The Commission uses a risk-based approach to the supervision of licensees, which is underpinned by a system known as PRISM (Probability Risk and Impact SysteM). It is a structured system which enables the Commission to focus the finite supervisory resources on high value, forward-looking, supervisory activity with a strong emphasis on the business models and governance of the most significant licensees in the Bailiwick. It requires the supervisors to challenge, to make judgements and to mitigate unacceptable risks – prudential, financial crime or conduct-related. PRISM helps the Commission to ensure that it anticipates and addresses problems before they become crises. However, it is not a panacea and there will still be licensee failures.

### Banking

Banks have played a key role in the development of Guernsey as an IFC.
The first merchant bank was established in Guernsey in 1963 and today there are 23 licensed banks in the Island. They represent a range of countries with concentrations of banks with head offices in the UK and Switzerland.
The range of services offered by banks in Guernsey is quite diverse. Some provide retail banking services, essential to the local community. Others target the affluent expatriate market, primarily attracting their deposits. There are also banks offering 'private banking' services to attract high net worth individuals who seek a total wealth management solution to their financial needs. Banks also support the other financial services businesses operating in Guernsey, providing custody, foreign exchange and other banking services to the investment, fund administration, fiduciary and insurance sectors. At the last third-party review by the IMF in 2010, Guernsey was compliant or largely compliant in all the international core principles.
All banks licensed by the Commission are subject to ongoing supervision by the Banking Division.

### Insurance

Guernsey is perhaps best known as one of the world's leading captive centres, offering a domicile for self-insurance for firms.
These firms are mainly located in the UK, but a significant portion of the Guernsey captive industry originates from around the globe.
Apart from captives, Guernsey is also recognised as being a centre for reinsurance and insurance linked securities, offering, in particular, collateralised catastrophe reinsurance.
Guernsey also serves expatriates, especially for life and health insurance. Additionally, Guernsey houses several local general insurance businesses, serving both the local and international communities. Guernsey pioneered the PCC and more recently has seen growth in the use of the ICC, not least for the transfer of longevity risk for pension funds.
The Commission regulates insurance managers, who facilitate insurance business, and insurance intermediaries, mostly covering local broker requirements.
Guernsey plays an active role in the International Association of Insurance Supervisors (IAIS) and currently chairs the Group of International Insurance Centres Supervisors (GIICS).

### Investment

The investment sector in Guernsey provides a broad range of services, including stockbroking, investment advice and management, promotion, fund management, fund administration and custody of assets to an international clientele.
These activities, each of which requires a licence under the Protection of Investors (Bailiwick of Guernsey) Law 1987

[3] weareguernsey.com



*"Good regulatory outcomes with integrity, proportionality and professional excellence"*

('the POI Law'), are regulated by the Commission.
There are close links with the City of London, as well as institutions in the European Union, North America, Southern Africa and Asia. The International Stock Exchange Authority Limited, providing services in Guernsey, Jersey and the Isle of Man, is based in Guernsey.
Collective investment funds, both open and closed-end, have been an important feature of the investment sector for many years. All Guernsey domiciled funds have to be authorised by, or registered with, the Commission, and all must be administered by a Guernsey-licensed administrator. Open-ended funds must also have a Guernsey-licensed custodian.
In addition, the sector provides services, particularly administration, to a wide range of investment funds domiciled in other jurisdictions. Promoters of Guernsey funds include leading institutions from over 55 financial centres.
The Investment Supervision and Policy Division encourages new promoters to consult with it on policy and practice regarding fund proposals.
Other investment firms in Guernsey provide independent advice, private client and institutional stockbroking, and non-fund portfolio management. For any proposed investment business, the Commission applies the minimum criteria for licensing set out in schedule 4 to the POI Law.

### Fiduciary

Guernsey is a major centre for the provision of international trust and corporate services.

The sector is substantial and long-established; whilst benefiting from and contributing to Guernsey's mature and sophisticated professional infrastructure. Licensed entities include subsidiaries of major European, North American and South African financial institutions, subsidiaries of international and Channel Islands accountancy and legal practices and owner-managed independent trust companies. The industry provides a diverse range of trust and corporate services to an international client base covering private client, corporate and institutional businesses.

Guernsey was one of the first centres in the world to establish a comprehensive system for the licensing and supervision of its trust and corporate service providers. This was introduced by the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000, ('the Law') which came into effect in April 2001.

Regulated fiduciary activities may only be carried on by way of business in or from the Bailiwick of Guernsey, or by a company incorporated in the Bailiwick, under a licence granted by the Commission under the above legislation.

There are two categories of fiduciary licence:

- A full fiduciary licence can only be granted to a company or a partnership and authorises all regulated fiduciary activities.
- A personal fiduciary licence can only be granted to an individual and authorises the holder to carry on a restricted range of fiduciary activities. Those include acting as a company director, as trustee (but not as a sole trustee), and as executor of a will or administrator of an estate, and as a foundation official for foundations.

Licences are granted to entities and individuals who meet the minimum criteria for licensing set out in Schedule 1 of the Law. Licensees are required to meet the criteria on an ongoing basis. Additionally, the Commission may grant a specific discretionary exemption to permit entities and individuals to carry out regulated fiduciary activities.

## Pensions

Guernsey is home to numerous firms providing international pension services within a regime conforming to international regulatory standards.

Guernsey's supervisory regime for Pension Schemes and Gratuity Schemes ('Schemes') and their respective providers conforms to international regulatory standards. The sector is home to numerous international and local firms, providing international corporate and group services to pension plans, gratuity schemes and international savings plans. Guernsey's supervisory regime ensures that the formation, management or administration of Schemes, and the provision of advice in relation to them, is a regulated activity. This was introduced through amendment of the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law 2000 ('the Law') in 2017.

In order for individuals and entities to be granted a fiduciary licence which will enable them to carry on pension scheme business or gratuity scheme business, they must meet the minimum criteria for licensing set out in Schedule 1 of the Law. This obligation continues on an ongoing basis.[4]

[4] Guernsey Financial Services Commission

## 1.6 Guernsey Finance

WE ARE GUERNSEY is the brand under which Guernsey Finance promotes the Island's financial services sector internationally.
Guernsey Finance is a joint industry and government initiative established to promote the Island's financial services sector internationally.
Based in Guernsey, the agency conducts marketing, communications and business development on behalf of its members. The agency also employs representatives in London, Dubai, Hong Kong and Shanghai.

### WE ARE GUERNSEY's mission

Guernsey is better connected than its competitors. Financial services firms in Guernsey are closely connected both physically and personally. Guernsey is the closest global finance centre to London, with which it enjoys a collaborative relationship.
WE ARE GUERNSEY has a growing understanding of doing business in emerging markets and Guernsey Finance boasts representative offices in IFCs such as London, Dubai and Hong Kong. They have also had a base in China for more than 10 years. Its mission is to utilise Guernsey's connections for the benefit of its members and the community as a whole.

### Guernsey green finance

Guernsey Green Finance is the body through which Guernsey delivers on its dedicated initiative and strategic commitment to sustainable finance and is proud to be at the forefront of development of green and sustainable finance. It is the Island's intention to contribute its expertise and experience as a global finance centre to the fulfilment of the United Nations' 17 global goals, the Sustainable Development Goals, through the work of Guernsey Green Finance.

### Global distribution

Guernsey celebrates its global distribution. A Guernsey fund enables managers to reach markets representing 80% of global wealth. An IFC for over half a century, Guernsey has positioned itself at the centre of a network of bilateral agreements that facilitate international capital flows.
Guernsey provides the ideal environment for asset managers to pool capital and enable efficient investment.
Asset managers will find a business-friendly tax, legal and regulatory environment for fund domiciliation in Guernsey.
The risk-based supervision provided by the GFSC is also well-regarded by institutional investors from all over the world.

### Best-in-class regulation

Regulation is sometimes seen as unhelpful to the business world. Guernsey Finance says it doesn't have to be that way.
In Guernsey, the regulatory regime for financial services has a close connection to the Island's excellent reputation in banking, fiduciary services, insurance, investment management, and pensions. Day-to-day responsibility for the regulation and supervision of financial services rests with the GFSC, which has regulated and supervised financial services in Guernsey since 1987, with integrity, proportionality and professional excellence.

**Figure 8:** Institutional distribution map

Guernsey provides four corners of the global distribution. Some jurisdictions may require registration or approval before sale of the Guernsey investment fund is permitted to domestic investors.


*"At the forefront of development of green and sustainable finance"*

### Highest regulatory standards

In January 2011, the IMF published six evaluation reports, which recognised and commended Guernsey's high standards of financial regulation, supervision and stability, along with its robust criminal justice framework. Guernsey was assessed as having a high level of compliance with the international standards against which it was judged – the 25 Basel Core Principles for Effective Banking Supervision and the 28 Insurance Core Principles of the International Association of Insurance Supervisors.

### Strengths of business in Guernsey

- Self-governing and self-funding - Guernsey has been independent for more than 800 years, making its own laws and raising its own taxes
- Highly experienced - Guernsey has been a centre for international finance since the mid-1960s
- Funds expertise - Some 1,000 investment funds are domiciled or administered in Guernsey
- Number one for captive insurance - Guernsey is the largest captive insurance domicile in Europe
- Number one in fighting financial crime - In 2016, Guernsey was determined as 'compliant' or 'largely compliant' with 48/49 of the Financial Action Task Force (FATF)'s recommendations with respect to anti-money laundering and combating the financing of terrorism. This is the best score of any jurisdiction.
- Top Credit Rating - Guernsey has an AA-credit rating from Standard & Poor's, representing the Island's 'very strong' capacity to meet its financial commitments.[5]

[5] weareguernsey.com

## 1.7 Guernsey Private Wealth in Numbers

**22**
Banking licences

**£93.56 billion**
Banking deposits
(as of 12/2019)

**150**
No. of regulated trust and corporate service providers

**627**
Total no. of international insurers

**£268.3 billion**
Net asset value of total funds under management and administration

**£46.3 billion**
Open-ended Schemes - Guernsey domiciled open-ended funds

**£181.3 billion**
Closed-ended Schemes - Guernsey closed-ended sector

**£2.7 billion**
Guernsey Green Funds held a total net asset value

**£40.7 billion**
Non-Guernsey schemes, for which some aspect of management, administration or custody is carried out in the Bailiwick

[6]

[6] Guernsey Financial Services Commission and weareguernsey.com

## 1.8 Relocating to Guernsey

*"If you want to move to Guernsey for the fantastic quality of life and beautiful scenery, you won't be disappointed"*

For EU passport holders, relocation to Guernsey is very straightforward, thanks to the Open Market. For those who are not EU passport holders, one of two Immigration Programmes is likely to offer the most direct route to residency in Guernsey.

### Locate Guernsey

A State of Guernsey's initiative, Locate Guernsey promotes and supports individuals, families and businesses' relocation to the Island. Locate Guernsey is part of the Island's Committee for Economic Development, providing a friendly face in Government, acting as a guide, introducer and 'problem solver.' It provides free, confidential advice.

Locate Guernsey is available and very happy to support a relocation to the Island. However, our research revealed, unlike its Channel Island counterpart, Jersey, those wishing to relocate to Guernsey do not have to register with Locate Guernsey, although there is an obligation that they will be represented by a local Advocate, who will ensure the necessary checks are completed.

Locate Guernsey has a challenge in attracting people to their services, as it is commonly known in Guernsey that a "good agent is able to furnish new/potential residents with all they need." Equally, there are far fewer infringements to prejudice anyone taking up residence in Guernsey. Whilst criminal background checks are made, there is no vetting process on an individual's financial status.

### Reputation

Guernsey is known to be a relaxed, pretty and safe island, with stunning scenery and comfortable living, positioning itself as a very modern domicile. It has expanded on its early appeal to those fleeing large tax bills and now works extremely hard to maintain flawless communications strategies, business and an excellent reputation in international law. Elements of old and new exist; the Island prides itself on its sense of community, with a population which is a mixture of long-standing local families and newer residents.

Guernsey is a perfect place for families. Crime is rare and schools are reported as being excellent.

Quality of life is much higher than the UK's crowded south coast, but state-of-the-art communications means that many large businesses can base themselves on the Island and still be in London by air in less than an hour.

### Lifestyle

The Bailiwick of Guernsey includes Alderney, Herm (sold privately in 2008), Jethou, Brecqhou (owned by the Barclay Brothers), Burhou, Lihou, Sark and other islets. It takes about 20 minutes to sail across to Herm and Sark, and sailing is obviously one of the most popular pastimes. The advantageous climate means the majority of recreation time is spent outside, whether on water or land (golf and gardening are also hugely popular). There is one private marina; however, moorings can be hard to come by.

The tourist trade ensures there is an excellent range of restaurants and cafes. A fleet of local fishermen leave St Peter Port every morning to bring fresh fish back to the harbour.

Guernsey offers a relaxed pace of life and relative anonymity for those who want it. There is an island-wide speed limit of 35 miles per hour (56kph). There is lots on offer on the Island; plenty of history and opportunities to surf and swim (there are 27 beaches).

The Island's location, ferry and air links mean it is easy to travel to France, the UK or neighbouring islands. If you travel across to Sark on the ferry, you might view puffins on the island of Herm and at low tide, the nature reserve of Lihou can be accessed by a cobbled causeway.

### Tax and Social Security

- A friendly tax environment
- No inheritance, estate or gift taxes
- No wealth tax
- No capital gains tax
- No VAT or sales taxes
- No corporation tax for most companies
- Individual rate of income tax at 20%

In addition to the flat 20% income tax rate, tax caps are available meaning that the maximum annual tax liability can be capped.

For an individual 'solely or principally resident' in Guernsey, who has only non-Guernsey source income, the cap is currently £130,000. For an individual who has both Guernsey and non-Guernsey source income (with the exception of income from Guernsey property) the cap is set at £260,000. From 2018, newly-arrived tax residents can benefit from a lower tax cap of £50,000 for their first four years living in Guernsey, subject to certain conditions.

Individuals who are 'resident only' are subject to income tax in Guernsey on their worldwide income, after relevant personal allowances and deductions at the rate of 20%. They can elect to pay the standard charge, which is £30,000 which covers any tax due on their overseas income and can be offset against any tax due on any local Guernsey income.

### Living in Guernsey

There are two property markets in Guernsey, the 'Open Market' and the 'Closed Market'. This two-tier property structure applies to both rental and sales properties.

For EU passport holders, relocation to Guernsey is very straightforward, thanks to the Open Market. Open market properties are freely available to British passport holders or EU nationals to purchase and entry is fairly simple. These properties are for any families, businesses and individuals arriving from the UK or overseas. Approximately 7% of Guernsey's properties, around 1,600, are on Guernsey's Open Market Register. They can be found all across the Island. There is a premium on price however, the Open Market provides a route to living in Guernsey, which is extremely quick and free of bureaucracy.

Local Market properties make up the majority of Guernsey properties and are available for local residents and employment permit holders. The 'local' housing stock is reserved for those Guernsey born or licence holders which were initially professional workers – essential employees brought to the Island for their necessary skills, i.e. doctors, dentists, bankers etc.

For those who are not EU passport holders, typically seen as Asian or American, one of two Immigration Programmes may offer the most direct route to residency in Guernsey. The two Visa programmes are entitled 'Investor Immigration' and 'Entrepreneur Immigration'.

Locate Guernsey is happy to advise potential applicants, can take them through the wording of the law and can make introductions to helpful colleagues in Guernsey's Immigration Service (which ultimately awards the visa).

### Entrepreneur and Investor Immigration routes into Guernsey

Individuals who do not hold EU passports need not worry. The following two options are available to help them achieve 'leave to remain' in Guernsey:

1) Investor Immigration may be an option for individuals who wish to live in the Bailiwick of Guernsey and are able to secure residency through making an investment into the Guernsey economy. The applicant must be able to show they have at least £1m in their name, in a bank account and they must be prepared to invest no less than £750,000 in a way that is of 'benefit to the Bailiwick of Guernsey'. (The 'Bailiwick' are the islands of Guernsey, Herm, Alderney and Sark).

2) Entrepreneur Immigration may be available to individuals who wish to live in the Bailiwick of Guernsey and intend to take an active role in the running of a business in Guernsey. These applicants must be able to show they have at least £200,000 in their name, in a bank account and which they must be prepared to invest into an existing Guernsey business. Creating a new Guernsey business, again with a minimum £200,000, is also acceptable.

The States of Guernsey's Population Management Office grants employment permits, which enable employers to recruit staff who are not resident in Guernsey. These enable staff whose skills are in short supply in Guernsey, or are otherwise deemed essential, to buy or rent local market accommodation. Key posts have been identified by the States of Guernsey working closely with industry stakeholders, to create a list of 'in policy' posts.

### Health

In Guernsey the average life expectancy at birth is 80 years, marginally higher than that of the UK. The States of Guernsey spends more on health and social care than on any other area of government, reflecting the high standard of these services within the Island and the value placed on ensuring healthy living.

The healthcare system in Guernsey is different from that of the National Health Service (NHS) in the UK. All primary care is provided on a private basis, whilst some secondary care and specialist services are free.

### Education

Guernsey's education system is very similar to that in the UK and it follows the same curriculum. Most pupils will be admitted to primary education at the beginning of the school year in which they reach the age of five; and will be allocated a place in the school that serves the Guernsey Catchment Areas where they live.

Guernsey offers an excellent education system, with free

schooling for all students up to the age of 18. There are also three grant-aided private colleges on the Island. Guernsey's schools boast excellent sports facilities, encouraging participation for all and mirroring the Island's healthy lifestyle. There are lots of opportunities for children to participate in sports, both on and off the water, at a competitive and recreational level. Many after-school clubs also offer various music, dance, drama and youth groups. Guernsey's reputation as a safe, family-friendly community encourages children to embrace healthy activity at grass-roots level.

### Business relocation

Guernsey has a high concentration of professional support services and opportunities for new domestic and international businesses. Guernsey is politically stable and boasts a skilled and experienced workforce. Its proximity to the UK and European markets provides a variety of business opportunities. The States of Guernsey Commerce and Employment Department is committed to encouraging further business development that will contribute to a diverse and sustainable economy.

Establishing a business in Guernsey can be a challenge for those not familiar with the local business environment and regulation, so it is best to seek advice from Locate Guernsey who will help businesses relocate to the Island and provide ongoing administrative support once the move is complete.

The finance industry is the backbone of the Guernsey economy. The Island hosts many financial services businesses such as banking, insurance, investment, trust and corporate services.

### Income Tax

On arrival in Guernsey, individuals need to complete and submit a New Arrivals form to the Tax Office. Once processed, a Tax Reference Number will be provided. Guernsey tax residence for individuals is established purely on the basis of the number of days spent in the Island. A tax year, or 'year of charge', in Guernsey is the calendar year, beginning on 1 January and ending on 31 December. Taxpayers are required to lodge returns with the Guernsey Tax Department on an annual basis. Whilst not strictly a tax, Guernsey residents and employers are also liable to pay social security contributions in respect of earnings.

### Social Security

As in the UK and most other contributory-based social security systems, contributions are made to the social security fund; in turn, entitlement to benefits such as old age pension, unemployment benefit etc. are generated. Again, on arrival to the Island, individuals will need to register with the Social Security Department, in order to be issued with a registration or contribution card.

### In summary...

"If you want to move to Guernsey for the fantastic quality of life, wonderful sailing and beautiful scenery, you won't be disappointed, particularly if you're the owner of a valuable brand that needs rigorous protection under international law."[7]

[7] Locate Guernsey, Startup Guernsey, weareguernsey.com

## 1.9 The Guernsey Property Market

*"Guernsey operates two distinct property markets - an 'open' market and a 'local' market"*

Managing the growing and often competing demands of the world's population is a major challenge for Governments worldwide. Guernsey is not immune to this challenge. Since the end of the Second World War pragmatic steps have been needed and developed in order for the Island to continue to succeed as an attractive place in which to live, work, do business and to manage the size and makeup of its population in the future.

Housing Law and the open market is inscribed in statute providing greater stability in the market than that which other similar jurisdictions can offer. Guernsey has economic stability, no political or military conflicts and no concerns regarding impending natural disasters. It 'offers a very benign environment', a peace of mind in which to invest in property.

The origins of the two segregated sectors of the Guernsey property market, the 'open' market and the 'local' market are explained below. These sectors were initially designed to control the influx of migrants and the subsequent, unsustainable demand on the community and network of services on the Island. It is generally deemed that this has been a tremendously successful strategy and a high escalation of property prices, synonymous with those seen in Cornwall and the southern coast of England, has been avoided.

### The beginnings of the 'open market'

Over 70 years ago, the Housing Control (Emergency Provisions) (Guernsey) Law, 1948, was introduced. Whilst Guernsey was keen to welcome and enable newcomers to join its community, it also wanted to 'protect' the Island's very limited housing stock in the immediate post-war years for the indigenous population at an affordable level, including those wanting to return to Guernsey having left the Island as a result of the Occupation. The Island's housing stock was depleted during the war years as a result of the way in which properties were treated by the occupying forces. The States of Deliberation (the States) agreed to require any person not ordinarily resident in the Island before June 1940 to have a licence before occupying any dwelling house on the Island.

Those living in and wanting to apply to register their property on the open market were invited to do so; this tended to be the larger, more prestigious homes. Once the approximate target of 1,700 homes had been reached, the register was closed. Once a property was deemed to be on the open market, generally speaking, it always will be. The number of open market properties available equated to approximately 10% of the total Guernsey housing stock and similar targets are still maintained today.

### Misconceptions

Clearly, the system has needed to evolve over the last 60-70 years and, more recently, changes to the strategy have allowed developers to exchange licences from older properties for modern new-builds – there is not an abundance of modern new property stock available to the local market and therefore, in new apartment complexes, it tends to only be the more high-status, larger apartments, e.g. penthouses, which are added to the open market portfolio, leaving the majority for local housing. There is a common misconception that open market properties are for the extremely wealthy; in reality, there are a range of properties available to those moving to the Island ranging in value from £500,000 to £10m. At entry level, a one bedroomed open market apartment will cost approximately £500,000.

Fort George contains approximately 120 properties, all of which are open market housing; it is probably the closest Guernsey gets to having a 'gated community'.

### The housing markets

The majority of Guernsey's housing (about 27,000 properties) is classified as Local Market. Local Market accommodation is primarily reserved for people with an automatic right to live in Guernsey. This right is gained through a long period of lawful residence in Local Market accommodation, or for some it is gained at birth because of their strong ancestral connections with the Island.

People who come to live and work in Guernsey because of their essential skills or to fill manpower shortages will normally be permitted to live in Local Market accommodation. Depending on the type of employment and the skills the person brings, some people moving to Guernsey are given a Permit that invites them and their immediate family to stay in Guernsey long enough to become Permanent Residents.

Open Market properties are generally a bit more expensive than their Local Market equivalents. Open Market accommodation falls into four main categories (known as Parts A, B, C & D) with the majority being private family homes (Part A). There is no restriction on the length of time a family group can live in Open Market Part A accommodation. Under the Population Management Law, both immediate family members and extended family members can live together in an Open Market Part A private family home.

There are also a number of Open Market properties that house adults who want to come to work in Guernsey but who don't hold an Employment Permit. These properties are known as Part D Houses of Multiple Occupation (HMOs) and adults moving to Guernsey can live in this accommodation for a maximum of 5 years.

Generally, adults who live in Open Market housing are not building up any right to live in Local Market housing.

### How does the Population Management Law work?

In general terms, the Law works by requiring everybody who lives and/or works in the Island (and who is aged 16 or over) to hold either a Certificate or Permit to show that they are allowed to live and/or work here. Certificates and Permits are issued for:

- a person's strong connections to a person who is living in Guernsey
- a person has been invited to work in Guernsey in recognition of their essential skills

Guernsey doesn't have enough people to undertake all the jobs that need filling (sometimes referred to as a manpower shortage).

By managing who can come to live and work in Guernsey, their reasons and for how long, the States can influence the size and make-up of the population, to meet the Island's long-term needs. The Law is supported by a range of policies setting out the types of people who will be able to come to live and work in Guernsey, often by looking at their employment skills and experience. The policies are regularly reviewed and can be adjusted to match the States' strategic aims as they change over time.

### Creating a housing portfolio

Clients are able to purchase more than one Guernsey property. Migrants can actually invest in the local market and subsequently rent the property out to those eligible to live in local market homes (even if they as the owner are not eligible to live in it). They can invest in commercial property and agricultural dwellings/land. Guernsey provides unrestricted property investments and the open market criteria is only relevant to where they live and make their home.

The majority of those relocating to Guernsey are historically British nationals, primarily from the southern counties of the UK. Other pockets of the UK have been attracted, for example there has been an influx of individuals from Yorkshire, Bristolians and a growing number of British nationals, e.g. from Korea, Far East, Singapore, Hong Kong, Switzerland, who want to relocate to the UK but not fully. There is a small amount of movement from other Crown dependencies also.

Guernsey offers many beautiful homes. Guernsey and Jersey are no threat to each other in attracting new residents; they both have their own unique offering so will attract very different people to its communities and lifestyle. Islanders feel Guernsey offers a greater sense of community. Those relocating to the Island support local businesses, not just financially, but they might sit on a board and share their business experience.

### What's the difference between a Certificate and a Permit?

A Certificate is issued to a person who is entitled to live in Guernsey, and who is able to undertake any employment in the Island. However, some Certificates will restrict the holder to living in only Open Market accommodation.

A Permit is issued to a person whose ability to live and/ or work in Guernsey is conditional. The Permit will explain what the conditions of residence are, but these can include things like working in a specific job or living with a specific person. If the conditions of a Permit are broken, it becomes invalid.

Other than a Permanent Resident Certificate, all Certificates and Permits become invalid if the holder leaves Guernsey.

## Quick Guide to the Population Management (Guernsey) Law, 2016

| To live and work in Guernsey you require either a Certificate or a Permit.<br>(Other than a Permanent Resident Certificate, all Certificates and Permits become invalid if the holder leaves Guernsey.) | |
|---|---|
| **Certificate:** issued to people who have a right to live and work anywhere on Guernsey | **Permit:** issued to people whose right to live and work in Guernsey is conditional – these conditions may include working in a specific job or living with a specific person. |

| CERTIFICATES | |
|---|---|
| Permanent Resident Certificate | Able to live and work without restriction anywhere in Guernsey, e.g. local residents with a 'birth right'. |
| Established Resident Certificate | Issued after completion of an eight-year Long Term Employment Permit (see below), valid for six years. After 14 consecutive years a Permanent Resident Certificate is issued. |
| Open Market Certificate | Anyone can live and work in Guernsey in Open Market accommodation if they are the owner or tenant of the dwelling. |

| PERMITS | | |
|---|---|---|
| Local Market Employment Permit | Short-Term Employment Permit | Issued due to a shortage in local 'manpower'. Valid for one year but may be extended up to five years. |
| | Medium-Term Employment Permit | Issued to people with vocational skills or qualifications. Valid for five years and includes immediate family. |
| | Long-Term Employment Permit | Issued to people with vocational skills or qualifications that cannot be found locally. Valid for eight years and includes immediate family, once completed holder becomes an Established Resident. |
| Open Market Employment Permit | Employment Permit Part A<br>Private Family Home | Full-time household employees on a 'live-in' basis in a Part A, Private Family Home. No time restriction. |
| | Employment Permit Part B & C<br>Hotels & Nursing / Residential Homes | Issued to people working in the sector for up to five years. The individual will need to take a Recognised Break in Residence before being able to re-apply for a new Permit. |
| | Employment Permit Part D<br>Homes of Multiple Occupancy (HMO) | Adults who wish to work in Guernsey but do not hold an Employment Permit. Valid for five years. |
| Family Member Resident Permit | | Issued to people living in Guernsey because of a close family connection, e.g. spouse/partner. |
| Discretionary Resident Permit | | Issued to cover temporary, short- or long-term residence and can include a wide range of conditions. |
| Established Resident Permit | | Similar to an Established Resident Certificate, the permit is issued to immediate family members and replaced by Established Resident Certificate after 14 consecutive years. |

[8]

Gibson Strategy understands this information to be correct, but does not guarantee its accuracy

[8] Locate Guernsey: States of Guernsey: Population Policy Group, Population Management
Guernsey Press - Trevor Cooper, CooperBrouard https://www.gov.gg/CHttpHandler.ashx?id=102677&p=0

## 2.1 Guernsey Real Estate

*"An encyclopaedic knowledge of the limited housing market"*

### What does Guernsey have to offer?

The research study asked Guernsey private clients, "So, why Guernsey rather than one of the other Crown dependencies, such as Jersey or the Isle of Man? The consensus of opinion was that "a property will rarely be the reason one chooses one island over another"; it is more the "look and intrinsic feel of the island" which makes the decision for the relocator.

The study found that there is usually a family or childhood link, which would bring one to take up residence in Guernsey, "something which has piqued their interest." Previously, applications were predominantly received from wealthy individuals wanting to retire in Guernsey; now there is a growing community of younger applicants, who want to relocate with their families, individuals who are actively involved in business, rather than retirees.

Our research found that there is a broader demographic of applicants looking to relocate to the Island and individuals are "geographically dispersed." Whilst it is estimated that approximately 80% of newcomers are arriving from the UK, there are a number of expatriates returning from the Far East, Americas or South Africa who want to be closer to the UK, without actually being resident there, for a variety of reasons.

Our findings highlighted that those within the nautical community, sailing south from the UK, may have spent their first night on one of the Channel Islands, thereby creating a connection they remember later on in life. The weather tends to be milder than found in the UK, the sea moderates the year-round temperatures more in the Channel Islands.

Safety, lifestyle and personal security are becoming more paramount and of increasing value to new applicants. Residents enjoy owning a nice car, safe in the knowledge it can be left outside without the risk of malicious damage. The geography of the Island makes it a very impractical location for thieves and burglars, and this is not going to change.

Our research highlighted an indication that the constant safety of one's family is seen as incredibly important.

Transport links to the UK and neighbouring islands are also very influential for those migrating from the home counties, particularly if they want to be in easy reach of elderly families or children at UK universities.

Contributors to this report identified that it is often much easier, less traumatic and quicker to fly back from a relaxing weekend in Guernsey whilst you read the newspaper than it is driving back from Cornwall. The "practicalities make it quite attractive" for those in the south of the UK in particular, but Guernsey is also an attractive destination to those from all over the UK, as explained by one private client.

According to our research, there is always room for improvement, however. Guernsey is not immune from the effects of a global recession, including contractual air and sea links. Interviewees felt that whilst the current transport links are perfectly adequate for the size of Guernsey's current population, there are options for entirely improvable aspects of them.

### The estate-agent's market knowledge

The study found that private clients relocating to Guernsey often receive a 'concierge' type of service from private client property professionals who don't just sell houses; they offer an introduction and orientation to the Island; they help high-value residents integrate into the Guernsey lifestyle, they help them make new friends, pointing them in the right direction before helping them to find a home to make their own.

The estate agent's priority is to listen very carefully to potential migrants, to learn about how they want to live, what their needs are, what might work, what might be suitable, what compromises are possible, whilst taking into account the overall dimensions of the Island and the current housing stock. The agent relies on their own specialised local knowledge and experience of the market; there are a number of more spectacular homes, often hidden away and unknown to the local population. It's the successful agent's role to establish an "encyclopaedic knowledge" of the limited housing stock; which can persuade potential purchasers to buy once they know the history of a property, how it has been modified, when and by which previous owner.

The report also informed us that there is an unquantifiable number of properties not listed for sale, but which are potentially available; these "won't be found on the internet," it's the agent's knowledge of the market and property owners which may bring these to a buyer's attention.

The research found that invariably, when helping to find a property investor find their ideal home, there will be a range of fairly specific personal hobbies, interests or pursuits which they would like their home to accommodate, "there is no standard enquiry"! Popular requests include the need for sufficient, appropriate garaging for a vintage car, or collection of cars, golf holes to facilitate regular practice, specialised swimming pools for dependants, rehabilitation or special needs etc. Due to Guernsey's undulating landscape, a property with existing tennis courts might provide a very popular positive solution to the lack of a large flat garden in order to cater for a growing number of interests, not just tennis but for netball, skateboarding and football skills.

The study discovered that guest facilities are also very important to those with larger open market houses, they don't want to feel cut off from family and friends living further afield. Often those families, friends and business associates, once familiar with what Guernsey has to offer, will then become buyers and make their home on the Island too, the "viral effect" bringing new residents.

Those who are initially only looking to spend short periods of their time in Guernsey often find themselves immersed in island life and the local culture, much more so than they initially expected to do - to a positive effect.

The study further found that a small number of potential buyers will rent an open property on the Island, so they can get a feel for its geography. However, because the stock of rentable property is low, generally those with an almost "spiritual connection" will feel comfortable committing from the start; "why would they waste money on rent when they know they plan to stay?" Once they have put down roots and their families have either grown or contracted, they may then give greater consideration to purchasing a property which is more appropriate for that stage in their life.

### Planning

Our research found that there is a provision within housing law to allow the rebuild of existing houses or to do something of one's own design, 'to start again from scratch'. There is a suggestion that the housing department is more sympathetic and offers a more relaxed, supportive approach than may be perceived. Precedents are being set, particularly if an owner wishes to do something deemed architecturally sound and there is emerging evidence to back this theory. Planners know that listed properties are in need of modernisation or extension; such development brings local jobs, and on-island suppliers are used for materials and furnishings.

### Impact of coronavirus COVID-19

The research suggests that it would be fair to say that the current Coronavirus pandemic and consequential governmental regulations, e.g. lockdown etc. have had a significant impact on global housing markets. In late March 2020 Guernsey Press[9] highlighted issues with individuals being unable to move due to restrictions and unnecessary travel for non-essential workers, e.g. removal companies. Interestingly, as Guernsey begins to emerge from control measures post-pandemic, there is some suggestion that opportunities may arise for the sector,[10] particularly in the terms of how business space might be utilised going forward, with keywords such as "resilience, wellbeing and sustainability" being used. Society's use of leisure facilities, restaurants etc. may also drive changes and improvement in entertainment locations.

### Trust and confidentiality

The study discovered that private client property professionals work hard at gaining the trust of high-value families, working with honesty and integrity. The confidentiality of an individual is incredibly important to understand, whether they are buying or selling. By definition, private clients tend to be very private. This is where the extensive knowledge of the property agent comes into its own; "not all properties will be listed on the internet as available for purchase, or have the traditional 'For Sale' sign prominently placed." Private clients tend to be discreet; they don't want any potential or delicate business interests to be revealed or prejudiced and they have a wide range of extremely genuine reasons not to show their hand too publicly. This is where the agent's personal input comes in, finding services for those with very unique needs. Specific "enquiries may have led to becoming a catalyst leading to the sale of an owner's property," the agent exercising "a tremendous amount of discretion."

As one property professional stated, "There is a portfolio of properties which are under the radar"; this creates greater challenges for the agent in these cases. There is an element of matchmaking, promotion of self, name and activities. Interestingly, modern technology, photographs taken by drones, floor plans and inside knowledge all allow the agent to impart more information which may pique interest in a particular property at an early stage. Other important aspects of life on the Island are imparted too, dependent

[9] Guernsey Press, 27 March 2020
[10] Savills, Covid-19 and real estate: what we might see at the other end, 9 April 2020

on the individual or family's circumstances, e.g. schools, shopping or where to dine. Agents who contributed to this report all provide a "concierge service," establishing a rapport with individuals and their families, living 'shoulder to shoulder' with private clients who have chosen to make Guernsey their home. It is not uncommon for an agent to collect potential residents from the airport and give them a tour of the Island. An "all-inclusive package is happily provided." Opportunities to help individuals settle on the Island and to get to know other like-minded people are provided, particularly to those who don't arrive with 'natural' opportunities, e.g. school-aged children.

### Settling into Island life

The research confirmed that wealthy settlers tend to integrate into local society very well. Those choosing to relocate to Guernsey can become as involved in island life as they wish. Agents can put them in touch with other like-minded people and happily provide "a continuous backup service, steering them towards hairdressers, dental services, helping with practical issues like sorting out satellite TV and a wide variety of issues which might otherwise create anxieties" without the aid of some personal recommendations.

Most participants were very complimentary about an "extremely high standard of education" in Guernsey, within both the private and state sector. Children become successful graduates or business individuals. The grammar school system is closing down with the decision to discontinue adoption of the 11+ exam and traditional public schools are in better condition than they were.

Some may still take the decision to send their children off-island, to boarding school; this is a personal choice and no different to residents of other Channel Islands, the UK or indeed wider afield. It is not seen as a reflection of what Guernsey's education sector has to offer. Several respondents reported that children who grew up and were educated together on the Island create lifelong bonds, "they keep in touch and regularly get back together"; this is held in high regard.

Guernsey offers good sporting opportunities; less travel time is wasted across the Island to attend events. There is a widely-recognised outcome of sporting individuals; Matt le Tissier (former professional football/current sports presenter), Andy Priaulx MBE (professional racing driver), Heather Watson (former British number one professional tennis player) and several successful squash and cricket players were also born and grew up on the Island.

Private clients relocating to Guernsey feel welcome there. Agents and residents are very enthusiastic about the Island and want to be part of its success, welcoming individuals who can contribute to and influence their own communities.

## 2.2 Family Offices

### Key Findings: Family Offices

- Economic substance - Substance requirements are so significant that they are influencing where HNW families set up base for their family office.
- Globalisation and multiple jurisdictions - Patriarchs and matriarchs of high-net worth (HNW) families are truly global. With that comes complexity in terms of geographic spread, multiple jurisdictions, extended multi-generational families and subsequent complex tax and legal issues.
- Selection criteria for jurisdiction - Family offices are looking for jurisdictions which are robust in terms of political and economic stability, quality of service providers, privacy, data security and reputational risk.
- Simplify the complex - Family offices are more unique, complex and sophisticated than ever before, and are looking for simplification of services and structures in a well-regulated jurisdiction with a robust legal system.
- Specialist services - Family offices require a suite of specialist services ranging from global wealth structuring, tax planning, succession planning, investment management, compliance to full concierge services.
- Professionalism and depth of talent - There is a significant increase in the professionalism of global family offices and their service providers.
- Transparency - Family offices are committed to transparency but maintain the right to their privacy.
- Family office trends - At present the demand to establish multi-family offices are increasing, higher than that for single family offices. Furthermore, the regulatory environment is increasing for all family offices.

*"Evolving and more global family office sector presents Guernsey with growth opportunities"*

### Background

Family offices have their roots in the sixth century, when a king's or nobleman's steward was responsible for managing wealth but the emergence of the modern concept is traced more often from the large and wealthy families created by the industrial revolution, such as JP Morgan and the Rockefellers.

Whatever their origins, family offices tend to be complicated structures and are, by their very nature, shy of publicity and largely unregulated structures, although elements of the office will come under various laws and rules.

Over the last 50 years, the number of family offices has grown in number. Family offices can now be found in all regions of the world. Some research suggests there may be 5,000 family offices in the world with one or more employees and with $100 million or more in investable assets (1).[11]

The term 'family office' means different things to different people in the private wealth industry. The research study discovered three distinctive models:

- Single-family offices – where a single family employs its own in-house team of experts to serve its own needs – as a result the set-up costs are high;
- Multi-family offices – where a number of families have teamed together in order to gain efficiencies – the multi-family office serves the needs of the different families;
- Family office service providers – where families outsource the family office functions to a third-party specialist provider.

However, within each category there lie subtle differences. Each and every HNW family is absolutely unique, with its own nuances, complexities, specific requirements, goals and strategies.

Single family offices range from simple operations to the more complex, which work on behalf of families involving several generations; multiple asset types located in different jurisdictions involving discrete holding structures; where legal and tax advice are critical to the success of the family office. The amount of wealth required to make a single-family office economically viable is considered to be £100 million or more.

Families with assets of up to £100 million typically do not have a dedicated family office due to the large set-up costs and maintenance. "To build a team of five or six people, they're going to spend £1 million and it's not affordable nor efficient. People don't necessarily want to jump into a full-on single-family office set up, which is where family office service providers facilitate an incubator service."

Asked why they seek specialist third-party family office service providers, most family offices list expertise in investments, governance and succession planning. Family offices are looking for long-term trusted advisers, who can be an extension of their single-family office and add value to their in-house team of experts – and for them to be extremely responsive and demonstrate integrity and discretion.

In addition, family offices employ internal or external investment managers to manage their investment portfolios, such as cash, listed and private equities, mutual funds, hedge funds, real estate and collectibles such as fine art, fine wine, super cars, watches, precious stones and jewellery.

Trust and loyalty grow as the relationship between the outsourced family office service provider, the single-family office and HNW family builds over time.

### Why have a family office?

Should certain threshold conditions be met, a family office can become a centralised and cost-effective hub within which the financial, familial and other affairs can be managed. Common considerations include:

- The amount of wealth – a net worth of £100-500 million – to make it economically worthwhile;
- The needs of different branches or generations of the family who might have wealth management requirements;
- The complexity of the family's affairs – international cross-border issues and a mix of different assets in complex structures;
- The overall efficiency of the family's wealth management;
- An opportunity to engage with the next generation and for children of HNW families to be involved in the family office;
- To achieve privacy for the family – employing a small team of trusted people.

[11] Mapping the location and assets of the family office industry, part of the Fintrx industry briefing series and sponsored by Charles Schwab. January 2020

One of the key determinants given by family offices is absolute confidentiality and making certain that only a select few know about the affairs of the family and the structuring of how it all works.

## Trends in family office services

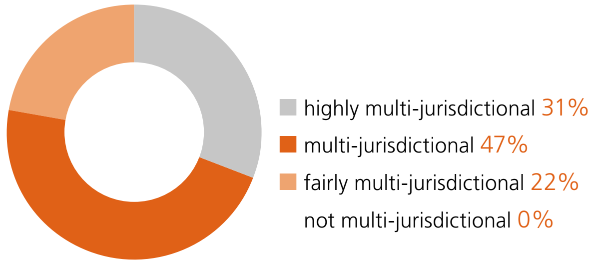
### Growing complexity

Family offices, trustees and professional advisers unanimously agree that family office requirements have grown in complexity in recent years.

The increase in complexity can have internal and external drivers. Internal drivers include the professional and familial needs of the founder and their family, which are likely to grow in the future. External drivers include the political and economic, legal and regulatory environment in which the family office operates.

Nine out of 10 respondents reported that jurisdictions and family offices services firms are responding to this trend with higher levels of professionalism.

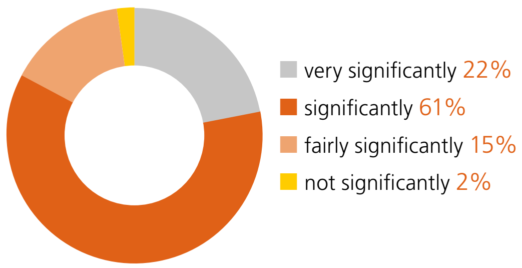
Figure 9: Global clients




All family offices, trustees and professional advisers consider their wealth affairs to be multi-jurisdictional.

The multi-jurisdictional nature of a family office can be due to the location of the physical and legal structures that make up the family office being separate to that of the family, and to the disparate nature of the family members it serves, or the investments it manages.

Figure 10: International standards

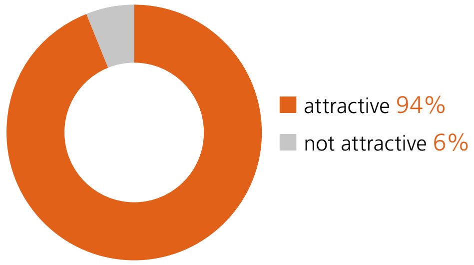



98% of family offices, trustees and professional advisers see globalisation as having a significant impact on family offices.

While an element of globalisation is the diasporic families and international diversification of their investments, the other is the corresponding increase in international standards that govern a globalised world.

Most relevant to family offices are global standards on tax transparency and reporting.

Figure 11: Delivering simplicity from complexity




Against a backdrop of growing complexity, family offices and their founders are demanding greater simplicity – 94% of respondents stated that simplification of services was attractive to them, while 77% of respondents went as far as saying it was important to them.

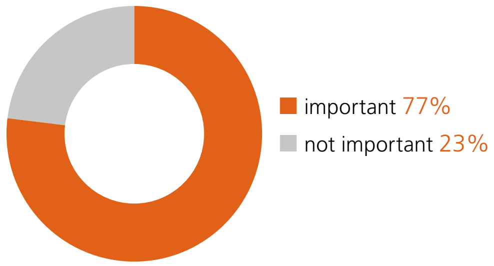
94% of respondents stated that simplification of services was attractive. 77% of respondents stated that simplification of services was important.

90% of our survey respondents reported that professional services firms were responding to this additional complexity with an increase in professionalism, which was unanimously reported as being important to our survey sample.

More than 60% said demonstrable professionalism was key.

"There has been an injection of vigour and professionalism into management of assets and the creation of a more holistic approach to managing the family office overall asset class, and wealth," said one respondent.

Figure 12: Specialism




When asked to identify any specialisation of services which meet the needs of family offices, respondents commented on the knowledgeable, professionally qualified, trusted advisors who provide a range of advice. They also mentioned beyond providing trust and company services, being a trusted adviser, and facilitating all areas with the family office.

Contributors also pinpointed the centralisation of wealth structuring, private trust companies and investment funds; along with corporate transactional and capital markets expertise; provision of board directors/trustees, tax advisory services, investment oversight; and aggregated reporting.

The knowledge of individuals charged with managing and controlling these structures was highlighted as being key to these specialist services.

### Family offices and transparency

There was a generally favourable reaction to how well family offices and their managers were responding to increased demands for transparency in their wealth affairs.

Several said they were responding very well, while others accepted it more reluctantly, as part of "the world we live in."

Family offices are seeking to understand their obligations properly and then respond appropriately to the regulatory challenges. While being generally comfortable with being transparent, they are reluctant for information to be publicly available – complex family office arrangements are not always understood by third parties.

Family offices are asking for professional advice in order to understand their obligations more fully – employing trust, legal and tax specialists in order to manage their complex structures in multiple jurisdictions in the areas of compliance and reporting requirements for FATCA and CRS.

Family offices are also consolidating their structures in one jurisdiction and seeking higher-quality administrators. They are structuring regulated funds, so they can avoid certain impositions such as registers of public beneficial ownership.

Service providers are taking an enhanced approach to more detailed reporting, but also being protective about which data to release, and taking time to educate clients to make them aware of this, described as "softening the blow."

## Jurisdictional choice

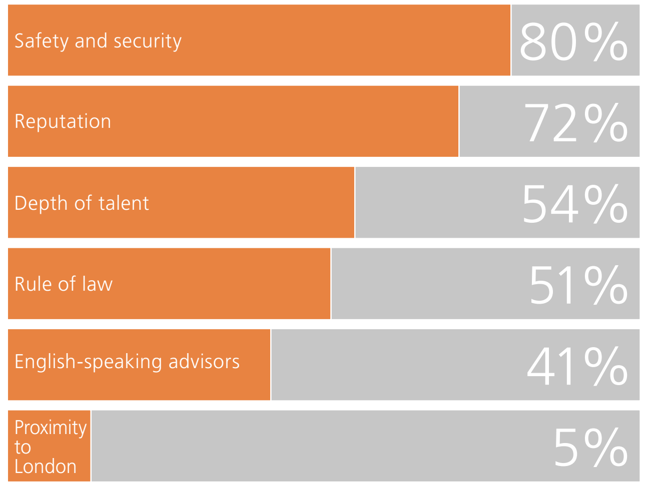
### Generic factors

Family offices and their advisers considered that 'safety, security and stability' were the most important criteria when considering a jurisdiction to set up a family office. 80% said this was extremely important.

Indicators of safety include high levels of social cohesion, while indicators of stability include constitutional autonomy; political and economic stability; and an independent judiciary.

A jurisdiction's reputation was the second-most vital criteria (72% said this was extremely important). Next in importance was a depth of talent available, followed by Common Law rule and a strong legal system, English-speaking advisers, and proximity to London.

Figure 13: Factors considered extremely important to our respondents



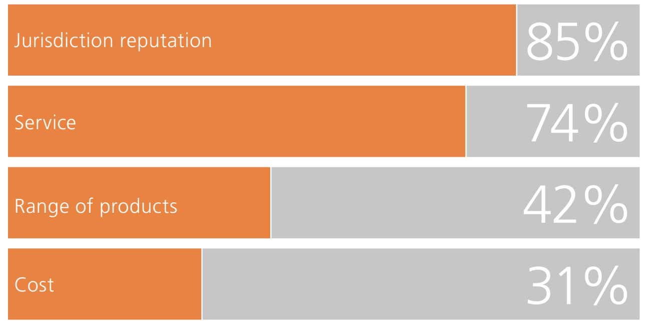

### Guernsey-specific factors

When asked to share which factors would influence their choice of Guernsey over continental European jurisdictions, respondents highlighted a number of factors including its reputation, service levels and range of products.

Respondents cited the jurisdiction's long-established tradition of providing specialist wealth management services, the quality and experience of its service providers.

Not being within the EU, Guernsey's political and legal autonomy provides greater certainty and stability within a safe and secure jurisdiction. Guernsey is also considered well-regulated when compared to its peers.

Figure 14: Factors considered extremely important to our respondents




### Evolution of structures and services

The research found that as family offices have evolved, so has Guernsey's involvement and servicing of the sector.

The jurisdiction has concentrated on the development of family offices in the Islands for some years. Initiatives such as the revision of the regulatory regime for the Island's private trust company rules, the development of a family investment company offer and a review of the trust law have all contributed to keeping Guernsey in the limelight for family office services.

The evolving needs of families as well as the growing international context of the sector means Guernsey's client base has moved away from being UK-centric to a much broader and more global client base, embracing the Middle East, North America and Asia as well as Africa.

"We have seen growing interest from families in Greater China, particularly Hong Kong, as well as from Southeast Asia. Indian clients appear to be another emerging client base," noted one fiduciary manager. "The Middle East has long been well-represented in our private client roster and we're seeing this segment continue to grow."

## Solid jurisdiction

Our findings highlight that part of Guernsey's success in servicing family offices comes from its position as a well-regulated financial centre with the local expertise and experience to service international private clients and wealthy families.

"For Guernsey the key is to make it well known that it's pioneered in [this area] because there's nothing stopping another jurisdiction from doing the same thing. From a private client perspective, I certainly think that the appetite is there," noted a banker interviewed for the report.

The study found that new private clients are based in some of the faster growing areas of the world that face political risks and uncertainty. This makes Guernsey an attractive place from which to run global interests as the trend is towards jurisdictions that have robust regulatory and legislative regimes, integrity and a commitment to compliance for personal security reasons.

"It helps Guernsey that we've got this history, that we've got these very well qualified, very experienced service providers and very good regulation," said one trustee. "Guernsey Finance [We Are Guernsey] is on top of things and are pushing family offices at the moment as well as how we can attract more business in the traditional spheres."

Our research confirmed that the strategy for Guernsey is to increase the number of service providers for family offices while at the same time promoting Guernsey as a jurisdiction to service family offices in the Far East and North America.

There has already been growth in the provision of services and development of family offices or family office-type services by trust companies in Guernsey, the research found. This reflects the long-term strategy and "cautiously pragmatic" approach Guernsey promoters offer to the China and Asia markets.

The research revealed that helping with this promotion is the fact that Guernsey is a jurisdiction that takes corporate governance seriously. This is seen as a benefit as more family offices look for partners that can guarantee compliance on a range of issues, including tax and data security, as well as offering security in passing compliance information to regulators.

## Changing structures

The study found that family offices over the past 10 years have moved into more cross-border structures as the families themselves become more international and multi-jurisdictional.

Guernsey has a proven track record of expertise in this area, having provided services to family offices for at least 50 years through trustees, corporate structures, Guernsey-based banks or investment managers and fund managers among family offices established in London, Geneva and elsewhere.

"Guernsey works exceptionally hard to ensure that we are a clean jurisdiction," said one trustee. "We make it very, very clear to clients that we are not involved in anything where we don't have full transparency. If you become obstructive and won't answer questions, we'll walk away and may take all the steps as required by law. We make sure we know exactly who these people are, where their money has come from, what they are intending to do."

One wealth professional said there is increasing interest in family investment companies and quasi-family office solutions that are a bit like incubating future family offices, especially in relation to asset protection and family wealth planning services. As in other areas, family offices are also moving into club investing, particularly in relation to European commercial property.

Impact investing – something that is more important to many millennial investors in family offices – and philanthropic structures, including foundations used for Zakat (the Islamic principle of donating a percentage of one's wealth to charity) are also attractive to family offices seeking services in Guernsey, the research found.

There is also continued growth of corporate fiduciary structures, including listing vehicles, share schemes and structures for remuneration and reward purposes connected with M&A activities. "Large corporate structures are consolidating into one well-regulated and stable jurisdiction in order to achieve substance and operational efficiencies," remarked one wealth professional.

## Service offerings

The research confirmed that most family offices are looking for specialist third-party family office service providers with expertise in investment, governance and succession planning. They are also looking for long-term partners to extend their single family office and add value to in-house expertise.

With the move to international standards in areas such as tax transparency, substance and reporting, jurisdictions like Guernsey are well-placed to attract new clients.[12]

"There are two elements for family offices. One is the jurisdiction of choice in terms of the ability to procure services whether they are fiduciary, investment or banking and the other is tax efficacy considerations. Tagged to that is "substance," remarked one trustee interviewed for the report.

The research found that substance in the family office goes beyond just demonstrating substance within a jurisdiction for a tax perspective but into controls people are willing to implement within the family office to mitigate against things like fraud. "The days of having a family that consists of two people managing your finances are certainly gone. They're running family offices like small institutional firms where there's control around flows of cash in and out and more robust investment committees that make decisions. With that comes the need for expertise and experienced advisors," remarked one trustee.

Many participants saw the funds, fiduciary and insurance sectors as "extremely robust" in Guernsey. This is reflected in the number of new funds being launched and demonstrates



[12] Reporting global developments in family offices: trends in family office services: Guernsey Finance/ weareguernsey.com, 2019

family offices using Guernsey as "collective destinations" where there is a critical mass of expertise and experience in a range of financial service areas.

The research found that while some family offices will have their own professional staff, others are looking at setting up in jurisdictions like Guernsey through some sort of managed trust company structure. The Island is beginning to see more substantive private clients from a trust point of view coming from the Middle East and Far East looking for these kinds of structures.

In addition, mini-family offices within trust companies is another avenue to attract new private clients. "Family offices will become more prevalent but through managed situations with licensed trustees," remarked one trustee interviewed for the report.

Multi-family offices look for providers that can look after trust assets and property but also more concierge services such as travel to the South of France for a weekend. Some believe this kind of business will also gradually migrate to Guernsey as more family offices use the jurisdiction.

One example, highlighted in the study, was a large client from Russia who started off with a holding structure in Guernsey. As cash flow grew, the family started asking for concierge services, such as everything to do with their yacht as well as sourcing property deals in the UK, collectibles, art collections and jewellery purchases. "We go the extra mile and we find this helps us to become involved in larger projects that in turn produce more clients and more business," remarked one trustee.

The research found that another core service for family offices was wealth preservation and security and safety of assets. This is particularly true of family offices located in areas where political risk or regulatory uncertainty calls into question the safety and security of assets. "Externalising" money, as long as it is not invested back to the home country, is something some families are doing through Guernsey. "They must have an investment programme that we set up for them," explained a trustee. "We won't do the investing ourselves but we will bring in experts to do that. We've also had private clients come to us with their existing advisers and we'll set up structures for the business."

The research found that an essential part of working with family offices is educating them on the kinds of services and structures offered in Guernsey.

A range of structures for complex deals or as a solution to a particular investment issue is something more Guernsey firms are being asked to do.

This includes "collective management of wealth," something that is particularly relevant for Middle Eastern families where there are several members but they cannot agree a structure to manage the wealth. Rather than use a trust structure, Guernsey can provide another sort of vehicle to manage this collective wealth, issuing "units" for the family members to hold. These can also be passed on to children. Such arrangements can also include a "golden vote" to ensure units cannot be sold without prior agreement. Others want more flexibility and find a unitised approach more appropriate. This solution is also being used by families from Eastern Europe.

According to the research, in recent years more families choose to establish their own family offices in Guernsey. The reasons behind this are as diverse as the families interviewed. For some, an inadequate service level from providers in other jurisdictions is the catalyst to relocate all or part of the family office to Guernsey.

With others it is the solid reputation and white-listed status as well as the professional infrastructure that attracts the family office.

## Relationships

Many private wealth professionals see relationships at the heart of working effectively with family offices and individual family members. "Relationships become strong and the management and staff of the service providers become much more than just that; they become trusted family advisers," remarked one trustee. "We have worked with a number of families whose relationships with key personnel have become so strong they wanted to personally secure the full-time service of those individuals and establish local family offices with them."

Most service providers will have a direct relationship with the family, typically having monthly meetings and carrying out day-to-day administration through representatives of the family office or others advising or employed by the family.

Others directly employed by the family office may have their own jobs on the line if they make a mistake, so it is important to develop frequent contact with them in order to establish trust and transparency of dealing so they are comfortable with and understand decisions and actions the service provider undertakes, the research found.

## All sizes and shapes

The research confirmed that what is certain about the family office sector is that they come in a variety of forms, are difficult to define and use a range of structures and services to administer their wealth and other activities. As wealthy families grow and disperse around the globe, the complexity of handling their affairs – not least ensuring compliance with tax transparency and other regulations – becomes more important and critical for the family office's smooth running.

Guernsey is seeing growth in the range of structures and services family offices require. The scale depends on what the private clients and wealthy individuals want but all of them require bespoke services, the research found. "Each is driven by their history and culture," remarked one trustee.

The study found that the larger family offices are looking for bigger structures and more outsourced services, rather than just a traditional trustee. "It's more about providing that holistic outsourced family office function to really big families," remarked one trustee. Many, for example, will outsource all the accounting, administration, tax reporting and other related work to Guernsey-based firms.

"Most families still quite like to have that concept of a 'gatekeeper' who has a small staff to do the real concierge stuff and then outsource the professional stuff," added another Guernsey based private wealth professional.

As family offices evolve, grow and become more international in their composition and family structures, Guernsey private wealth professionals believe they are well-placed to grow their share of the services related to the sector.

## 2.3 Substance

Determined to coordinate efforts to fight against tax fraud, tax evasion/avoidance, the European Council adopted the "Conclusions on criteria and process leading to the establishment of the EU list of non-cooperative jurisdictions for tax purposes."[13]

Guernsey was one of the jurisdictions who were screened by The Code of Conduct Group (COCG) who assessed them against three standards:

i) tax transparency,
ii) fair taxation, and
iii) compliance with anti-Base Erosion and Profit Shifting ("BEPS") measures.

Whilst no issues were raised in respect of Guernsey's standards of tax transparency and anti-BEPs compliance, the COCG expressed concern that Guernsey did not have a "legal substance requirement for entities doing business in or through the jurisdiction" and that this potentially "increases the risk that profits registered in a jurisdiction are not commensurate with economic activities and substantial economic presence." Guernsey was committed to rectify this by the end of 2018.

Identical concerns were raised in Jersey and the Isle of Man, so the Crown dependencies worked closely together to develop legislation to negate the COCG's concerns and these new economic substance laws came into effect on 1 January 2019. Guernsey's tax-resident companies, undertaking specific activities, are now legislatively required to demonstrate that they have sufficient substance in Guernsey, potentially changing how some companies operate.

### Substance requirements

The COCG was concerned that companies could be used to artificially attract profits not commensurate with economic activities and substantial economic presence in Guernsey. Therefore the new legislation requires certain companies to demonstrate they have substance in the Island by:

- being directed and managed in the Island;
- conducting Core Income Generating Activities ("CIGA") there; and that they
- meet requirements with regard to the levels of personnel, physical presence and operating expenditure in the Island.

These substance requirements apply to the following categories of geographically mobile financial and other service activities (the "relevant activities"), identified by the OECD's Forum on Harmful Tax Practices:

- Banking;
- Insurance;
- Shipping;
- Fund Management (this does not include companies that are Collective Investment Vehicles);
- Financing & leasing;
- Headquarters;
- Distribution and service centres;
- Holding Company (a pure equity holding company); and
- Intellectual Property (for which there are specific requirements in high-risk scenarios).

All tax-resident companies must provide more information in their tax returns to ensure the above activities can be identified.

### Legislation

The Income Tax (Substance Requirements) (Guernsey) (Amendment) Ordinance, 2018 was approved by the States of Deliberation on 28 November 2018 providing the Policy & Resources Committee to make Regulations requiring companies carrying on, or undertaking, relevant activities to have substance in Guernsey.

The detail of the substance requirement is contained in the Income Tax (Substance Requirements) (Implementation) Regulations, 2018, which were made by the Policy & Resources Committee on 13 December 2018, effective from 1 January 2019. The Policy & Resources Committee amended these in December 2019; the Income Tax (Substance Requirements) (Implementation) (Amendment) Regulations, 2018, became effective from 1 January 2019.

### Impact on Guernsey

Generally speaking, respondents to this research study felt that this legislation is a positive step for the Island, demonstrating further the Island's compliance in relation to international regulatory issues. Guernsey's regulated companies have always been required to meet extremely onerous governance requirements. The Island also has the resources, in terms of expertise and physical numbers, to ensure all types of entity subject to substance can be expertly managed and controlled from the jurisdiction. Our research found that private wealth practitioners reported "there have been signs in recent years of several individuals wanting to see more substance in the Island" and that "Guernsey clearly is a jurisdiction that takes corporate governance very seriously... I think the whole substance piece only reinforces that" and prior to the new legislation "decisions are documented here, meetings are held here." In fact, there is evidence of an appreciation of the Channel Islands that they apply higher standards than some other jurisdictions which helps bring business to the Island.

Despite minor concerns that other jurisdictions may be more easily accessible, practitioners are able to overcome any issues there might be here by travelling globally to see private clients. However, the trustee/director decisions are made and documented on the Island and they ensure at least one physical meeting per year is held in Guernsey. It is reported that a number of companies are now migrating into Guernsey from other jurisdictions, one service provider gave examples, "two from Panama, one from Vanuatu, and one from BVI." The clear legislation and subsequent guidance are helping promote Guernsey as the jurisdiction of choice and further promotes the Island's "fantastic professional services industry"; it's seen as a great opportunity for the Crown dependencies to showcase and provide the required services.

People do worry about reputation, "there are certain jurisdictions that people would rather not be associated with unfortunately and Guernsey is definitely not one of those" and that substance is considered as "more of an issue for people like Cayman and BVI." Economic substance is seen as a good thing for Guernsey and considered as an opportunity "because we'll have the ability to perhaps sell more products" due to the recognition of the ease with which Guernsey meets such legislative regulation.

In short, Guernsey has always operated with the infrastructure necessary to support substance.

*"Guernsey has always operated with the infrastructure necessary to support substance."*

### Impact on family offices

Substance requirements are so significant that they are influencing where HNW families set up base for their family office.

During 2019, Gibson Strategy conducted a separate piece of independent research for We Are Guernsey,[14] during which family office practitioners, high net worth families and corporate service providers were interviewed. This research revealed that 89% said that substance is an issue of growing importance for locational preference of family offices; that 80% consider safety and security is paramount for their family structures; and 85% say Guernsey's positive reputation is one of its major strengths. Substance requirements are becoming so significant that they are now influencing where high net worth individuals are basing family office arrangements.

Guernsey, which was reaffirmed by the EU as a cooperative jurisdiction in terms of good tax practice and transparency in March 2019, having satisfied "substance" requirements, is increasingly being considered as a jurisdiction of choice for global family offices in order to manage their wealth structures in a safe, secure and stable environment.

Some key global trends identified by the research include:

- Family office requirements are growing in complexity, due to both external pressures and from within families;
- A third of family offices say their wealth affairs are now highly multi-jurisdictional;
- Nine out of 10 strongly agree that substance in their financial planning arrangements, to overcome tax concerns, is increasingly important;
- Professional services firms are responding to this additional complexity with increasing professionalism and specialisms.

The following is an extract from that report:

Economic substance is a doctrine in tax law, which states an arrangement must have both a substantial purpose and economic effect, aside from tax, to be considered valid. As complex and multi-jurisdictional arrangements, family offices must guard against the risk of accusations of lack of substance – that their means and motives are contrary to the letter or spirit of the law – and should look to ensure they demonstrate otherwise.

[13] https://www.gov.gg/economicsubstance

[14] https://www.weareguernsey.com/media/6646/gibson-strategy-report-reporting-global-developments-family-offices.pdf

89% of respondents strongly agree that substance in a jurisdiction is becoming increasingly important in choosing a jurisdiction for private wealth and family office services.

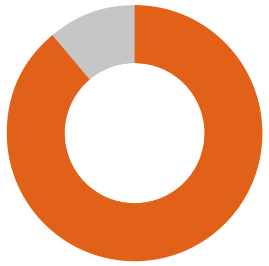


Figure 15
- increasingly important 89%
- other 11%

60% of respondents consider substance to be of greater importance than it was five years ago and 61% believe it will be of greater importance still in five years' time.

Figure 16
- substance of greater importance than 5 years ago 60%
- other 40%

Figure 17
- substance of greater importance still in 5 years' time 61%
- other 39%

Fortunately for those considering establishing a family office, neither scale nor scope are factors in determining economic substance. Instead, substantial purpose may be present in specific arrangements carried out by specialist providers.
Respondents were asked about the scale of the typical family office today compared to yesteryear – they commented that the size of a family office is growing in response to the requirement for a wider range of services. 79% of respondents consider that a full-service office is not required when starting a family office. Further, more than a third of the respondents of our survey see the take up of multi-family offices rising, where a third-party provides a specific service to one or more families.

## Outsourcing

Specific consideration needs to be given to outsourcing arrangements – with economic substance more easily demonstrated if services are retained in-house or, if out-sourced, undertaken within the jurisdiction of the family office.
When asked how important are clients' needs to be offered a full range of investment management and brokerage services within a jurisdiction, more than three-quarters stated that it was 'very important' or 'important'.

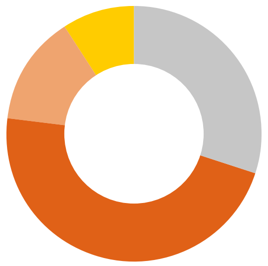


Figure 18
- very important 30%
- important 47%
- fairly important 14%
- not important 9%

Family offices employ internal or external investment managers to manage their investment portfolios such as cash, listed and private equities, mutual funds, hedge funds, real estate and collectibles, i.e. fine art, fine wine, super cars, watches, precious stones and jewellery.
Also asked about the importance of being able to offer a full suite of fiduciary products within a jurisdiction, approximately three-quarters stated that it was 'very important' or 'important'.

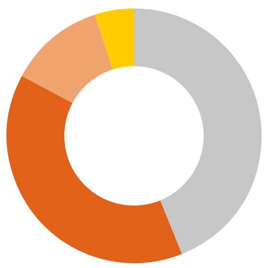


Figure 19
- very important 44%
- important 39%
- fairly important 12%
- not important 5%

Our research also suggests another wave of migration is anticipated in light of the EU's new substance requirements, with Guernsey, unlike some other offshore jurisdictions, in a prime position to provide real substance on-island due to its high-quality fund administration sector and substantial pool of non-executive directors.
Migrations into Guernsey are typically straightforward, subject to the requirements of the jurisdiction being exited and consent of the GFSC (for funds or regulated entities) and once shareholder approval has been obtained, can be achieved quickly. Migrations are usually from familiar offshore jurisdictions.

## Consolidation for Guernsey-administered groups

Quality administration services have been a hallmark of Guernsey's financial services industry for many years and is often seen with private wealth or real estate investment structures, which require multiple single-asset holding companies. Many clients now realise that the historic benefits of incorporating elsewhere have been eroded. Guernsey's company law introduced in 2009 is user-friendly and flexible in respect of a range of corporate actions, incorporation costs are competitive and Guernsey does not suffer from the reputational concerns surrounding certain other jurisdictions. These clients now usually incorporate new companies in Guernsey.[15]

## Impact of COVID-19 on Substance Requirements

The global spread of the coronavirus COVID-19 has impacted on every aspect of business, health and lifestyles across the world. In response to this, on 20 March 2020 GIBA issued guidance to Guernsey companies on how they would be able to comply with substance requirements during the pandemic.
Rightly so, restrictions on travel, countries in 'lockdown', self-isolation and social distancing have significantly, if not completely, reduced the number of face-to-face meetings which have taken place. How long these unprecedented steps will be in place is unknown at the time of writing. What is clear is that such measures are likely to restrict companies' abilities to meet substance requirements and demonstrate that CIGA are taking place on the Island. CIGA advised companies to retain appropriate evidence to show that "COVID-19 restriction measures prohibited the company from holding an adequate number of board meetings in the Island or required meetings to temporarily be held virtually."[16]



[15] weareguernsey.com
[16] https://www.weareguernsey.com/news/2020 giba-gives-guidance-on-covid-19-and-substance-requirements/

## 2.4 Beyond Traditional and Alternative Investments

### Key Findings: Beyond Traditional and Alternative Investments

- The choice of asset classes has exploded in recent years
- Age and personal history shape clients' investment approach more than the size of their wealth
- Private clients can be distinguished based on whether they take an aggressive or a defensive approach to investing, and whether they adopt an active or a passive role in decision-making
- Private clients' personal approaches can lead to wealth managers extending the range of their offerings.

Our research showed that Guernsey's private wealth clients cover a broad range in terms of their approach to investing. The differences can be found not only in the asset classes (traditional or alternative) that they choose to invest in, but also in related areas such as their investment objectives and risk appetite, and the amount of involvement they wish to have in investment decisions.

While wealth plays a part in shaping attitudes and preferences, the more important drivers are likely to be their age and personal history.

#### The new asset classes

One of the biggest changes witnessed in recent years in the finance industry is an explosion in the variety of asset classes available to invest in.

The study found that professionals in the broader wealth management sector are having to acquire a broader range of expertise to navigate the expanded investment universe. As one respondent stated, "Maybe 10 or 15 years ago, everybody offered the same portfolio. I mean, back in those days, it seems strange now, but you would only have three options: Do you want a high, medium or low risk portfolio?."

The financial crisis of 2008 ushered in a new environment and challenged managers to educate themselves to better serve their private clients' mandates.

Asset classes previously described as "alternative" are becoming increasingly mainstream.

According to a recent report by PwC, alternative assets are expected to grow at an annual rate of 9 percent, reaching $13 trillion in 2020.[17] While some of the clients serviced by Guernsey's wealth management sector stick to the time-honoured mix of bonds, equities and cash, the managers we spoke to listed a plethora of other assets, which now form a regular part of their investment toolkit:

Hedge funds have been around long enough to almost be considered a "traditional" asset class. While familiar with them, many managers and their clients have been put off by a combination of what they perceive as lacklustre performance, low liquidity and high fees.

Private equity is a firm favourite with some clients, many of whom are attracted by the high yields, combined with the opportunity to become more closely involved in the business.

Property is also increasingly popular as a "safe haven" with the potential for high yield in some cases.

Financial products such as an exchange-traded fund (ETFs) are being more widely used to access various asset classes, sectors and geographies.

Structured products are also becoming popular additions to client portfolios, particularly those with a guaranteed return component.

Several managers mentioned that a themed approach to investing, focusing on areas such as infrastructure, healthcare and biotech, is a good way to target areas of high yield and performance uncorrelated to traditional investments.

More exotic opportunities such as Peer-to-Peer lending (P2P) have also attracted interest from wealth management clients in recent years.

#### Aggressive versus defensive

The research revealed that a private client's personal history and the way in which their wealth has been acquired play

[17] PwC "Asset Management 2020: A Brave New World"

a strong role in determining their investment approach, according to the private clients and private wealth professionals we spoke to.

"I've seen people who are ultra-high net worth who have built their wealth in the finance system, and so are what other people consider quite aggressive with the risks that they take with the family trust money," according to one manager. "But that is because their knowledge is very deep, they have a lot of experience… Other UHNWs would perhaps not take the same kind of risks and would be more defensive because they have generated their wealth not in the finance system but in a completely different area."

Wealth creators often have a different attitude from second-generation clients, and are frequently more interested in growing their wealth through aggressive strategies than in preserving it through conservative approaches. However, some entrepreneurs take a more cautious approach with their wealth than they do in their day-to-day business. "They will take a contingent risk on their business," as one professional put it, "but they want the mother ship to be on a steady course… so it's a bolt hole."

Some UHNWs take a very conservative approach with their managed money. As one manager put it, "the money we look after is money they don't really need." Such clients are not interested in chasing yield, but take what is described as a "safe" or "cautious" approach, sometimes setting a few parameters: "they will specify that they only want blue chips, they only want FTSE, whatever number, very safe, very balanced."

The study found that cautious investors look to trustees and wealth managers to be a "safe pair of hands." One of the professionals we spoke to, who described himself as a "traditional trustee" put it as follows: "Ultimately we are there to preserve the good funds rather than go out and shoot the lights out and make somebody millions." Another said his clients "actually want to protect what they've got and not put it all on red."

Even a cautious private client mandate however, poses a challenge for the manager. Managers acknowledge that in recent years the low interest environment has made it hard to achieve even modest growth using traditional investments, leading investment professionals to introduce more exotic assets into their portfolios, "to get your money to work harder" than may previously have been the case, the research found.

Our research confirmed that the result is a multi-asset approach that may include more niche products:

"So you will have your traditional bond/equity/cash, some alternatives, infrastructure and structured products alongside that. And the blend of those sort of multi-asset-class portfolios will generate return, certainly better than cash and probably better than government bonds."

Wealth management professionals can end up specialising in clients of one broad type or the other. One manager we spoke to told us, "We don't have too much very old traditional wealth in our business," and as a result "the whole sort of bonds/equities 80/20 stuff is pretty much gone." In such cases they will often find themselves dealing with clients who have strong opinions and a more active interest in money management.

### Active versus passive

The report's findings clarify that the degree of personal involvement is one that a private client will make early on. As one manager put it, the question facing private clients is along the lines of "are they going to be productive in their family business, are they going to carve a path for themselves in setting up a business,…, or are they going to retire and go on holiday and hand the money to Goldman Sachs."

Private clients may mix and match different approaches, and often place different pots of money with different managers. According to one wealth professional we spoke to, "Most people will have a portion of the money that's sat in that passive business or past investments… They're likely to have an in-house person going 'right, there's our trackers for the equity markets of the world, thanks very much, we've got x in that'… Then they're getting involved in property development, property finance etc.."

The study found that private clients who are "savvy with hedge funds," such as the investors described by one of the managers we spoke to, who "have been involved with structuring hedge funds, and are in their seventies typically," may be actively involved in investment decisions down to manager selection.

The same often applies to private equity investors. "Those that are active, a lot of them will just be seeking private equity opportunities – that's where the maximum return is, that's where they feel they can still play a good part."

Further, the study found that the more active, knowledgeable investors may structure investment vehicles informed by their particular expertise. We encountered several examples in our research, such as the private client who structured a proprietary portfolio of fund ETFs, the family who set up their own P2P lending business, the family who seeds tech start-ups, the private client who has set up investments in 120 private equity funds around the world, and the family who set up a billion-dollar private investment fund which manages money for other private clients.

The report findings suggest that these types of arrangement, where the line between a private client and a fund manager is blurred, are often seen by wealth managers and trustees as valuable learning opportunities, which enrich their knowledge of particular asset classes or sectors, or present new investment propositions. In addition to being party to the private client's insights, they will often get to sit alongside specialist asset management teams or investment committees.

According to one manager, "it just goes to show there's a very wide range of the sort of business that we do."

## 2.5 Green and Sustainable Investing

### Key Findings: Green and Sustainable Investing

- Growing interest in Environmental, Social and Governance (ESG) among wealth management private clients
- Close association between ESG and philanthropy
- Private wealth professionals and private clients increasingly see positive action and profit as not mutually exclusive
- Massive generational shift underway in life philosophy and investment objectives
- "Ownership" and personal involvement are important for ESG investors.

#### Paris Agreement

In April 2016, 175 nations representing 88% of global greenhouse gas emissions ratified or acceded to the Paris Agreement. The agreement aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, by:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels.
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience.
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The agreement will be implemented to reflect the principle of common but differentiated responsibilities and respective capabilities.

#### Summary

Globally, there is clearly insufficient capital finding its way into climate change mitigation projects and despite the massive policy, political and populist push in recent rhetoric, owners of significant private wealth, family offices and individuals appear to be only partially committed to green and sustainable finance. While it is seen as a laudable investment, and a natural development of the "philanthropist disbursement" of private wealth, owners of significant private capital, family offices and individuals, remain to be fully convinced of the merits of the "green asset class." Our research clearly highlights that greater confidence in returns and greater confidence in the "greenness" of the underlying investment – the "twin confidences" – are still both required to catalyse a potential modal shift in deployment of private capital to climate finance.

#### Family offices

However, green and sustainable finance has obviously found itself on the investment agenda of private wealth and family offices. Family offices which invest sustainably are choosing companies, organisations and funds which generate measurable social and environmental impact, alongside a financial return. Our research found that an enhanced prospect of improved returns would encourage a significant number of investors to pursue green investments.

#### Younger generation is driving investment

The demand for green and sustainable investments is being led by the under-40s and millennials, who have greater environmental credentials and want to align their investments with their personal values and priorities. Our research suggests that an overwhelming majority of clients in these age groups are seeking to invest responsibly, either in sustainable projects or green funds, and would like their professional advisers to take a lead in raising the subject or creating awareness.

#### Greater clarity of green credentials

Trust in green and sustainable investment products is also key to unlocking private capital investment. A green and sustainable private capital framework – akin to a form of regulatory accreditation or certification, aligned with international principles – would provide confidence to the majority of respondents in our survey, and would be a significant factor in their investment decisions.

#### Environmental, social and governance (ESG)

Historically, individuals have been prepared to invest in ESG strategies for positive environmental behaviours, driven by philanthropic principles rather than potential return. Today green and sustainable investment is more profitable and UHNW individuals and family offices can fulfil their philanthropic concerns and make a return. While wealthy families can invest directly in green and sustainable initiatives, they are also able to access green and sustainable funds that meet strict ESG criteria, and offer a positive return.

"Impact investing" – defined as investments made with the intention to generate positive, measurable social and environmental impact alongside financial return – is also becoming part of the vocabulary among Guernsey wealth managers.

Global AUM in this space is currently estimated at over $500 billion and is increasing rapidly, with more than 1,300 asset managers, development finance institutions, foundations, banks, pension funds, family offices and other types of investors allocating funds to this space.[18]

In addition, it is estimated that $5-7 trillion will need to be invested annually to meet the UN's Sustainable Development Goals,[19] giving some indication of the potential for growth.

[18] Global Impact Investing Network 2019
[19] UBS/World Economic Forum 2017

The conventional wisdom is that green and sustainable investing is purportedly becoming increasingly more important to owners of significant private capital, especially where family wealth is being restructured for inter-generational wealth transfer. Philanthropy and sustainability are rising up the agenda and are key concerns of the younger generation, the millennials of ultra-wealthy families.

The amount of wealth transfer over the next couple of decades is considered substantial and the number of 20 to 30-year-olds who will inherit wealth is significant. If members of this generation are going to be applying their sustainable principles to the way in which their funds are managed and structured, we should see significant flows into green funds.

The following results either mildly contradict that narrative, or further underpin the point that the release of private capital into green and sustainable investment strategies hinges on a future transfer of wealth. An existential question is whether such a transfer can come soon enough to make a meaningful contribution to fighting climate change?

Figure 20: What proportion of your wealth is invested specifically in sustainable or in green assets?

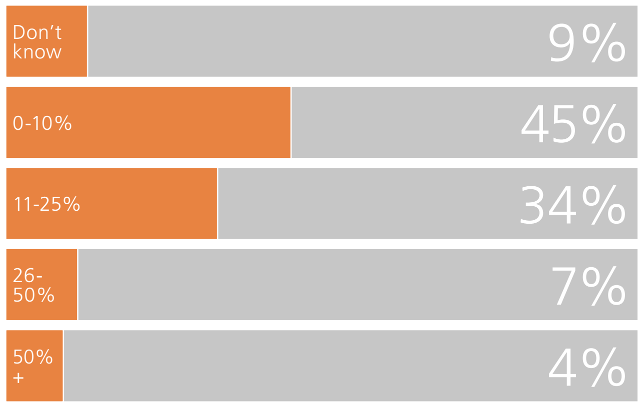
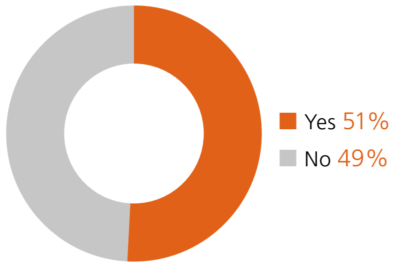



Figure 21: Are you considering increasing your asset allocations in these areas?




Perhaps this is the most surprising result of all. Despite climate change dominating the global policy agenda in recent years and a clear push from governments and financial service regulators to bring sustainable investing to the fore, only half of owners of wealth queried suggested that, going forward, their allocation to this asset class would increase.

This result seems to fly in the face of populist opinion and neither does it reconcile with the views of the professional advisers, nor among professional managers we ourselves surveyed earlier this year. In our report on private equity and green finance we reported "approximately three-quarters of respondents indicated that they [or their clients] had increased their exposure to green and sustainable investments over the last three years. More encouraging still, our respondents were unanimous in indicating that their firm is looking to increase their exposure in the future." Counter-intuitively, this "result" seems to have changed little over the course of the year, with our research being undertaken in two separate tranches – at the beginning of quarter one and towards the end of quarter two – and does not reconcile with the views of professional advisers, who suggest that a clear majority (though perhaps not as sizeable as one might have pre-supposed, being broadly just a 55/45 split) believe that their clients are looking to move their investments "towards more green, sustainable solutions."

Figure 22: Are your clients looking to move towards more green/sustainable finance solutions?

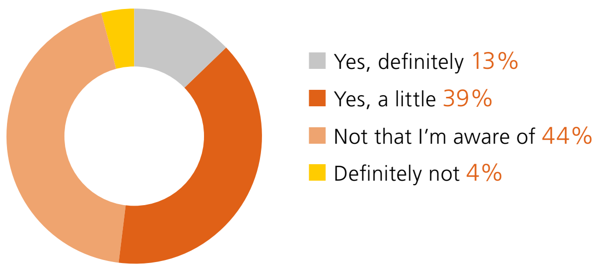
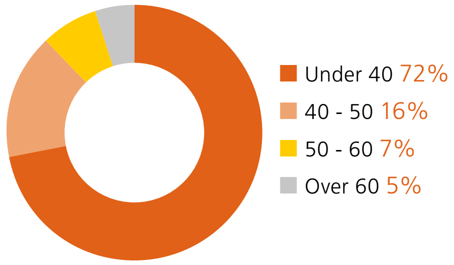
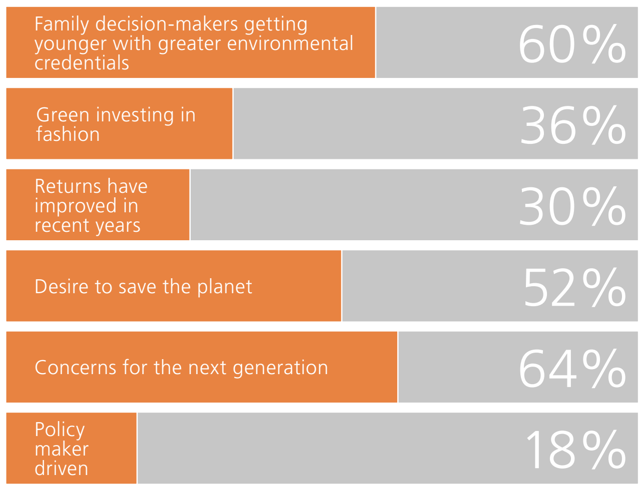



Figure 23: If you are seeing this as a trend, in which age group does it apply most?




Family offices who invest sustainably choose to invest in companies, organisations and funds with the purpose of generating measurable social and environmental impact alongside a financial return. Green and sustainable investing is at the forefront of their minds – especially for millennials who believe they can make a difference by investing responsibly either directly in sustainable projects or through green funds.

Figure 24: What are the factors you are seeing in increased green and sustainable investment? (Select all which apply)




One adviser stated: "You have the patriarch or matriarch who historically set up these structures, and beneficiaries who are now becoming adults in their own right, who are wanting a say in what happens with the trust, whether it be from an investment perspective or more broadly. What we've found is the younger generation, the millennials, are more interested in ethical type of investing, more green type of investment, than their parents would have been, that does seem to be a trend."

One professional shared: "UHNW families are concerned with ethical investing, it is not just no tobacco, it has to have the right carbon footprint and things like that. We can actually put those together and there is demand for that." Pleasingly for Guernsey perhaps, many advisers commented that the Island's environment was supportive of the trend towards green and sustainable investing. "It is very much a long-term objective, but I think the core values are there and I think that as an Island we're treating those seriously," said one.

Underlining the slightly contrarian nature of our findings, the majority of those expressing an opinion stated that they were not looking for a better platform to facilitate investment in green and sustainable investments. Indeed, fewer than half of those questioned said they sought greater accessibility of green investment products. But almost paradoxically, more than half of those questioned said they wanted to see greater clarity of green credentials.

Figure 25: Are you looking for a better platform to invest in green investments?

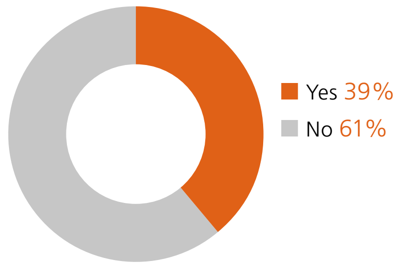
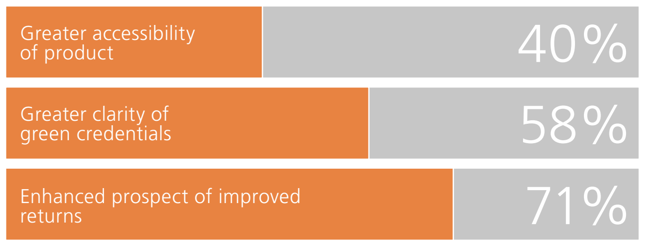



Figure 26: What are the factors which would assist you in pursuing green investment?



Our findings indicate that the prospect of improved returns would encourage a significant majority to pursue green investments, a salient reminder of the imperative of return. Despite the populist rhetoric – be it saving the planet, the icecaps or the polar bears – this result makes it clear that when it comes to investments, the number one concern for the owners of private wealth and their advisors is preservation and growth of capital.

There is a basic shared understanding among Guernsey wealth professionals of what is involved in each of these categories, regardless of whether an individual has had direct experience with their own or client funds. Most professionals view it as "a positive idea," even where they don't embrace the concept entirely.

Some wealth managers believe that ESG is already well established, if not universally acclaimed. Others see it as a distinct trend, "slowly evolving and capturing the imagination." Some managers, however, take a more sceptical view and several do not invest in the space at all, describing it in terms such as "hype," "niche," "difficult to understand."

Overall, however, our research shows conviction that the trend towards ESG is likely to amplify over the next 10-20 years, driven by a shift in clients' attitudes that is largely generational in nature.

### Philanthropy

Most wealth management professionals see a strong association between ESG and philanthropy, which can be seen as presenting a thread of continuity between their historical private clients and the next generation. This association appears in a number of ways:

- The perceived intent on the part of the client to "make a difference", "give back", invest in "a different alternative for the future";
- The widely held perception that ESG generates inferior returns to traditional investments and therefore can be seen as a kind of "middle ground" between investment and philanthropy;
- The idea that there is a generational component to the ESG trend – that ESG is for the younger generation ("millennials"), what philanthropy was for their parents.

### Giving back

While pure philanthropy used to be the main outlet for HNW's charitable instincts, it is increasingly seen as the purview of the super-wealthy like the Gates Foundation – the UHNWs who have reached the point of sufficient wealth accumulation, when "it does become about the next thing, which is where do you find purpose beyond accumulating more."

Private wealth professionals recognise that personal passion and involvement can be a key element for private clients going into ethical investing, citing examples of individuals who give their time to advise organisations because it gives them "an ownership in the venture."

### Getting something in return

There are divergent views on what can be derived from ESG investing, both in terms of returns and less tangible rewards.

The study discovered that some wealth managers view ESG investment as a clear compromise, and believe that the space is "still fairly nascent", and needs to prove itself in terms of presenting "a viable business model, and a viable investment." For clients who make a clear separation between investment and philanthropy this makes ESG an unattractive proposition, but one that may become more attractive if it can be presented as a "middle ground" between the two – an option that allows them to do good while preserving and even growing their capital.

Indeed, some managers see a degree of enlightened self-interest in investing in ESG. This attitude is described in clear terms by one private wealth professional we interviewed; "None of our clients is investing in things for the good of the world, in terms of 'I'm going to gift money to this organisation and not take an equity stake or interest at all'." Pure giving is seen as the preserve of the multi-billion foundations, as distinct from ethical investors.

According to the research, even those with direct experience of ESG cultivate limited expectations in terms of return, however they may see compensating value elsewhere, in personal gratification. As one wealth manager described it, using the parallel of the pharmaceuticals industry, "they [the clients] are happy to make the 'generic' version of profit… but they are still making a profit."

Some may be willing to forgo profit altogether. One wealth manager likens it to private clients who build sports stadiums: "Most people I know of with wealth have got what they call their 'play money', that they might do their own investments" - "it's never going to make money but it's something that they enjoy."

The research revealed that personal involvement in ESG investing is seen as going hand-in-hand with a more discreet ethos among the wealthy – "be a force for good without necessarily bragging and being brash about it but do it in a quiet and considered way," quite typical of Guernsey's residents.

Our research found that a more rational benefit seen in ESG is the potential to limit the costs of climate change risk and litigation which exists in some traditional investments, by excluding big polluters and favouring companies with a clear climate policy. This approach, in the view of one respondent, "goes beyond the sentimental" in that "there's a commercial element in it" that "will translate into some return down the line." Investors taking this approach would inevitably demand more transparency from companies and funds, pushing the industry as a whole more in the direction of "green" investing.

The findings highlighted that corporate attitudes support this notion. Concern with climate change risk has gone mainstream in recent years, with major financial institutions and regulators taking decisions that are likely to accelerate the growth of the space. Indicative of the shift is the announcement by the Bank of England that it will be introducing climate change stress tests for banks and insurance companies, which could have a significant impact on their capital requirements.

Some of the world's biggest asset managers are also behind the trend. In a recent letter to CEOs, Blackrock's Stanley Fink warned that "companies, investors, and governments must prepare for a significant reallocation of capital" due to the anticipated risks of climate change.

### The tipping point

The study found that changing mindsets are also important drivers of investment trends. Being so closely involved in their clients' succession planning, Guernsey wealth managers are preparing for a big shift in investment philosophy coming with the transfer of accumulated wealth to the generation now coming of age, "the millennial generation", as well as in newer wealth. "Their fathers may have invested in oil companies, they might have gone into Shell or BP, the younger generation might say actually I think wind farms are a better alternative for the future, or electric batteries."

Our research showed that such conversations are becoming increasingly common. This turning point looks set to be hugely significant in terms of the wealth involved. A UBS white paper estimating that around 460 billionaires will be handing down $2.1 trillion to their heirs over a 20-year period,[20] with ripple effects across the HNW and UHNW universe.

There is growing awareness that this could cause a large-scale realignment in investment allocations – a "big ticket moment." Wealth managers are starting to see it in their younger clients. "The younger generation, their drivers are completely different"; "there's far more initiative to focus on what we are doing on the planet", "a lot more awareness"; the second or third generation and newer wealth are seen as "more worldly aware" and "more climate-conscious". "It's all part of a spectrum where the HNWs are looking to align their investments and give something back."

This emerging shift is seen as "a positive disruption", in which "green is just the start of things to come."

The report also shows that wealth managers may encounter the shift in objectives at the point of a Trust's distribution, when the beneficiary expresses a preference for an environmentally sensitive approach, at which point they will need to put in place governance guidelines. The client may ask for a portfolio that "is all about ethical investing, so it's not just no tobacco, it's got to have the right carbon footprint and things like that, and we can actually put those together and there is demand for that."

The research demonstrates that this will have a clear impact on the knowledge base of the private wealth industry and the skills required going forward. Specific demands from investors will require new expertise on the part of wealth managers, who will need to select and monitor investments on environmental, ethical and governance criteria and build portfolios whose objectives go beyond pure profit.

### The Guernsey Green Fund initiative

The study found that in this environment, there is near-universal approval for the GFSC's initiative to launch a Green Fund kitemark, with its supporters among the wealth management community believing that it will provide more information and transparency into green investments, and a "low friction, low cost, low red tape situation" for investors interested in pursuing them further. Some also see it as good PR for the Island's finance industry to counteract the negative connotations of offshore finance and enhance Guernsey's image as a well-regulated jurisdiction and a "good global citizen".

Since its launch, the Guernsey Green Fund regulatory regime has attracted five funds with a combined AUM of $4 billion.

[20] UBS/World Economic Forum 2017

## 2.6 Collectibles

### Key Findings: Collectibles

- For the majority of UHNWs, collecting is a passion rather than an investment strategy
- Collectibles are also seen as a way to safeguard value
- Collectibles pose challenges that traditional investments don't
- Wealth managers need to access expert knowledge and specialised services, including structuring, tax planning, valuation and insurance
- Guernsey has developed awareness and expertise in several key areas.

The notion of collectibles as a distinct asset class has been gaining traction in recent years. A 2017 survey by Deloitte found that $2.7 trillion of UHNW wealth is expected to be allocated to art by 2026, while nearly 90 percent of wealth managers believe art and collectibles should be included in the range of wealth management services.[21]

Most wealthy people have some form of collection, but should collectibles be viewed as an asset class? Our extensive research of Guernsey's private clients and private wealth professionals tells us that while most wealthy people collect something – art, jewellery, classic cars and wine being some examples – this does not form part of their investment activity. Private clients and private wealth professionals we spoke to explain that there are a plethora of alternative motives for buying collectibles, but also point to a number of ways in which the sector can assist private clients with managing the practicalities of owning collectibles.

### Motivation

The study found that "passion" is the watchword when it comes to collecting. Whether it is the pure enjoyment of art or classic cars, or the prestige of owning a Cezanne or a rare Bentley, most respondents made the distinction between passion and investment rationale: Art is "more a passion as opposed to an investment theme"; UHNWs collect "more because it is an interest, it is not something they feel they have to diversify into"; "it is about a lifestyle asset sitting in their house… it is not about whether this property can be bought and sold for profit"; collectibles are "passion products"; "nobody comes to us and says oh, could we look into collectibles as an asset class, not really". Most private wealth professionals we spoke to said that their clients have tended to come to them with an existing collection or an active interest, rather than seeking advice on building one from scratch – but there are exceptions.

The research revealed that some collectors are enthusiasts who have a specific interest in particular artists or brands. "If people have got experience in that and have always done that throughout their life, they will potentially continue to do that." Several private wealth professionals have at least one private client with a collecting interest, which is "a very savvy investment class for them, and one they can also enjoy on their walls." These individuals or wealthy families may be very knowledgeable but tend not to be what would be classed as "professional" collectors in the sense that they actively buy and sell more than once every few years.

According to the research, for many UHNWs, collecting art, classic cars or supercars is a luxury lifestyle choice that conveys an element of prestige. Fine wines, for example, are often not bought to be drunk, and paintings may be viewed as status symbols. As one respondent described it, the idea of having a Chateau Lafitte in the cellar "is a lot to do with the kudos of having the wine as well as the value of having the wine." Those who do not necessarily possess the background or expertise may hire curators to buy collectibles, such as art, for their homes, and may do it in tandem with buying a property, "when they're designing the house, each room is done in a certain way, which links in with the art that's going to be supplied."

The study found that whilst the chief motive for acquiring collectibles may be emotional rather than financial, there

[21] Deloitte Art & Finance Report 2017



Gibson STRATEGY

*"Going the extra mile seems to pay off in terms of building closer client relationships"*

is an underlying awareness that putting money in physical assets can provide some form of capital protection. An insurer we spoke to explained it as follows: "it is their conservative money, for want of a better word, rather than their investment/gamble/play money, so they are looking for tangible assets that they believe will not go vastly down in value, but will either retain their value or go up slightly." Collectibles are also seen as providing some small measure of diversification from the financial markets. As one manager put it, "Porsche is a classic example at the moment, even the worst Porsche is worth more than it was last year. And classics like your Ferraris or your Astons, they are only going in one direction, so that's why they are investing in them."

However, the research revealed that this does not apply universally and collectors still need to be careful. One manager recalls the sell-off in classic cars that followed the financial crisis in 2008. However, overall rare items tend to hold their value, and most collectors derive enjoyment and pride out of their possessions that exceeds their potential yield.

## Practicalities

The study confirmed that wealthy collectors are often faced with practical challenges in enjoying their collectibles, and wealth professionals can be called on to provide inventive solutions. Depending on what type of asset a collector chooses, their investment rationale and their lifestyle, these can take specific forms. For example, a classic car collector on Guernsey is limited as to where they can store their fleet, and may have to build their own facility; they may have to choose between driving their cars or storing them as an investment; an art collector may face tax consequences for hanging their collection in their London home; they may have to tailor their insurance depending on whether the art is exhibited or stored in a climate-controlled facility.

Some of the specific challenges we encountered in our interviews are explored below.

Tax is a very significant concern with holding collectibles. Portable collectibles can incur importation duty and VAT if moved between offshore jurisdictions and the UK and can also attract inheritance tax. Therefore collectors often need expert guidance on how best to enjoy their valuables and where to store them. The challenges are exemplified by a situation cited by one trust company professional: "We'll have a beneficiary who says, 'Oh, I just want to borrow some art and put it in my country'. Well, that's great. That's immediate CRS [22] reporting, VAT, import, all those sorts of stuff. And so we'll actually say to families, 'Just take the art if you want it, insure it, take the insurance and if there's a tax on the art get insurance for that as well'. It's just a lot simpler."

Because tax is such a big concern, many art collections are stored in specialist facilities around the world, such as Port Francs in the Geneva Freeport, and rarely exhibited.

A number of Guernsey practitioners have developed expertise in structuring valuables for non-doms. Some of the specialist services we encountered include creating tax-optimal holding structures for artwork held onshore, and building holding companies for classic cars and supercars, that are transported between jurisdictions according to the owner's lifestyle. The private wealth professional's involvement in some cases goes much further, including arranging shipping, or hiring decorators and art curators for the client – a relationship which often pays off for the manager in terms of business development.

Insurance of collectibles can also be a headache for UHNWs with an international lifestyle, and another area where Guernsey has developed pockets of expertise. From very practical aspects, such as getting contracts worded in English, to larger questions such as defining the use and the location of assets, clients need guidance from specialists. Supercars can be particularly hard to insure as driving cars, or there may be limitations on where they can be insured to drive. According to one insurer, "We have a lot of new-ish supercars, so the McLarens, the Ferraris, the Bugattis, that sort of stuff, that had been bought as investments. They will be put in storage facilities, looked after very carefully, and probably not driven very often, if at all. And they are purely for investment." At the extreme end, there are examples of cars insured as art, which will not be registered and will be kept exclusively in a storage facility.

The research found that unlocking the value in collectibles is generally more complicated than divesting of financial assets. Unlike financial holdings, tangible assets often have limitations in terms of liquidity. A good illustration of this is provided by the distinction between gold bars and jewellery. One expert who deals in both assets explains that while jewellery adds "a significant premium above the intrinsic value of the metal," divestment is a very different process because "a gold bar is a gold bar and the liquidity is instant," while "a jewellery piece is going to have to go to auction."

Trustees face a related challenge with regard to collectibles, given their obligation to monitor a trust's holdings. As one trust manager put it, "Art, cars, fine wine, whisky… all present difficulties in how you monitor, as an investment class – how you monitor how your art is performing as an investment." The situation is similar to other alternative asset classes, such as property. "Do trustees go out and re-value their properties every year to make sure they are appreciating in value, or do you ride it out?."

Catering to private clients' special interests and passions for collectibles falls outside the skill set of traditional financial managers, fiduciaries or insurers. Special knowledge and skills are required, but for several Guernsey businesses "going the extra mile" seems to pay off in terms of building closer client relationships.



[22] Common Reporting Standard

## 2.7 Cryptocurrencies

### Key Findings: Cryptocurrencies

- Private wealth professionals demonstrated negative to neutral stance on cryptocurrencies
- Lack of interest from private clients

**Perceived negatives**

- Intangibility
- Lack of transparency
- Price volatility
- Security risks
- Fraud and money laundering risks
- Operational hurdles
- Negative stance of regulator

**Positives/prospects**

- Improved regulation/ oversight
- More institutional involvement
- Blockchain and fintech applications

Our first research study of Guernsey private clients and private wealth professionals tells us one thing with great certainty: Guernsey private clients are unlikely to be among the 0.5 percent of global population (35 million identity-verified users)[23] who have dipped a toe in the cryptocurrency markets since bitcoin launched in 2008. Most Guernsey private clients and private wealth professionals volunteered at least a passing knowledge of bitcoin and the broader crypto asset space. However, none of the wealth managers interviewed had direct experience of investing on behalf of a private client. The reasons given are many, ranging from its perceived unattractiveness as an investment opportunity to regulatory or compliance barriers, but the major factor is lack of interest on behalf of their clients. Most managers are adopting a "wait and see" approach, though the majority do not foresee entering the space in the foreseeable future.

Guernsey's private wealth professionals' own attitudes to cryptocurrencies range from negative to neutral. While some have taken a clear business decision not to invest in cryptocurrencies, others keep an open mind and maintain a neutral stance, while a few can envisage a time further down the road when digital currencies may become more mainstream.

The study found that several private wealth professionals know, or know of, someone from the investment community who has "dabbled" in bitcoin privately, and some had indirect experience through related products (e.g. bitcoin funds or blockchain). The prevailing view, though, is that crypto is a "fad" or "flavour of the moment," rather than something that belongs in a professionally managed portfolio. As one interviewee put it, "that's not what we're about, we're about long-term investment."

### The client factor

For most wealth managers, the biggest reason for not investing in cryptocurrencies is lack of client interest. To quote one professional, "our clients are very much more traditional, historical wealth, family wealth, so not really entrepreneurial." For some there is a generational aspect, with the older generation who control the wealth being more cautious, while the younger generation would be more likely to "have a bit of a gamble online." Others put it down to the individual personality and experience of the client, with more tech-savvy, entrepreneurial types being more likely to take an interest in crypto.

Without the "push factor" from the clients, wealth managers feel it is not their place to promote particular investments, particularly ones that they are not already familiar with. "We have not had many clients who have expressed an interest to go into it and it's not an asset class that we would normally be choosing at our own discretion."

Not surprisingly, managers reported a flurry of casual interest from clients, largely coinciding with the bitcoin rally of late 2017 and the associated press coverage, but inquiries have died down following the subsequent crash.

### The professionals' view

The research found that private client preferences aside, the majority of wealth managers are not comfortable with crypto as investment professionals, for a variety of reasons. The study revealed that the biggest source of discomfort is the nature of the asset itself. Many cite the concern that it is "not tangible," that it is "out in the ether somewhere," that "you don't know who is behind it," and that it is hard to know "where the substance is" on which to base an investment decision. Others go further, calling it "smoke and mirrors" or "the emperor's new clothes." As one manager expressed it, "if you buy something that's got zero net worth, that will be its eventual worth."

Although some investment professionals can see a rationale for investing in assets independent of government-backed currencies – high government borrowing, inflation and political interventions – the perceived lack of transparency around cryptocurrencies acts as a strong deterrent. Crypto is seen as the antithesis of gold, which gives investors comfort in a time of crisis because of its tangible, physical nature, and the perception that it has inherent value. Price volatility is another major turn-off. With the recent rally and subsequent crash fresh in the memory, money managers understand that

[23] Cambridge Centre for Alternative Finance, 2018

the cryptocurrency markets can be extremely volatile and are concerned about the potential for value destruction. Most have either read in the press or know of someone who made a killing and then lost it – or worse, the late investor who missed the peak and "lost their shirt" in the crash.

Our research found that there are also concerns about the security of investments, following instances of theft of digital assets through hacking, or losses through lost passwords. Scepticism about the technology and the security around it are a concern for managers accustomed to traditional custody chains. As one manager put it, "it's a bit like buying things off iTunes… sometimes you wake up and your iPad hasn't synced, and you're thinking… actually thank God I've got my CDs." With more than $1.5 billion stolen from exchanges and crypto asset storage providers to date,[24] security and operational concerns are not unjustified.

Private clients interviewed shared their concerns that cryptocurrencies are associated in the minds of many with fraud and money laundering. The fact that cryptocurrencies are outside the regulated banking system and that transactions are instant and anonymous raises concerns about its use in financial crime, with the associated regulatory and reputational risks. For this reason, the involvement of mainstream financial institutions and closer regulation are seen as prerequisites for any investment on behalf of private clients.

The report highlighted that service providers – payment networks, banks, custodians and administrators – show a similar reluctance to get involved in the cryptocurrency space, resulting in significant operational hurdles for potential investors. "Everybody is scared about cryptocurrency," as one manager put it. From the investor's perspective, according to another professional, "the buying isn't the issue, it's the selling and receiving the proceeds back again which is the issue" – in other words there is a significant liquidity risk associated with a crypto investment. The lack of a seamless connection between crypto asset markets and the traditional financial system that would allow straightforward trading between the two is seen as adding to the uncertainty – and the bureaucratic burden – of engaging in the space.

In addition, the study confirmed that a key factor shaping private wealth professionals' attitude to cryptocurrencies is the stance taken by financial regulators worldwide, and in particular the local regulator, the GFSC. The relative novelty of the virtual currency concept has made it a regulatory grey area, with jurisdictions often taking quite different views on the subject. In this respect, managers draw parallels to other frontier investments such as medical cannabis. Guernsey-based wealth managers cite the GFSC's cautionary note, which warned of "significant risks in the use of virtual or crypto currencies especially for retail customers." While this does not equate to a ban, the regulator went on to sound a specific alarm about the fraud and money-laundering risks around Initial Coin Offerings (ICOs) – where an individual receives a token or coin in exchange for an investment into a company or alternative vehicle – and state its reluctance to approve a regulated digital currency exchange within the Bailiwick.[25]

Respondents are aware of the contrasting positions taken by other regulators, including Jersey. Some multi-jurisdictional service providers have explored the possibility of routing crypto investments through their Malta operations. Malta has taken a more proactive stance in encouraging crypto businesses and is developing a regulation and licensing regime around them. However, it is not clear whether any of these ventures have gone beyond the enquiry stage.

In contrast to the scepticism around cryptocurrencies, both Guernsey private clients and wealth professionals show considerably more enthusiasm about the investment potential of blockchain, the distributed ledger technology which powers them. Many are familiar with the potential applications of blockchain technology in the finance sector and beyond, and private clients and wealth professionals can cite both service providers and UHNWs who are investing in its development.

Overall, Guernsey private clients and private wealth professionals are quite aware of the potential pitfalls of direct participation in the cryptocurrency markets and bitcoin mining, while they are also familiar with related investment opportunities in blockchain technology. Some have also encountered more institutional investment routes, such as regulated crypto funds. However, there is little or no awareness of the increasing variety of exposure strategies that are becoming available in the space - including exchange-traded products, venture funds, and equities - a fact which ultimately confirms the lack of investor appetite or curiosity about the space.

## To boldly go…

The study found that not surprisingly, when it comes to the future of cryptocurrencies, Guernsey respondents have a range of views, however none appear to buy the hype that crypto is the future. As one put it, somewhat tongue-in-cheek, "Who knows what's going to happen? I mean we are almost living in the world of Star Trek, aren't we, where there is a single currency.

I just can't see that happening."

"Is it going to take over the world? No."

Our research found that some respondents are more open to the prospect of cryptocurrencies featuring in the investment universe at some point, particularly if regulatory oversight improves and more institutional players become involved.

Others see promise in the link between cryptocurrencies and the fintech trend: "Banks in the future are all going to be Google, Amazon; it's all electronic, it's all going to start happening, isn't it…"

[24] Cambridge Centre for Alternative Finance, 2018

[25] Guernsey Financial Services Commission

## 2.8 Succession Planning

### Key Findings: Succession Planning

- Succession planning is unique to each family with no set model or structure applying to everyone. Bespoke solutions are needed
- How and when family members are brought into businesses or included in wealth management vary among cultures and ages
- Tax is no longer the main reason behind succession planning; wealth preservation is usually the overriding objective
- With the increase in transparency and push to share wealth information, political and other risks need to be kept in the frame when creating structures for transferring wealth to future generations.

Some families, like the British Royal House of Windsor, have no problem with succession planning but less high-profile families may not have a solid plan on how to - or whether they will - pass on their wealth to the next generation.

The research study found that a variety of options are available, reflecting the range and individuality of wealthy families themselves. Sometimes it is not about the legal form but rather finding advice and solutions to meet the individual objectives of the head of the family, the research found.

Some families are looking for asset protection. This drives the need to put a wrapper around objectives in order to deliver a package unique to what a family wants to achieve.

Whatever the objectives, however, the underlying concern with all succession planning is to find a way to transmit surplus assets to heirs, third parties (such as charities) or wider family groups. Depending on who or what is receiving the assets, the structure and solutions vary.

Our research shows that succession planning, no matter what the structures considered or reasons behind it, are unique and very personal, running a gamut of objectives and are not age specific. "We have people who are in their 80s/90s who won't give up control, sitting on hundreds of millions. They'll give the children maybe one or two million to play with, and that's it. Others will say, 'no, you're in charge now, I'm here to help you, but here's the reins and off you go', and everything in between," explained one trustee.

## *"Options, models and preferences changing as families consider wealth transfer"*

### Reasons and options

The study suggests that succession planning has few, if any, trends, as it depends mainly on individuals. Some creators of the wealth bring in their children early, sometimes splitting the wealth and seeing how each child fares on their own. Children can react very differently; some may set up a family office, others move into speculative venture capital and seeding operations while others crash and burn. Dumping a large sum of money on a child in their 20s is a make or break situation for both sides.

The research found that other wealthy families try to bring children into managing wealth in a more controlled way, giving younger family members the responsibility of dealing with the structural arrangements and how the money will be managed in future. "It's about making sure that the components actually fit the broader family brief and getting the buy-in from the children. They are the ones that drive it and having them participate makes sense."

As highlighted in the study, one change over the past 10-20 years is that the children of wealthy parents are more likely to be university graduates or hold MBAs with an interest in business and finance. They are also more likely to listen to advice than the older generation may have been. They are usually more inquisitive and have different demands of service providers than their parents do.

The study found that another area where succession planning is becoming more prevalent is with private clients, who have started their own companies and are now nearing retirement age. Some bring their children into the business as shareholders and so, on the death of the parent, they become significant shareholders.

### Trust model still favoured

The study confirmed that for many private clients looking for a smooth transition of wealth, one of the most common structures used is a trust, dating back to the Crusades and the idea of protecting lands in case the head of the family did not make it back to protect the family and its wealth. Today that fundamental idea is still behind the formation of trusts.

However, there are some subtle changes. While in the past trusts were often seen as a solution to tax problems, over the last 10 years or so other objectives have come to dominate the formation of trusts. While there are still some families where the tax element is an important element, most families have other objectives in mind.

The research found that the trust form has been stripped back to its core, with the focus on balancing issues around giving away wealth, while at the same time recognising that individuals are rarely happy with just handing money and assets over without conditions.

Most Guernsey participants found that the creator of the wealth wants to retain some level of influence and control of involvement in decisions, the research shows. Finding the optimal arrangements that meet those objectives, while creating a robust, defensible structure that can withstand attack from complications such as divorce or disgruntled children, is now one of the main functions of a trust. It can be defended through the courts against claims and deliver on the intentions with which it was created in the first place.

### Alternatives to trusts

The study found that while the trust is still a favoured vehicle, there are other alternatives on offer for succession planning. Guernsey has a specific foundation law designed with certain regions of the world in mind, particularly the Middle East, where the concept of trusts is not necessarily the first thing people think of in order to transfer wealth. Families can use a straightforward company formation.

Whatever the form, the research found that Guernsey does well in creating and advising on sophisticated structuring. "It doesn't matter where you go, you're unlikely to find a better package of combined laws, regulations and court system anywhere else in the world," remarked one respondent interviewed for the research.

Succession within families is complicated enough but bringing in a third party, specifically if it is a corporate and regulated to solve the problems of transferring wealth, is not always easy. Many trustees interviewed for the report said not everyone can pull off balancing relationships between first, second and third generations, particularly where complex assets are involved. In many cases, having a structure that can stand the test of a local court is essential.

### Age and succession

The study found that "it is less likely to be a problem where the first generation liquidates their portfolio or sold the family business and is not sitting on the investable assets," remarked one respondent. But any solution can present problems. People tend to be passionate about fairness in situations where the emphasis is on legal aspects.

Wanting a “fair share” is the motivation, rather than how that share is decided or delivered.

For example, where there are properties involved, it is about control of each property. “Rational discussions that one might have around an investment portfolio tend to go out the window and it’s all about: ‘I’m not letting him/her have that. That’s mine and I’m going to fight about that’,” explained one trustee.

Another private wealth professional interviewed found that as private clients hit 70 years of age, they want to ensure the “family drama” is taken out of the transition and start to share information with children as well as their plans on passing on the wealth.

The research revealed that the problem is that children do not always agree with what the parent, who made the money, wants. It can be difficult from the family’s point of view. Service providers involved in the planning process need to walk a careful line, balancing individual family members while being objective in their advice.

Keeping the family as some sort of cohesive unit so that management of the assets becomes easier is another consideration for many, the research showed. “If a family fragments, it suddenly has different managers all over the place and higher costs if they do not think about the structure. What’s not great is if they haven’t looked at their risk management across the board,” cautions one advisor.

### Reasons for sharing

The study found that the reason for transferring wealth to the next generation has changed. It is now more about asset protection than reducing tax, although sometimes the two can be intertwined, especially in places like the Middle East.

Some patriarchs or matriarchs will be looking at growth and regeneration of wealth through the transfer structure. For example, there may be restrictions on payments to beneficiaries having to be past a certain age or other caveats in terms of what can be done from a beneficiary point of view. Generally, Guernsey firms find that private clients plan well, with sufficient protections in place to ensure money is not frittered away.

### Sharia dimension

The study found that another aspect to succession planning, where the Channel Islands and specifically Guernsey has been successful, is in achieving Sharia compliance succession arrangements or avoiding the application of some form of Sharia where it did not meet the family’s own domestic perspectives of what inheritance should mean.

Many families have a more liberal view about the rights of their daughters, for example, rather than awarding everything to the first-born son. They look to trusts as a way to achieve a more equitable distribution and avoid relying on the eldest son to do the right thing when the head of the family is no longer around.

“There is definitely a lot of recognition of the limitations of certain regimes in terms of giving people what they are looking for,” noted one trustee.

### Registers and political risk

One development that has thrown a bit of a spanner into the transfer of wealth is the UK decision unilaterally to introduce a “public register.” Many in Guernsey see this as a flawed idea. The register is voluntary, not validated and has no independent scrutiny as does the register in Guernsey.

While there has been no criticism of the registers kept in any of the Crown dependencies, there is resistance to any pressure to move to a regime that changes the perception of these jurisdictions.

This is not for any reason of illegality, the research found.

“There’s no reason to think anybody is doing anything illegal but what we are definitely expected to do is to defend the rights of our individual private clients, both those who live here and who live abroad, around the legitimate privacy of their information,” notes one Guernsey trustee. He said this trend is a new global paradigm, suggesting that everybody should publish their bank statements and their net worth.

The study highlighted that the world is a very uncertain place and geopolitical risk is at an all-time high, noted some trustees. “In that situation, many look to have an opportunity to put some of their wealth into a structure that is not subject to their ultimate control but is genuinely managed for the benefit of a particular group of people in certain circumstances. As long as the global legal system recognises people’s right to do that, then these jurisdictions should fiercely preserve their independence because it is that independence that gives them the ability to offer safety to many people,” explained one participant.

### Philanthropy and families

The study found that philanthropy can play a major role in how the creator of the wealth wants to structure the transfer of wealth. Some private clients believe their money should have a wider purpose than simply passing it on to the next generation. They want the money to be used for matters such as poverty reduction or education or flow into an area where they are particularly passionate.

“We see this increasing. It is not a big part of our business but we have around four charitable trusts that we run. One client structure is quite active,” said one trustee.

The research found that second generation recipients are much more concerned with social issues and want money going into areas like climate change reduction or environmentally sound businesses.

Such considerations become important for succession planning outside the originator. The family often, but not always, is interested in the same philanthropic areas and will have a voice and opinion. However, as the generations grow and the mix of ages widens, disagreements may arise if structures, such as a foundation, are not created.

The trend overall is for less contact with the patriarchs and matriarchs and more with the sons or daughters who will be driving things forwards.

There is a shift, with parents letting children drive the investment and philanthropy processes in future, the research found.

The study found that the focus has also shifted from accumulating wealth to protecting it. There is a move towards finding a purpose for the wealth rather than just continuously adding to it and this attitude has spilled over to the philanthropic side.

## 2.9 Philanthropy

### Key Findings: Philanthropy

- A great amount of charitable giving in Guernsey is conducted anonymously
- There is a significant rise in charitable AUM
- Younger generations are changing the philanthropic landscape

Philanthropy is "the practice of helping the poor and those in need, especially by giving money",[26] generally considered to be a large donation of money to good causes. Impact investment is about generating positive and measurable social and environmental impact by investing in people and their skills, in both emerging and developing markets. Key areas being education, healthcare and housing as well as sustainable agriculture, renewable energy, conservation etc.

The size of the global impact investment market is now estimated to be in excess of $502 billion, which is managed by over 1,340 organisations. This rapidly growing market clearly demonstrates a global commitment to address social and environmental issues, allowing opportunities for new investors "to establish impact investing practices and to allocate additional capital to positive impact".[27] Research suggests that AUM will eventually exceed $3 trillion.

Coming into force on 8 January 2013, The Foundations (Guernsey) Law, 2012 ('the Law) provided a new platform which "can be established for a wide array of purposes including to administer assets for its beneficiaries or to act as trustee of a trust or trusts ("PTF") or established as a charity with purely charitable purposes or for other philanthropic purposes".[28]

Respondents to this study said that Guernsey residents are notoriously good at giving, yet still believe there has been a significant increase in philanthropy from within the Island in recent years and their private clients in general are incredibly philanthropic.

However, our research found there to be a consensus of opinion in Guernsey's private wealth sector that it can be challenging to find a local cause within the community where a noticeable impact can be made; it's "difficult to connect with something in Guernsey where they are giving back," "they've retired somewhere that's not openly poverty stricken or needs any help in any way."

The general population's standard of living is quite high so there is less area for impacting the underprivileged or disadvantaged for example. Nevertheless, there are also well-directed charitable efforts happening from the Island creating impact on a more global scale, "there's more charitable stuff going on from people in Guernsey outside of the island rather than necessarily being done in the island."

The study found that more and more "philanthropic structures, or parts of structures," are being established. A common theme seen in Guernsey is that it is not unusual to "see a structure which is less than double-figure millions so £10 million will probably be a small structure and one client is £10 billion. So everything in between. The billion-dollar structures are not that rare now, and certainly hundreds of millions." Assets held will differ from family to family, some may be "liquid investments with a diverse number of investment managers; others will be property holding vehicles"; there is also an increase in the number of family owned businesses, largely from the Asian and Middle Eastern countries.

The research revealed that "most of the amazing philanthropy historically, even still today, has been set up by those very old dynastic families" with huge legacies. Respondents commented that they are now very aware of a greater shift towards social impact investing; investment into companies, organisations and funds with the

[26] Oxford English Dictionary [27] Global Impact Investing Network's Sizing the Investing Impact Market Report, April 2019 [28] Carey Olsen, Guernsey Foundations, March 2017 https://www.careyolsen.com/briefings/foundations-in-guernsey

intention of generating a measurable, beneficial social or environmental impact alongside a financial return.

Private clients with greater wealth are considered to give this more consideration, they are very proactive and consider their philanthropic gestures as an obligation rather than the moral and correct action to take. They are very deliberate in what they hope to achieve.

The study found that there is not a plethora of suitable, appropriate advice on how best to approach investing, "an observation would be that the available advice to them is not great," "some people's willingness to engage is quite varied as well."

The research highlighted that there was also an acknowledgement that it may be up to "the professional to take the lead very often and raise it as a subject', private wealth professionals "need to take a greater responsibility in creating that awareness."

However, the study suggests that this comes with a caveat, "if you're creating that awareness and you as an organisation aren't implementing those principles, then it's going to become pretty obvious that you're just giving a sales pitch as opposed to having anything more deeper by way of connected values." Companies tend to support charity on the Island whereas individual employees etc. will support charities which are close to their hearts or interest them most, e.g. sport, hospices, arts.

The findings of the report found that whether by impact, giving/sharing of ideas or personal experiences, it all helps to promote an awareness and understanding of the ability to make a difference through investing.

The study found that the level and contribution will differ although the desire for anonymity is fairly consistent. In Guernsey, typically speaking, such individuals prefer to keep their donations anonymous, "under the radar," "they don't actually shout about it."

Our research suggests that incredibly wealthy private clients want to at least maintain their wealth and in order to do so will need to continue generating additional income to cover expenses and inflation costs, as well as allowing them to "enable the flow from their charitable cup." It goes beyond greater accumulation or protection of wealth; it is a balance of constantly generating sufficient income to cover expenditures, distributions and disbursements and charitable giving and philanthropy without the pot dwindling.

### Old wealth versus new wealth

The study found that more and more private clients are realising that they have a responsibility to give back, particularly the younger UHNWs.

Has charitable giving changed over the years with families becoming multi-generational? Perhaps so, we regularly heard that as families are restructuring they are including the younger generations. Older wealth, particularly back in the eighties and nineties, would list the Red Cross or RAF Association amongst their beneficiaries. "I think multi-generational clients often have a well established family charitable trust."

The research found that charitable foundations and the social impact element is considered to be on the increase, "possibly something to do with social media." New wealth, younger private clients, who are more "worldly aware, more climate conscious than potentially their previous generation, they're more health conscious," are increasingly aware of a desire to give something back and many will do this by making direct contributions to existing charitable enterprises, new initiatives and green investments. "The younger high net worth individual is much more aware of the benefit of giving back to society and would look for new initiatives."

Contributors to this report claimed that the change is deemed to be down to what motivates the younger generation of private clients, "the younger generation, their drivers are completely different"; "it's absolutely true to say there are different imperatives and values that those younger generations have and philanthropy and sustainability are key components of what they would expect to be able to achieve"; largely, they want to make a change, make an impact on the world whilst also receiving financial benefit from doing so. Creating a positive impact on poverty, counselling, education is increasing, but most importantly, wealthy individuals are looking for involvement - they are more concerned with the impact their actions are having than the financial one has. "In reality, each feeds the other."

### Religious giving

Within the study, there was an observation, particularly amongst Middle Eastern private clients, that philanthropy is more of a religious requirement rather than a generational observance, i.e. the expectation that a percentage of one's income[29] should be given to charity. Muslims are expected to make compulsory charitable donations, known as 'Zakat', of 2.5% from their qualifying wealth to the 'poor and needy.' For them, absolutely every generation will be looking at philanthropic causes to support.

One private wealth professional mentioned that a private client "makes donations every year to a religious foundation." Another commented that "Jewish private bankers coming out of South Africa, they give a lot of money away to a lot of deserving causes all over Africa," directed at poverty, counselling and education and the amounts are increasing.

### The local community benefits too

The research found other examples of charitable giving may be more ad-hoc in nature, one example being the provision of a two week luxury holiday donated as a raffle prize for a school on the Island, sponsoring of children's activities, sports, etc. all invested quietly for the local community, who may only know about the philanthropic gesture "when a team comes out wearing shirts 'sponsored by …'." Wealth providers are looking to work/partner with someone with similar values which creates greater longevity. "Commercial relationship with values."



[29] One's wealth must amount to more than a threshold figure, the 'nisab' to be liable for Zakat; once liable, it must be paid immediately and then annually thereafter. Many Muslims choose to pay their Zakat during the month of Ramadan in the belief that good deeds during this month are multiplied.

## 2.10 Global Citizen

### Key Findings: Global Citizen

- Families are more likely to be spread across many countries, hold multiple passports and have investments in several jurisdictions
- Physical meetings may be less viable in future and technology may be the way forward
- Communication challenges need to tackle diverse age groups as well as multiple time zones
- A knowledge of the rules in several jurisdictions is needed to service a global client base
- Links with service providers in a variety of jurisdictions as well as opening offices in multiple locations may be helpful to service a global client base.

*"Globalisation of clients brings complexity as well as opportunities to handling private wealth"*

Oxfam defines a global citizen as someone who is aware of and understands the wider world and their place in it, taking an active role in their communication and working with others to make the planet more equal, fair and sustainable. Laudable aspirations but perhaps not quite what many in the private wealth/family office sector mean when they talk about global citizenship, although the younger generation may feel more affinity to Oxfam's definition.

What is clear is that private clients have become more international in their outlook, with a marked move to multi-jurisdictions over the past five to 10 years, according to the report's research. This evolutionary journey includes not only how the families view their businesses and the use of multi-citizenships but also how service providers respond to the challenge of overseeing investment and people scattered around the globe.

The study found that increasingly clients want to be multi-jurisdictional in their affairs and across organisations. The old adage of not having all their investment structured eggs in one basket was never more apt than in a world where wealthy family members scatter to the four corners of the globe. "We have seen a move to clients not wanting to be reliant on a single jurisdiction. They wouldn't want everything in Guernsey," explained one trustee interviewed for the report, adding: "Multi-jurisdictional and multi-banked: there is a real wariness about having everything based in the same place."

Rather than relying on a single jurisdiction, the trend is to have structures in several countries and sometimes continents. Multi-jurisdictional, multi-banked go hand-in-hand with global citizenship in the minds of most clients.

#### Globalisation of domicile

The research findings revealed that part of this is a move to be more global in investment and present scope, following the general idea of globalisation. But in reality, while private clients have passports and/or residencies in different places, businesses in Guernsey are domiciled in one place but still need to sort out tax exposure and other matters for clients in multiple jurisdictions.

While business opportunities and ventures may be in different places, with family residence anywhere in the world, companies servicing these families need to have sight of the bigger picture, something that is far more complex and detailed than just tax exposure and planning, the research showed.

The research shows that companies need information, not for control, but in order to be able to advise on the best way forward in several specific areas. "The more you ask, the more you learn, and the more you find out, the more you learn of things you were not aware of," said one respondent.

Participants shared that this is certainly a more challenging way of doing business and quite different from 20 years ago when globalisation was a concept little heard of and rarely applied to the private wealth sector. Over the last 20 years, purchases of properties and investments in businesses, as well as real assets, have moved well outside the borders of the UK or Europe and into the wider world as the client base of Guernsey-based companies has become more diverse.

"Twenty years ago in the trust sector it was very simple. Predominantly we'd pick up UK trust business and perhaps something in Scotland and work was pretty straightforward. But within 10 years, that landed estate, for example, is then investing in other businesses and going outside the UK. Families are starting to move as well. The work becomes broader and more global," confirmed one trustee.

## Mobility

The research found that mobility is a large component of the concept of global citizenship and in general globalisation of investments, as well as holdings for families. Today, families are more international than they used to be, whether they are ultra-high net worth or not. This is reflected in the range of clients seen in Guernsey.

Most private wealth professional interviewed do not geographically categorise private clients, since family members may reside in several countries, with assets in a variety of jurisdictions. This may seem to add complexity to the servicing of these clients but it is also one of the drivers as to choice of structure and service providers. For example, an efficiently structured vehicle can help to resolve the complex cross-border issues thrown up by assets spread around the globe, along with the family members themselves.

A borderless world lends itself to multi-jurisdictional offices for private wealth professionals, too. The research showed that many with offices in Guernsey were also present in other jurisdictions such as the British Virgin Islands, Switzerland, Hong Kong and other places where clients or their investment reside. As more private clients come from China and Asia, as well as Indonesia, it is likely that more Guernsey-based firms will be looking to establish overseas offices closer to those areas.

Some, however, take a different course in responding to the internationalisation of wealth and work. "We took the view that realistically we want to work with a smaller number of clients who have more complex issues because that's more suited to Guernsey," said one trustee.

Most of the clients are "constantly mobile," according to the research. Because they do not spend much time in one place, it is essential to have the ability to communicate with clients in a variety of ways. While face to face meetings are still important, other ways of being able to gather dispersed family members for decisions is needed. When a physical meeting is needed, the research showed London was a favourite stop-over for many clients and easy for Guernsey companies to get to, although the odd client might turn up in Guernsey aboard a superyacht.

## Complexity of life

One challenging area for multi-jurisdictional investment revolves around mega conglomerates of private equity-backed investments. These may be spread over 10 or more places and can add to the complexity of the deals but also make it more difficult to wrap up the whole into one comprehensive picture, the report reveals. The pressure to deliver returns to investors means most of the service is focused on that area. However, there are other aspects that may also need to be covered, such as tax and regulatory reporting.

The research revealed that understanding the rules and regulations, as well as business norms for a variety of countries, adds to the strains of servicing globalised clients.

The research showed that most firms believe they are up to the task of overseeing a wide range of activities from buying a property to supplying a management team, relocating business, managing multiple assets or simply moving a family from one country to another. Being able to have the necessary information and make all the processes go smoothly is a new talent that Guernsey businesses are fast developing.

Coordination is key to making all these processes go smoothly, as well as the ability to work collegiately where needed with other offices and service providers, something at which Guernsey firms are known to be skilled, according to the research.

Global citizens also require global communication solutions. Being conscious of where beneficiaries reside and what they should be aware of in terms of matters like taxation or resident permits, is all part of the new skill set needed by companies in the private wealth world.

"Communication: you need to be aware of it, you need to get on top of it. It is something that should be embedded in the way in which you interact with your clients. But undoubtedly that's the most complex aspect of having a broader mobile family," remarked one trustee interviewed for the report.

## Tricky family situations

The study found that the family's own dispersal effect may be across several incompatible jurisdictions. For example, children may go to university in the US and want to stay on after graduation, meaning they would need a green card to work there. However, as the US tax rules have extraterritoriality, some may not be aware of the short- or long-term consequences of working in the US for tax purposes.

Our research found that some Guernsey companies draw the line at policing the behaviour and decisions of clients. Nevertheless, they have a responsibility to local and extra-jurisdictional regulators. With the need for greater tax transparency one of the main priorities of most countries, this will usually draw Guernsey companies into the need to make multiple jurisdictional filings. This is where being expert at online reporting comes into its own.

Interaction and communication with clients scattered around the globe is challenging but equal to this is also ensuring that family members in various places have the funding needed to support their lifestyles. Doing that efficiently and effectively without incurring large fees or tax charges is an area where Guernsey firms are becoming more adept, the research showed.

Communicating in the right way to various family members of varying ages in multiple locations is a challenge. A broad international family base requires more cohesion in communication and should not add to creating a dysfunctional family unit as far as management, investment, tax and other issues are concerned. While most Guernsey companies will want to side-step internal conflicts within families, the fall-out could have implications for the services they provide and the way they provide them.

The study revealed that having awareness of potential conflicts and raising issues before they become problems is another new talent Guernsey companies are adopting as private clients become more global. It is increasingly important to create a way to keep family members informed and in an enjoyable manner, as it may no longer be sensible to get everyone around a boardroom table in Guernsey.

## Creative services

Guernsey firms are becoming more inventive with how they can create value in this area and finding how decisions can be done without the need to physically meet. Increasing use of social skills as well as technology will go a long way to keeping families running smoothly, according to the research.

The more esoteric aspect of global citizenship coalesces around concepts such as environmental, ethical and impact investing. While the research showed most believe there is more hype than substance around such concepts, it is clear the younger generation – not necessarily the immediate group in line of succession but one removed – will be far more concerned with global social issues and may put more pressure on those looking after their wealth to focus on areas that, for example, reduce the effects of climate change or promote women-owned businesses.

The concerns and passions of this younger generation are likely to be more in line with Oxfam's ideals and present a bigger challenge to those trying to make the aspiration reality – and still create, or at least preserve, wealth.

"What we really need to do ideally is be a leader or at least promote ourselves as a jurisdiction that is treating issues like climate change and sustainability quite seriously. You've got the label for being 'green', what's actually happening underneath that? Are you living those values? Do you have a way to properly support all these values," questions one trustee.

"It's early days, but I think that the commitment is there and I think that if actually that can percolate down to much of what we do and the organisations with which we work, then it gives a better, more informed position when talking with your clients.

These issues are rising up the agenda, especially from the next generation," he added.

The future global citizens will want to see their trustee and investment managers cover a wider range of areas than many firms are used to considering at present and will demand more detailed reporting and evidence of social and environmental impact.

The research also touched on the future need to channel the better characteristics and aspirations of being a global citizen into a coherent strategy and reduce potential exposures not just to tax but to the pitfalls of working across multiple jurisdictions.

## 3.1 Coronavirus COVID-19

The virus known as severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) is responsible for the coronavirus disease (COVID-19), as reported by the World Health Organisation (WHO), which commonly refers to it as "the COVID-19 virus" or "coronavirus disease".[30]

COVID-19 has spread rapidly across the globe; it is now a global pandemic. Confirmed cases of coronavirus are expected to peak internationally in May 2020. The global economy is expected to go into severe decline and a deep recession.

Across the world, governments and banks are doing whatever they can to ensure businesses and individuals make it through the pandemic and so are then available to contribute to the recovery process.

The ability to close its borders is perceived as a "unique strength"[31] in Guernsey's fight against coronavirus and has surely helped in keeping the number of related deaths so low - fairly stable at less than 0.006% of the world total in April 2020.

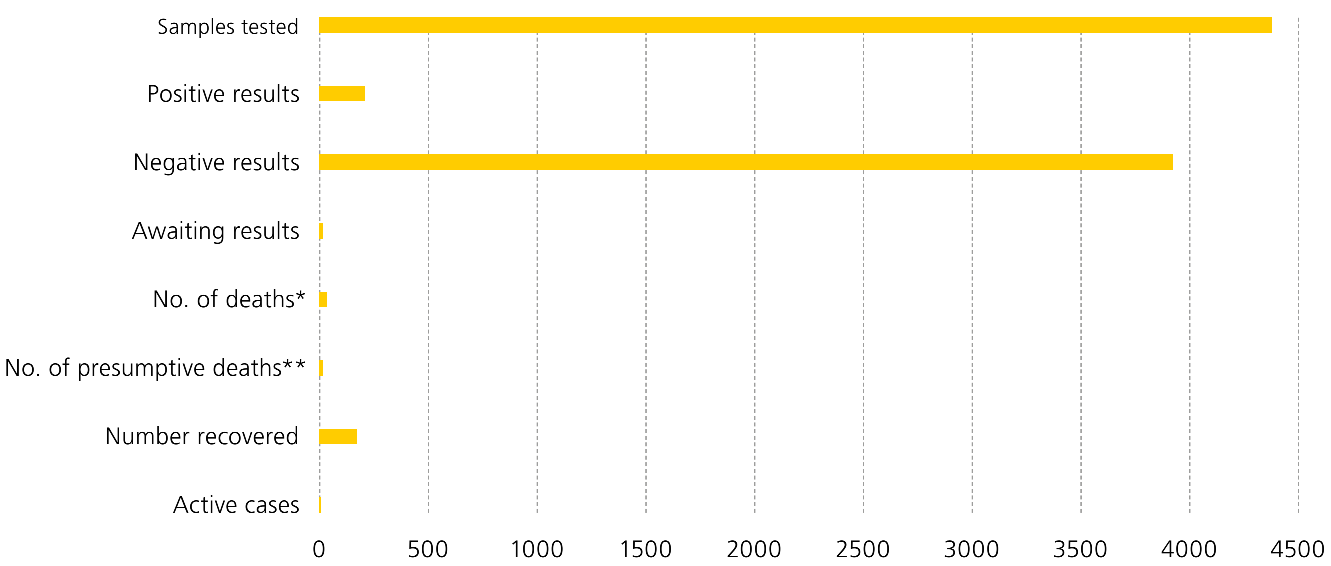
Globally, people are thinking hard about how to protect the health and wealth of themselves and their families. This pandemic is a profound concern to all. Companies are reacting to new ways of working, not just to provide business continuity but also to protect their most valuable assets, i.e. their employees and their families.

With this unprecedented situation continuing to develop, as part of this research study, we conducted a survey amongst private wealth service providers in Guernsey. This additional research was to establish how the pandemic was impacting private wealth on the Island. It is clearly recognised that in such fast developing circumstances, that even by the time this report is produced, the situation, outcomes and outlook may be extremely different than at the time of going to print (May 2020).

At the time of writing, the current figures for Guernsey are as follows:

- Confirmed cases - 252
- Recovered - 236
- Deaths - 13

Figure 27: Guernsey coronavirus statistics




* 2 of the 13 deaths occured in hospital
** presumptive deaths have been reduced by one as retrospective review of one of the presumptive deaths concluded that the death was not COVID-19 related.
There have been no new confirmed cases of COVID-19 within the Bailiwick for 20 days.

[30] WHO, Naming the coronavirus disease (COVID-19) and the virus that causes it
[31] BBC Guernsey, Border closure a 'unique strength of Guernsey, 15 April 2020
https://covid19.gov.gg/ 20 May 2020

### The impact of COVID-19 on the Guernsey private wealth management

### Research Population

45% of the 40 survey respondents represented Trust and Fiduciary businesses; 'other' businesses included those involved with Precious Metals, Estate Agent & Property Management and Fund Administration.

Over 87.5% of the respondents were from companies who have up to 50 staff members, with 25% of these representing in excess of 500 clients.

Figure 28: What is your type of business?

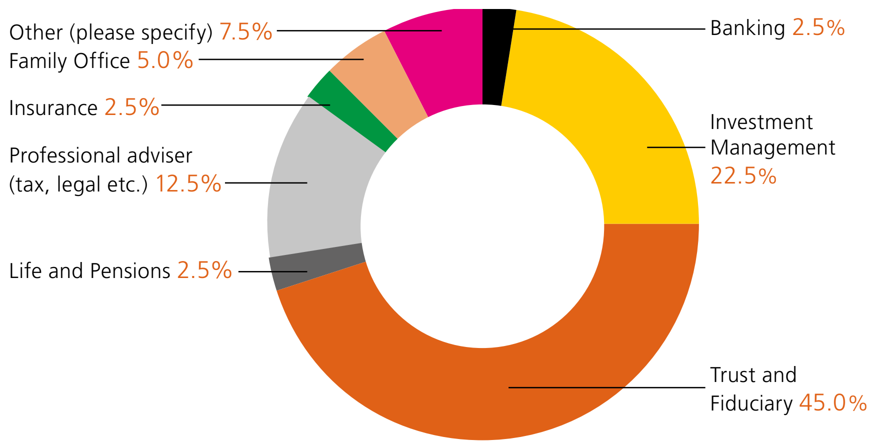



Figure 29: How many staff do you have?

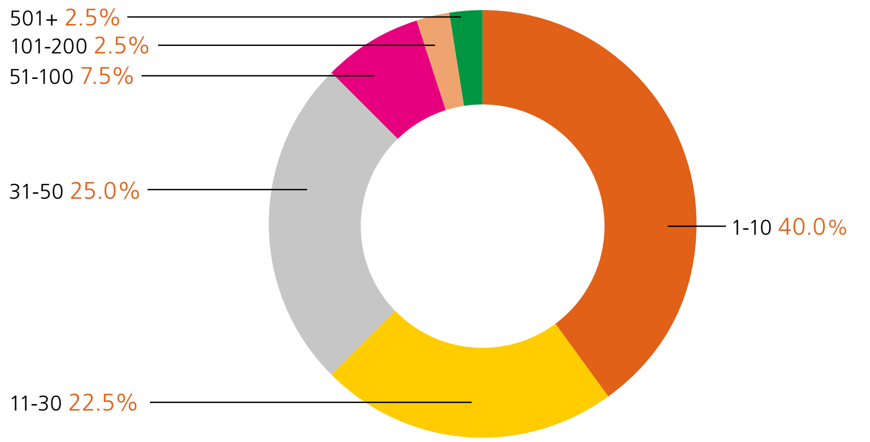
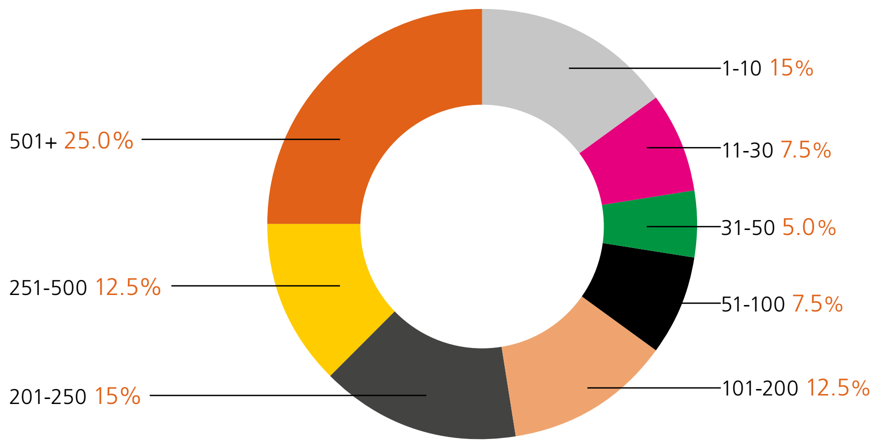



Figure 30: How many clients do you have?



## How businesses have been affected

Unsurprisingly, the vast majority (91%) of companies represented have been affected by the Coronavirus at the time of writing this report. Just how businesses have been affected has varied across the wealth management sector. There has been a decrease in chargeable time and new business development, largely due to home/remote working and the inability to travel. "It's not possible for all staff to be as productive from home versus [the] office environment." Several businesses have seen an increase in costs for IT systems and solutions, largely attributable to providing employees with resources for home working. Real estate has almost come to a standstill in terms of sales and new instructions, meaning those working in this market are unable to go about much of their usual business. Mortgage facilities have been withdrawn and tenants are already "falling short of rent commitments."

The predictions for how long they might be affected varied from as little as one month to over twelve months, clearly "not an exact science." "Lack of business development activity has a significant impact on the business on a forward looking basis. We forecast a natural reduction in existing client base of between 5-10% per annum and it is therefore important that we are able to travel to see new clients if we are to replace those clients that have left." A potential concern then, as off-island travel is expected to take longer to normalise and "global economic downturns usually make new business more difficult to find."

The range of how the current pandemic might alter business objectives and operations in the future revealed that some businesses were prepared for such an adjustment to ways of working, "We were perfectly prepared for this event and all working from home within two days." Whereas several weeks into the 'lockdown' another reported that their "operations are evolving to adjust to the current norm." It was suggested by some that home working may become more prevalent although travel restrictions may hinder business development opportunities. Only 3% did not expect their objectives and operations to be affected going forward, whilst 44% believe that their business will be affected between three to six months.

## Business Continuity

Most wealth management companies were in a position to react fairly swiftly to the global pandemic. They had business continuity plans (BCP) in place, although the majority were not prepared for the speed and unforeseen disruptions of this pandemic. Measures were implemented to protect their workforce as well as business continuity. Employees were asked to work remotely (e.g. from home) or on shift patterns to stagger and reduce the number of people in offices.

Only two respondents of this survey said they did not have a BCP in place and whilst no plan can cover all eventualities, what has proved to be important is that they can be easily "flexed in a common sense manner." Of those who had considered business continuity in times of adversity/disaster, only 32% of them had considered the impact of such a pandemic occurring, with the majority (82%) reporting their plan to be at least "very effective."

The previously unrelated installation of a reliable "operating system enabling a seamless switch to home working" and "good broadband, mobile and landline connectivity" have clearly contributed to this.

Figure 31: For how long might the COVID-19 pandemic affect your business?

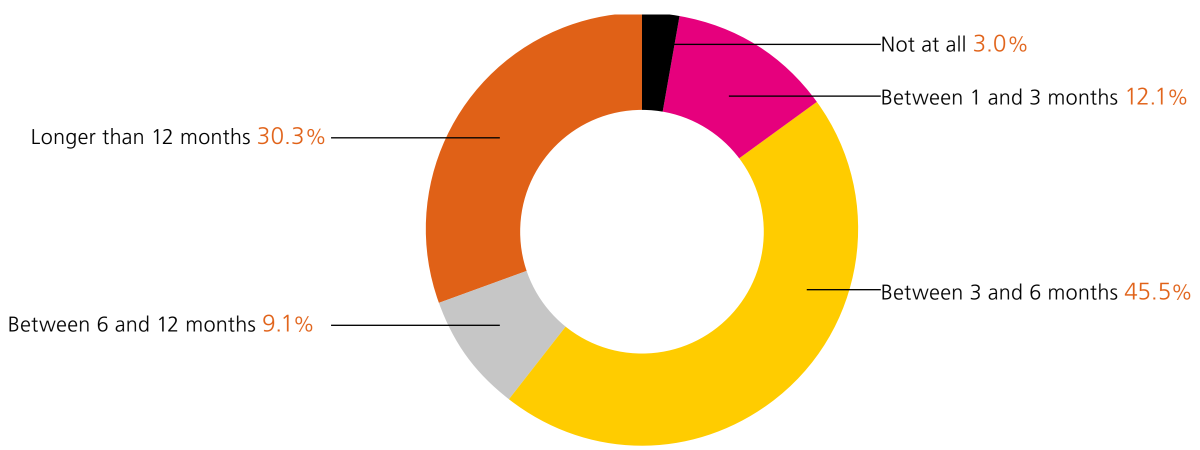
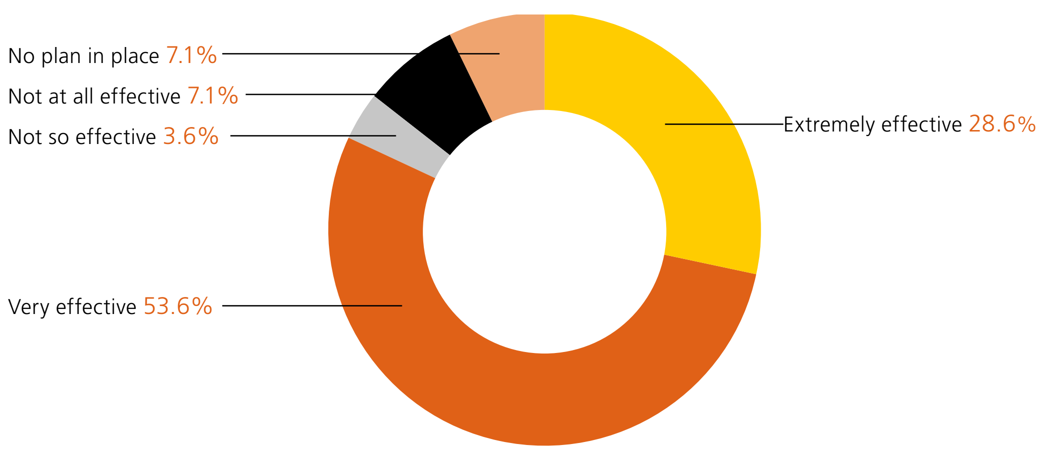
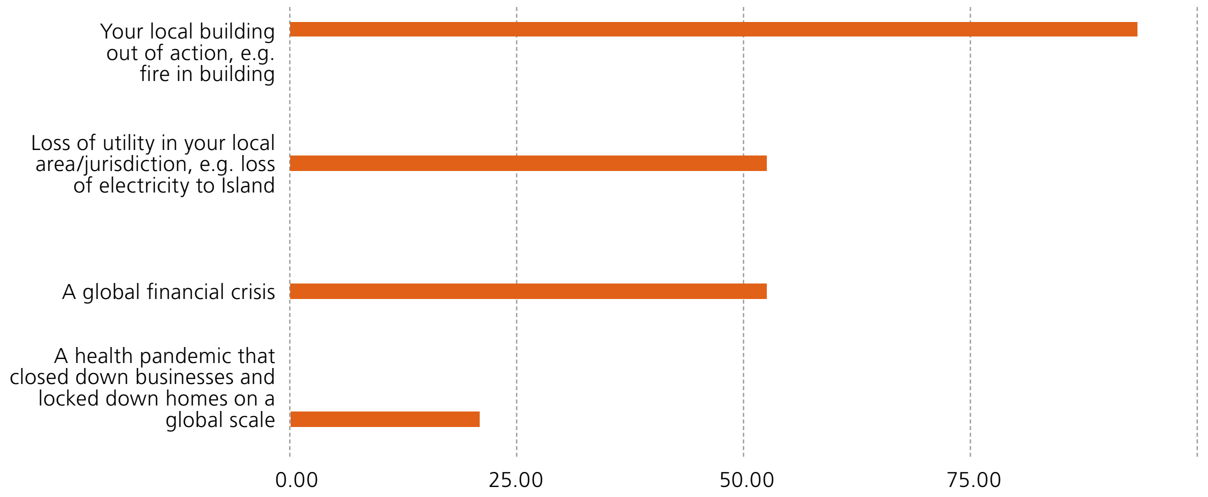



Figure 32: How effective has your business continuity plan been?



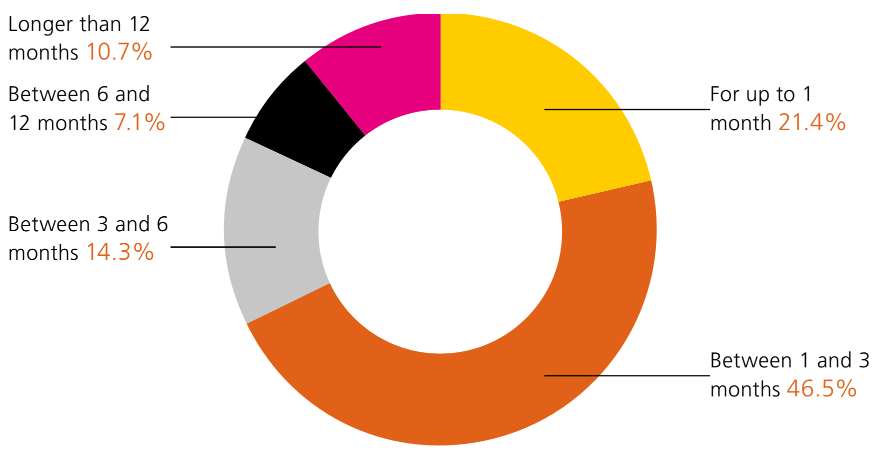
Whilst most BCPs assume "various time scales and is not specific on a scenario," approximately 68% of plans were written with the expectation that the business would be either affected or out of action for up to three months. However, only 22% considered a health pandemic that closed down business and locked down homes on a global scale.

Figure 33: In your business continuity plan did you plan for the eventualities of the following?




Consideration also needed to be put in place in the event of key personnel not being available due to illness, quarantine, or worse. Relationship managers can be essential here as lack of continuity or contingency for meeting client needs may result in client dissatisfaction and a perception of bad service. 67.8% considered that their business would be affected for up to three months, whilst an additional 14% said that it might be between three and six months.

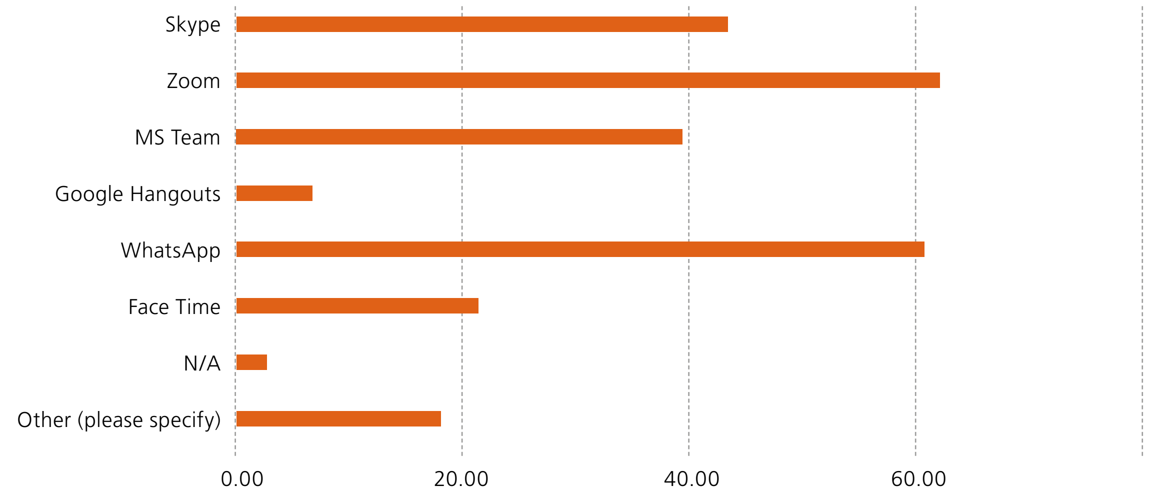
Figure 34: How long did you assume your firm would be affected/out of action for?




## Video conferencing

With the government providing strong guidance and reminders about social distancing and working from home where possible, it will come as no surprise that over 89% are reported as home working with a very small minority either still visiting the office or a combination of the two. All but one of survey participants have conducted a variety of meetings, including over 75% with clients, using video conferencing to good effect, so successfully in fact that over 89% would increase the use of such methods in future.

Figure 35: What video conferencing system have you used?

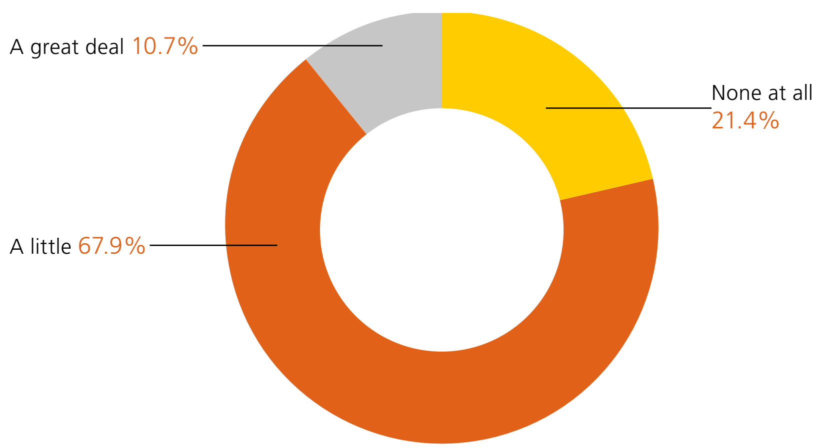



Other systems used included Houseparty and Webex

## Stock market collapse

As the coronavirus crisis ravages the world's investment markets, We Are Guernsey[32] reported that climate change stocks, those with "strong environmental credentials" are "outperforming the market." Governmental guidance, restricted air travel, deliveries and a reduction in industrial emissions have clearly been brought about by the pandemic, but "there were also signs that ESG factors provided useful guidance for investors looking to understand how companies and sectors are exposed to the crisis." It was said that "exposure to climate finance showed those with good governance practices and high levels of exposure to long-term green growth markets should find themselves better positioned to manage short-term economic shocks" and for "investors to see ESG as a defensive characteristic."

Figure 36: What effect has the stock market collapse had on your company?




[32] weareguernsey.com, Climate Change Stocks Outperforming the Market during COVID-19 Pandemic, 8 April 2020

No respondents to this survey reported having seen a significant impact on business by the market crash at present but remain realistic as it is "difficult to assess at the present time." One company commented that it provided additional scope as they "aren't exposed to the markets but see this as a potential opportunity to enter at low levels in a modest way." Another positive response was that the crash brought in additional business for them in terms of alternative investments; contrasting with another who reported the reduced value of investments had consequently lowered commission.

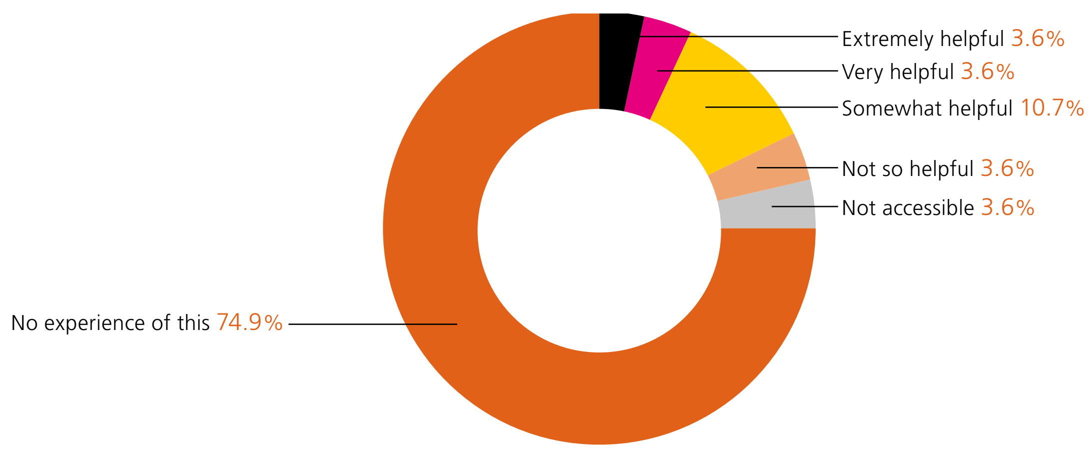
Nevertheless, the majority are waiting to see the real impact over the coming months. An estate agent said the actual impact will "become apparent over time when the property market can get up and running again." Most reported an indirect impact, the direct ramifications have been felt by clients and accordingly the AUM. The feeling is generally one of optimism based on previous experience. "This is a particularly large bump in the road but we have cushioned falls and clients are appreciative and understanding." "AUM down and income down, but expected to recover over the next 6 - 12 months."

## Extension of credit facilities and government assistance

Reassuringly, over 96% of companies have not needed to extend their credit facilities with their finance providers. Unfortunately for the one company that has needed to, no facility has been available to them.

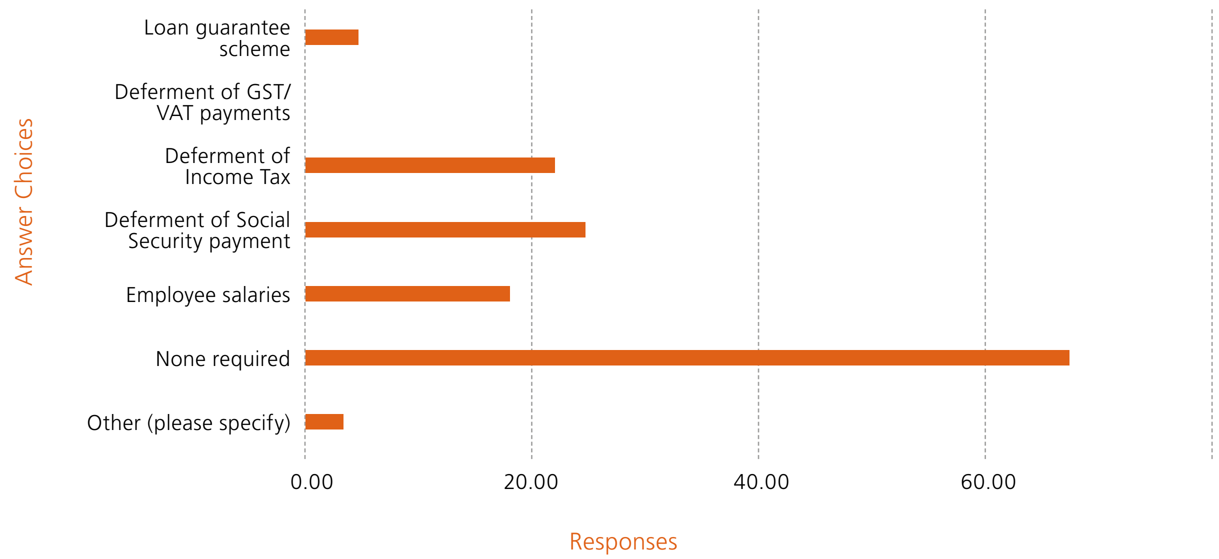
Although none of the survey's respondents have required assistance from the local government, two companies have requested deferment of social security payments and another had applied for a small business grant. Feedback on local government assistance has been varied, it ranges from being a "useful potential backstop" to disappointment that "financial services have been excluded and left to fend for themselves." An interesting personal perspective was that "the local response has been worrying. Minimum wage is nowhere near a realistic measure of the cost of living for most of the island's population."

Figure 37: With regards to local government assistance, have you found this to be ...




We have no idea how long the pandemic lockdown will continue for and it was generally perceived that the longer it goes on the more likely some governmental assistance may be required by some, i.e assistance with employee salaries, deferment of income tax and social security being the most likely.

Figure 38: Which of the following elements of government assistance might the company require if the pandemic lockdown continues?




One who isn't currently being financially affected but is keen to get back to communal office working shared an opinion voiced by many outside the survey, "I would encourage a phased and safe return to work so that the lockdown restrictions are eased, including for office work, subject to the facts the government team have available [to] support this."

Slightly more than a third of the respondents have received a range of support from GFSC, mainly in the form of deadline extensions, "guidance on electronic verification" or "regular updates regarding changes to standard regulatory practices such as certification of documents, or verification of identity."

## Client base

86% of Guernsey's service provider clients have been affected by the COVID-19 pandemic. The financial impact has been down to a reduction in value of their investments or some businesses have been closed, e.g. hotels, restaurants, retail, which has caused "severe losses" and may take longer to recover if they are able to survive the 'lockdown'. The majority reported only economic impact and just a few reported health implications for their clients, one anecdotal comment being that "finances can usually be repaired over time; health may not be!"

The same percentage have seen their investment portfolio affected, the extent of which understandably varies from "marginally" to a "sharp drop"; "precious metals prices have risen… offset by (often much) heavier losses in equities/funds," "property transactions have fallen through," "credit facilities reduced" and "volatility is up."

As well as concerns about their health and their families, clients are understandably concerned about their wealth, the unknown time period and impact on their businesses; "keeping their business solvent," being able to "maintain existing asset values," "liquidity," "recovery of markets" and the "economic and social stability." Private clients, like most of the global population it seems, are asking, "What the new 'normal' will look like. Behaviours are likely to change but no one is certain how." They are worrying about "adapting to the post Covid-19 challenges when we don't know yet what this will look like," but do expect it to have "economic implications" and a "prolonged slowdown in the global economy with no 'V' shaped recovery."

The stock market instability has had an impact just about everywhere, including real estate, its "shrinking market with both house buyers and investors exercising caution." Where "clients were defensively positioned with their portfolios they have only suffered about 30% of the market sell off" and confidence has inevitably taken a knock, but service providers remain largely optimistic, "it will bounce back."

Very few companies have needed to make changes to their client relationship management, keeping things "broadly the same," or they are "trying to ramp up [our] client contact and the advice" on offer; an escalation in contact largely being via telephone conversations or increasingly video conferencing, where client confidence allows. The lack of overseas travel has impacted but service providers taking a "proactive stance in regular communication" using either more or alternative methods of communication appears to have reassuringly resulted in reports that this pandemic has "strengthened relationships."

## Post COVID-19 pandemic

Schroders[33] speculated the pandemic may "prompt companies to rethink their office space requirements and whether they can be used more efficiently" post pandemic; they do emphasise nevertheless, that they would advocate that "offices continue to be the best place for communicating with colleagues, meeting clients and promoting company culture." Responses from this Coronavirus survey would endorse this possibility.

A significant 71% of service providers believe that this coronavirus will "undoubtedly" result in changes to how they work in future, with "remote working" and "increased use of on-line meetings" seen as inevitable outcomes; "we may allow more staff to work from home as it has been quite a success"; "we have demonstrated the opportunities that flexible and [remote] working offers"; "more engagement with clients and use of video-conferencing for inter-office meetings"; embracing "technology to allow greater flexibility and mobility of workforce" all attest to this.

Significantly, there appears to be an expectation that flexible working policies will be extended or introduced where they were not previously in place. "The effective way that we have worked this past month gives confidence to allow the team even greater scope to structure their work/life balance. Our clients have seen no interruption in service or delays and the team have responded magnificently." However, it doesn't suit everybody and brings challenges; "working from home is something that we have adapted to but it isn't easy, it's not enjoyable, and I can't wait to get my team back into the office. A lot of value and efficiency comes from being together. Effective leadership is far more challenging with the team working from home."

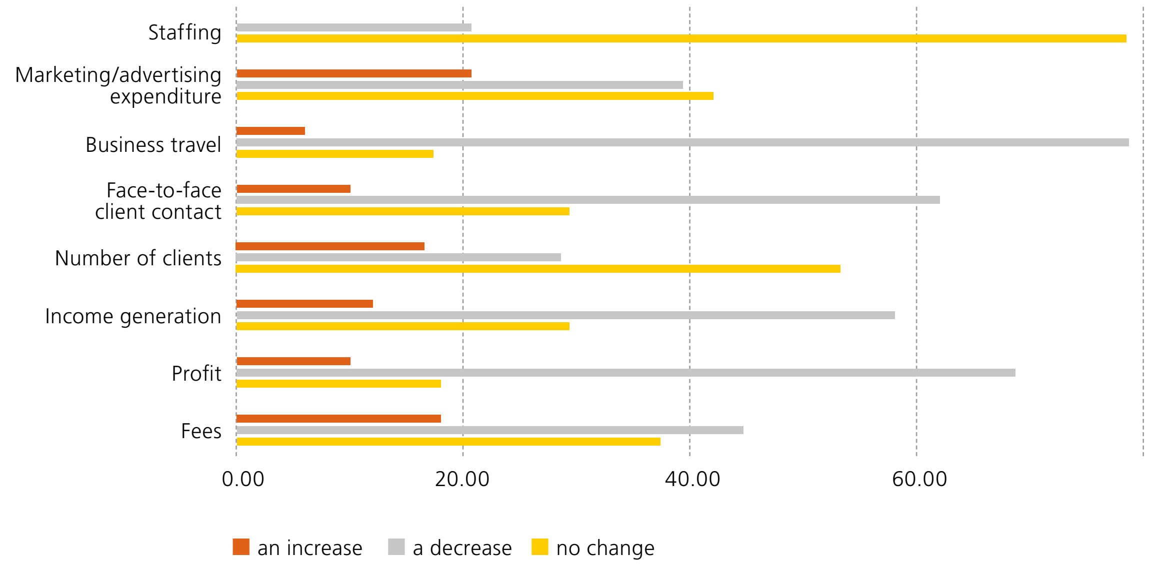
One service provider hopes to see an increased appetite for "embracing digital solutions"; another would expect to see a "re-evaluation of things previously taken for granted" and interestingly, "it seems obvious to say that we might well review our commitment to occupying a prime office site," with another adding "I think we will rotate staff working from home on occasion. We have proved that business can be maintained and managed effectively on a remote basis. Going forward, at least some of the team could work from home in any given week." Continuing and improved focus on staff wellbeing and flexible working were frequently mentioned as possible corporate change outcomes post pandemic; "the level of care for each other's wellbeing has been demonstrated and will be appreciated more"; "respect for one another should increase"; "more collegiate"; "more flexible working hours and locations"; "a drive for more autonomy in our systems and the way we work"; "less travel, more flexibility for work from home if staff want to, more use of video conference technology." This greater flexibility is seen as an opportunity to "improve morale and performance." A win-win perhaps for employees and employers?

Whilst we must all fervently hope that such a pandemic never happens again, some have already given thought to what might be done differently. "Possibly react a little quicker next time." Greater consideration to home IT systems and improved IT skills for some seems an almost certain outcome, "have the IT infrastructure in place ahead of time," "ensure staff home IT is improved in terms of equipment," or "the use of homes to mimic the office exactly," "better internet" and to "ensure that all significant systems are easily accessed remotely." Where effective systems have been in place it has been noted that "many clients think we are still working at the office."

Other lessons are being learnt too. Whilst business continuity plans are common, implementation of them is rarely conducted; the pandemic has provided "an excellent exercise in the actual roll out" and the majority of business has been able to continue seamlessly despite the disruption to 'normal' ways of working, "how adaptable business practice can be given a force of circumstance." However, one respondent may not entirely agree, having learnt that "some significantly sized businesses around the world have surprisingly little liquidity and resilience!" All staff do not need to be "present in one physical location," business can be effective from remote locations and travel is not always necessary as virtual meetings have proved to be successful.

The importance of record keeping methods was raised by a small minority, indicating there is a "need to keep more data electronically - access to hard copy files from home was difficult and inconvenient." Some regular government actions were questioned; the "suspension of certain government and legal 'bureaucracy' only proved some of these functions are not necessary," suggesting that the "Government needs to update certain processes and can operate with far fewer elected representatives." Much has also been learnt about the importance of communication, not just between work colleagues but also with clients. "Relationships are absolutely key so reaching out to clients first before they contact you is very important. We have endeavoured to do this as effectively as possible."

Figure 39: How will COVID-19 affect:




## Post COVID-19 expectations

All respondents believe COVID-19 will inevitably have an impact on future business but the significance of this is likely to vary with most (71%) expecting it to be minor. A reduction in business related travel and face-to-face client contact, and consequential costs, seems certain, which will surely help those businesses who expect to see a decrease in their number of clients, income generation and profit, whilst they potentially need to reduce their fees.

Time will tell… however, it would seem that some lessons learnt during the early stages of this pandemic, i.e. the use of a variety of communication methods and notably, video conferencing, would perhaps negate challenges discussed in the previous chapter relating to the global citizen and families being internationally dispersed. Anecdotally, many have been surprised at the changing or increased abilities of all generations to adapt when no other option is available to them.

[33] Schroders, Coronavirus: the views from our private assets experts, 30 March 2020

## 3.2 Guernsey Private Wealth – The Future

### Key Findings: The Future

- Clients are becoming more international and expect the private wealth sector to offer more global solutions
- There is a need to shift to larger structures that are more cost effective
- Transport and communication infrastructure able to support an international and large client base will be needed
- More innovation is expected in the fiduciary area than in other financial services.

While it is unlikely anyone will meet Captain Jack Sparrow strutting around Guernsey, at least one banker thinks the Island's pirate past may be part of the foundation for future financial stability and success of the private wealth sector. We Are Guernsey is not quite the same as the Guernsey militia defending the Island during the Middle Ages and for a further 600 years against pirates, but it is the organisation many see as key to the future of the Island's international financial private wealth business.

The research found there is a collective will to be adaptable and to defend, where required, Guernsey's independence in the rule-making area. While there is no move to become independent of the UK at the moment, the research revealed there is always potential for regime change in any jurisdiction. The Island traditionally has always been looking for ways to diversify the financial sector, extending into family offices, green funds and other structures most recently. "Guernsey Finance is always looking for the next way to diversify the finance sector. Historically in the 1960s it was the merchant banks that came here, then extending onto private banking, moving into reinsurance and now it is family offices - whatever the next thing is. They continually look for the next thing that will keep Guernsey's economy thriving," said one respondent interviewed for the report.

He cites a workforce created over the past 30 years in the finance industry, a high level of education locally and a less expensive alternative to London. Guernsey is often seen as a small micro-centre of London, where the cost is slightly less because the prices of property are lower but the level of expertise and experience has been growing for the last 30-40 years.

#### Initiatives

Not resting on its laurels, Guernsey is continuing to expand and looking for new ways to attract more business. To do this a lot needs to happen over the next five to 10 years. One is a way to replace its ageing population with more skilled workers. Perhaps the biggest challenge often cited is transport infrastructure, particularly in the airline sector that now faces severe financial strains due to the coronavirus pandemic.

The study found that others see a wide variety of issues Guernsey needs to tackle around family offices and private clients in order to keep relevant and competitive. Some believe it is about connectivity, diversifying the economy, understanding the niche Guernsey occupies now and wants to in future and developing the Island in order to achieve this.

"Guernsey is very different," said one trustee interviewed for the report. "It is very different from Jersey, which is larger and different in terms of its culture. The nature of competition is perhaps more 'gentlemanly' than what one would find in Jersey. Businesses focusing on local clients are just as competitive [but] perhaps in a slightly more gentlemanly way."

Whether this will be a competitive edge in the future remains to be seen. Another participant believes the Island is becoming more dynamic, with people creating opportunities rather than waiting for new business to come to them.

#### Polishing the reputation

Another challenge for the next decade is to escape the legacy of being seen as a tax haven where dirty money migrates. The Island, research showed, needs to continue to promote itself as a jurisdiction of professionalism that is highly regulated.

Compliance will increase as well as tax transparency through rules such as the Foreign Account Tax Compliance Act (FATCA) and with anti-money laundering rules becoming even tighter and more stringent. Overall, the research showed the consensus is that "if you try to hide your money or launder your money or do anything dodgy, you're not going to come [to Guernsey]. It just doesn't make any sense."

Nevertheless, there is always an opportunity even if Guernsey may need to change its mind-set and approach to remain relevant and competitive, the research found.

"We are very excited about the trust moving into the US, building up the network globally and looking for acquisitions and opportunities. We are also looking at how to expand our own services to give us an extra set of tools in the proverbial toolbox," noted one private wealth professional interviewed for the report.

Research also showed that some believe Guernsey needs to shift to larger structures that are most cost effective. As families become increasingly international, with technology even more important to achieve this, the Island needs to maintain its communication infrastructure and ability to provide fast and reliable connections to the world.

### Technology and communication infrastructure

Harnessing and embracing technological solutions for things like electronic client due diligence was suggested as a possible trend for the future. As private clients are more international, the fiduciary sector needs to have the technological means to combine information in a safe and reliable way, according to various regulations like General Data Protection Regulation (GDPR) etc. Over the next decade the research suggests there will be an accelerated move towards more digitalisation of information and data held on and shared about clients in the private wealth area.

For some research participants this means Guernsey will be able to get back to what it was seen to be expert at: collaborative relationships. This also ties into the consolidation of the private wealth sector that the research shows many believe will continue apace over the short to medium term.

Smaller trust companies have all but disappeared and many expect this trend to continue. Instead the report discovered that many believe the future profitability of Guernsey will be led by finding ways to deploy the expertise that exists and continue to attract talent to the Island.

Technology and innovation will assist in this transformation and the research suggests some believe this will allow Guernsey to "get back to what it is really good at," which is domestic collaborative relationships. Without this, the raison d'etre of the Island's fiduciary industry would be called into question and clients would move to another jurisdiction, such as Switzerland.

"We are all under the magnifying glass now – Guernsey, Isle of Man, Jersey, Bermuda, British Virgin Islands. We have just got to continue to offer the offshore services that we have always offered but the high net worth industry needs to think of other ways of distributing their product and that is by partnering with people," explained one trustee.

Most of the consolidation of the industry so far has been seen in smaller firms, some of which quietly disappear as founders move into retirement. The research supports the view that trust companies of three to five will not be viable in future and companies will need economies of scale. This would also support the expansion of back office growth and the use of technology for many operations.

### Outsourcing and expansion of service offering

The study found that another related trend is that wealthier private clients are also looking for bigger structures for outsourced family office services. Many believe keeping to a traditional model trustee with a few investments may be a thing of the past. Rather, trustees will need to provide a more holistic outsourced family office function to cater to larger families in future.

Although the fiduciary sector may not necessarily contract as much as some expect, it will be smaller in future, the research reveals. Areas of expertise will continue to be important but, even here, the skills have changed over the last five or 10 years and are likely to change even more in the next decade, particularly as innovation and technology become more prevalent. Again, the ability to provide a more rounded and all-inclusive solution in terms of insurance, investment management, banking and other services will be key to retaining clients in future, the research found.

As areas of expertise change, more innovation is expected in the fiduciary area than in other financial services. For example, there are things insurers or custodians may no longer be willing to do in future and so there may be ways in which fiduciary operators can pick up more work, such as in P2P lending where the fiduciary sector has filled in the gaps other sectors have been unwilling to service. This is likely to continue.

Another interviewee believes it will be harder in future for smaller firms to stand alone. "There's going to be scope for an awful lot of innovation to be made in technology and IT. Fiduciary firms are fairly archaic in terms of the way we do things. We still employ individuals to do the vast majority of the work. We're a little bit behind the times. I'm sure we'll look back on the days when you used to have to collect passports and utility bills and how we conducted due diligence. There's scope for an awful lot of innovation," remarked one investment manager on the Island.

With The International Stock Exchange sited in Guernsey, some believe that organisation could become even more important and influential, particularly if its rules were more aligned with those in the UK. For example, Britain has little or no regulation that affects fiduciaries in the UK and that is an area where Guernsey could "reverse engineer" to become more aligned.

### Balanced regulation

The research found that many worry about over-regulation. Looking ahead five to 10 years, the question is whether the fiduciary industry is going to be the same as it is now. Most believe it will substantially change. Several of those interviewed for the report have seen less wealthy private clients moving away from the Island because of transparency and tax reporting. The nature of the work is changing and becoming more investment related with wealth preservation a top priority rather than being in a low tax jurisdiction. Indeed, the research showed that regulation is likely to increase in all jurisdictions and those playing catch-up are unlikely to be the winners of new businesses. The flight to quality will favour jurisdictions like Guernsey, which is seen as well-regulated and stable.

## "The prospects for Guernsey remain bright"

However, there are some concerns. "One thing that would worry me, and it really affects the fiduciary sector, is over-regulation. That would worry me in say looking five-10 years into the future, will the fiduciary industry be in the same shape it is now? Is it going to look the same? I think it will be different. We've already seen smaller clients moving away because of the transparency and tax reporting requirements," worries one private wealth professional interviewed for the report.

The study found many would also like to see banks in Guernsey playing a larger role in private client offering as well as being seen to be more international. Banking in general in the Island needs to be more in tune with the fiduciary industry and what a more international client base expects.

Research also revealed that, while most people went to Jersey for property and Guernsey for private equity structures, people are moving away to onshore structures, with Luxembourg emerging as one of the main countries to benefit from this trend. However, because of changes in the UK property market, it does not matter what jurisdiction you are in for tax purposes. While some clients initially migrated from Guernsey, they found the level of service in both the UK and Luxembourg, for example, was not the same as Guernsey's model and are now questioning the benefits of moving away.

The possible introduction of family investment companies (FICs) that are seen as an option for families looking for a tax efficient way of passing on wealth to the next generation may attract more families to Guernsey in future, particularly as it is linked to another trend revealed by the research: a shift to doing more work that is effectively tax neutral.

### Neutrality

Being a "neutral" jurisdiction in more ways than tax may also help attract more administrative family office functions to work alongside the traditional trusts, the research showed. Collective management of wealth, where a vehicle is formed to manage the wealth and allocate "units" to family members, is another trend revealed by the research. These types of structures are well suited to a jurisdiction like Guernsey where there are both regulated and unregulated structures. Having an overarching structure also means families do not need to deal with multiple firms or people but come through one coherent entity. This, many believe, is an area where Guernsey could succeed in the future.

Another trend on the investment side is the formation of "club" deals, where different families come together to buy a single asset. Again, families are looking for neutral, well-regulated jurisdictions outside the Caribbean and closer to Europe and the Middle East. Many expect Guernsey to attract more families from the US and Middle East because of such trends where families do not want an onshore vehicle but need something that still protects the various family members in case of a dispute. This is particularly true of families in the Middle East, who are joining up for deals where the combined investment prospects are attractive but want the structure in a neutral jurisdiction like Guernsey.

The study found that the importance of markets outside the UK and continental Europe, such as East Africa, the Middle East and Far East, are likely to be more important in future. This also feeds into the consolidation of the private wealth/fiduciary sector where larger entities will be needed to service growing family offices and high net worths from these areas.

Private wealth services, private capital and private funds are becoming closer in the provisions provided to larger clients. There are also more in the fund sector, for example, developing services aimed at the private wealth market. Over the next five to 10 years, Guernsey will be looking to be a preeminent centre for servicing private wealth and private capital, the research shows.

This service development in both private wealth and private funds aims to enhance the legal environment for practitioners. The research reveals private wealth globally has doubled over the last decade and is where the jurisdiction is looking to pivot over the next decade. In order to do this, the industry will need to develop the services to help firms move into the private wealth market, regardless of geographical origins of the families or wealth. This means there will be more growth of international private clients rather than local wealth serviced in the Island. In terms of where this growth is likely to originate, the research shows the Far East and North America are the main areas.

In an age of increasing specialisation for private wealth services, being able to provide a good work/life environment will be an advantage and one Guernsey is looking to maintain.

Overall, Guernsey will need to innovate constantly over the next 10 years in order to keep competitive. The research found that while there are many challenges and no certainty for the future, the prospects for Guernsey remain bright as it builds expertise to service global clients.

## Appendix I: About the Author

Dr Stuart Gibson, PhD MSc DipM FCIM FCMI F IDM, is an expert in research, education, and business and marketing strategy within the Private Wealth sector.

His firm, Gibson Strategy, is a research, education and consultancy business that specialises in Private Wealth, globally.

Gibson Strategy is privileged to have a unique, independent, panoptic insight across Private Wealth due to unfettered access to both a network of service providers and Private Clients worldwide.

For over 13 years Gibson Strategy has undertaken in-depth research into the private client, private banking and wealth management industry by interviewing HNWs, UHNWs, entrepreneurs, family businesses, family offices, wealth managers, private banks, asset managers, fiduciary firms, insurance firms, legal firms and other wealth management service providers.

Previously Dr Gibson spent over 35 years collaborating with global financial organisations in Europe, Middle East, Asia, Africa and USA. After several years working in the Middle East, he moved to Jersey in 1998 and started working for Mourant, followed by over 10 years with South African banking group FirstRand (Ashburton Investments, FNB Private Wealth and RMB Private Bank). He founded his research and business consulting firm Gibson Strategy in 2011, focusing on the private client and wealth management industry.

Dr Stuart Gibson holds a PhD in Private Banking and Wealth Management and an MSc and Postgraduate Diploma in Marketing. He is a Fellow of The Chartered Institute of Marketing (FCIM), a Fellow of the Chartered Management Institute (FCMI) and a Fellow of The Institute of Direct and Digital Marketing (F IDM).

Dr Gibson has also been a Visiting University Lecturer, served as a Parent Governor at Victoria College Jersey for three years and is currently a Governor of the Jersey Brain Tumour Charity.

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## Appendix II: Research Methodology

This research study employed both qualitative and quantitative research.
The majority of the report findings used qualitative research, which was framed within an interpretive phenomenological analysis, using face-to-face in-depth interviews with 28 private clients and 56 private wealth professionals based in Guernsey.
Further analysis and findings utilised qualitative/quantitative research from three different surveys:

1) Family Office Research: independent piece of primary research by Gibson Strategy - interviews with 15 family offices/HNWs and questionnaires completed by 59 corporate service providers, commissioned by We Are Guernsey. Full Report: https://www.wearequernsey.com/media/6646/gibson-strategy-report-reporting-global-developments-family-offices.pdf

2) Green and Sustainable Finance Research: independent piece of primary research by Gibson Strategy - interviews with 20 family offices/HNWs and questionnaires completed by 50 corporate service providers, commissioned by We Are Guernsey.

   Full Report: https://www.weareguernsey.com/media/7267/family-offices-financing-sustainability.pdf

3) Coronavirus COVID-19 Questionnaire: independent piece of primary research by Gibson Strategy - questionnaires completed with 40 private wealth professionals

### The research population for main qualitative research

### Private clients and family offices

28 Guernsey private clients were interviewed, including high net worth (HNW) individuals and families, ultra high net worth (UHNW) individuals and families, high-value residents (HVRs) and family offices. The research population included a cross section of Guernsey's wealthy individuals.

### Private wealth professionals

56 private wealth professionals were interviewed across a range of private wealth categories. Participants opposite:

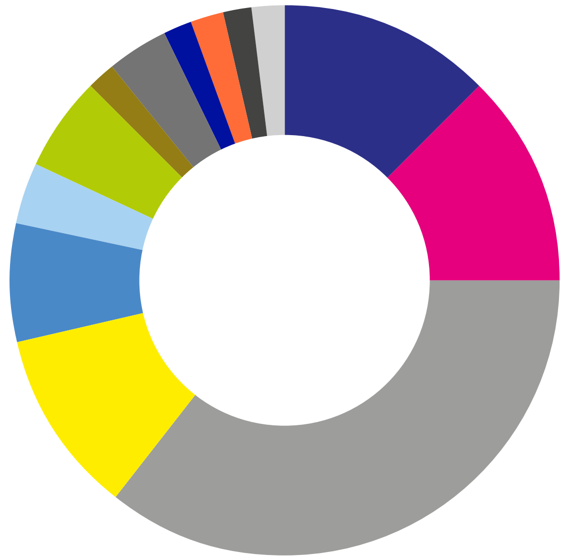


Figure 40: Split of private wealth professionals in research study

### Private wealth service provider participants included:

| | | |
|---|---|---|
| *Aberdeen Standard Capital* | *Federal Trust* | *Ocean Skies* |
| *ABN-AMRO* | *Ferbrache Farrell* | *Ogier* |
| *Active Group* | *Fitzroy Tax* | *Opus Private* |
| *Adjure* | *FNB* | *Peregrine* |
| *Albany Trustees* | *Hiscox* | *Quintessential* |
| *Appleby* | *Imperium Trust* | *Ravenscroft* |
| *Artemis* | *Innovest* | *Richmond Fiduciary* |
| *Babbe* | *Investec Bank* | *Rocq Capital* |
| *Bellerive Trust* | *Investec Investments* | *Rossborough* |
| *Bullion Rock* | *IQEQ* | *Sancus* |
| *Butterfield Bank* | *Kleinwort Hambros* | *Savills* |
| *Butterfield Trust* | *Lancaster* | *Skipton International* |
| *Carey* | *Livingroom* | *Swoffers* |
| *Carey Olsen* | *Locate Guernsey* | *Sydney Charles* |
| *Cazenove Capital* | *LTS Tax* | *Trident Trust* |
| *CooperBrouard* | *Maitland* | *Trust Corporation International* |
| *Dixcart* | *MitonOptimal* | *Walkers* |
| *EFG Wealth Solutions* | *Nerine* | *We Are Guernsey* |
| *Equiom* | *Oak Group* | |

## Appendix III: Sponsors

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www.rossborough.co.uk
www.sancus.com
www.skiptoninternational.com
www.trustcorpci.com
www.weareguernsey.com

## Appendix IV: Guernsey – Useful Websites

The States of Guernsey
gov.gg

Guernsey Financial Services Commission
gfsc.gg

We Are Guernsey
weareguernsey.com

Locate Guernsey
locateguernsey.com

Digital Greenhouse Guernsey
Digitalgreenhouse.gg

Guernsey Chamber of Commerce
guernseychamber.com

Guernsey Association of Trustees
guernseytrustees.org

Guernsey Investments & Funds Association
gifa.org.gg

Guernsey International Insurance Association (GIIA)
giia.gg

Guernsey Association of Pension Providers
gapp.gg

Guernsey Society of Chartered and Certified Accountants
gscca.gg

The Guernsey Bar
guernseybar.com

The International Stock Exchange
tisegroup.com

Institute of Directors Guernsey
iod.com/events-community/regions/guernsey

Chartered Institute of Marketing
cim.co.uk

Gibson Strategy
gibsonstrategy.com

## Appendix V: Disclaimer

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