



## **Chairman's Report – 2016**

### **Introduction**

When I took on the role of Chairman this time last year, I did not I anticipate quite how busy the year would turn out to be. 2016 certainly proved to be a year of change and challenge.

After what seemed like an eternity of lead-in and countless delays, the Solvency II regime finally came into force on 1<sup>st</sup> January. This was followed in June by the decision of the UK electorate to vote for the United Kingdom to leave the EU and shortly thereafter by the demise of Enterprise Insurance Company, both creating negative publicity for the jurisdiction.

To say it has been a turbulent year would be an understatement and as a result it feels like I have been Chairman for much longer than just a short twelve months!

On a positive note, we have continued to develop our working relationship with the ABI, particularly through the Motor Group, and have an active dialogue both with the GFSC and Government, which enables us to raise and resolve issues in a positive and constructive environment.

If 2017 is even half as eventful as the last year, we will all have our hands full!

### **Membership and Finances**

An update will be provided by the Treasurer during the AGM.

### **Solvency II**

The new Solvency II regime finally came into force on 1<sup>st</sup> January 2016. After a long period of preparation and with the implementation being delayed several times, insurance companies had no excuses not to be prepared. However, it would be fair to say that the new regime is proving a steep learning curve, both for insurance companies and their regulators, and in all European jurisdictions, not just Gibraltar.

In general, the implementation of the new regime seems to have gone relatively smoothly in Gibraltar, particularly as the GFSC helpfully provided an industry-wide reporting portal, rather than leaving this to individual members to sort out. From a capital perspective – the area which tends to attract the greatest focus from outside the jurisdiction – Gibraltar companies mainly appeared to be well-placed, with the GFSC publicly stating that only a small number were taking advantage of the transitional provisions.

However, it has become increasingly clear as Solvency II has become embedded as “business as usual” that, far from creating a completely level playing field, the new regime remains subject to considerable uncertainty, therefore requiring interpretation by regulators and licensees.

Key examples of this are around the issue of “bound but not incepted” business with regard to Excess of Loss minimum premiums, where, thanks to the efforts of the Gibraltar insurance industry, the GFSC adopted a pragmatic approach in line with other European jurisdictions. Similarly, there is an ongoing dialogue around the issue of net premiums, where the input provided by the GIA Technical Committee has been invaluable.

Industry forums have been held to discuss issues and queries around the required regulatory reporting and these are expected to continue as most licensees prepare for their first full annual set of reporting. The GFSC expects to publish shortly an FAQ document, which will set out their response to the queries raised to date.

In addition to the quantitative reporting templates, insurance companies will also be preparing their first Solvency and Financial Condition Reports. These reports will, for the first time, put a number of material disclosures into the public domain and no doubt attract their share of scrutiny from the financial press and others.

In this context, the thorny issue of Quality Assurance around reporting starkly illustrates the differences in regulatory approach taken within the EU, with some jurisdictions going down the full audit route, others preferring a “review and recommend” approach, and still others not requiring any Quality Assurance at all.

In Gibraltar, the GFSC decided to adopt a proportionate approach, going down the “review and recommend” route, which comprises a review of the processes and procedures within firms with recommendations for improvements. This will be carried out on a market-wide basis by a single firm to ensure consistency, and February and March will see this exercise kicking off, with all reports due to be issued by mid-April. While this may be a short-term distraction, I firmly believe that licensees will benefit from the opportunity of ensuring that their internal processes are in line with all relevant requirements and deliver the right outcome.

Looking forward, we can expect increased clarity around key areas of uncertainty in 2017, as not just the GFSC but other regulators provide licensed entities with additional guidance, and as processes and procedures are increasingly embedded into business models. The GFSC have already indicated that they will be looking to run a series of workshops on the annual ORSA, to ensure that the reports produced are useful and focussed documents.

## **Regulation**

With regard to the regulatory environment and the industry’s relationship with the GFSC, It would be fair to say the 2016 has been a year of “ups and downs”.

On the upside, the GFSC has continued to engage actively with the Executive Committee, with regular meetings to discuss key issues. In addition, the GFSC invited me to be part of the tender process for Quality Assurance to ensure that the industry view was heard. I felt this was a hugely positive step in ensuring wider industry engagement.

On the downside, the demise of Enterprise Insurance Company Limited created negative publicity for the jurisdiction, and has resulted in the GFSC and Gibraltar licensees coming under greater scrutiny from other European regulators. The direct result is that the passporting process and requirements are going through a period of change, with greater onus on licensees to demonstrate their knowledge and experience of the new market and therefore an increased scrutiny from the GFSC in this area.

Similarly to the insurance companies it supervises, the GFSC has also come to grips with the new Solvency II regime, engaging not just with the industry, but also with other regulators and EIOPA itself.

There have been changes within the team, with new recruits joining, including short-term secondments, and existing staff taking on new responsibilities. Much of this change has

been seen on the authorisations side, where new processes have been put in place and now reflect Solvency II requirements. The industry now believes it is essential that the regulatory authorisations process is streamlined in order that Gibraltar can regain its cutting edge in terms of speed to market.

During 2017 we will no doubt see further engagement from the GFSC with the industry. This will involve not just the prudential team, but we should also expect a greater focus on conduct issues in line with actions taken by other jurisdictions. As an association, we will continue to work closely with the GFSC to ensure that Gibraltar remains an attractive jurisdiction in which to conduct insurance business.

### **Gibraltar's Reputation**

In addition to the regulatory challenges outlined above, the failure of Enterprise Insurance Company also resulted in recent negative comment in the Irish press. This coverage was entirely one-sided and has drawn a strong response from me on behalf of the Gibraltar insurance industry and from the GFSC.

Singling out another EU jurisdiction, in the way that the Irish press chose to do, has the potential to undermine the entire concept of passporting and freedom of movement of financial services, and I can assure you that we will resist this in the strongest possible terms.

During 2017 we will seek to get the positive message out there that Gibraltar is subject to the same Solvency II provisions as the rest of Europe and is very much at the heart of strong insurance regulation.

### **Intermediaries**

The intermediary sector has remained relatively inactive as a unified body, with intermediaries largely acting independently. However, the intermediary members of the GIA were consulted on the submission to the Government of Gibraltar on Brexit and were supportive of the paper submitted.

During 2017, we will continue to seek wider engagement of the intermediaries in industry issues of relevance to them and seek more active involvement from these members in the GIA. We have seen increased involvement due to a recent issue involving a UK intermediary under-cutting the market locally, which demonstrates the importance of acting as a unified body in the face of challenges.

### **Insurance Managers**

Insurance managers saw the GFSC commencing a thematic review during 2016, with all companies being required to provide detailed information on their operations. During 2017 we expect that the GFSC will review the information it has received, carry out a number of on-site visits of managers, and report its findings later in the year.

### **Association of British Insurers**

Largely through the Motor Forum, we have continued to engage with the ABI and there is now a regular visit from key ABI members to Gibraltar.

We made a conscious effort to extend this involvement to non-motor members, in particular through a dinner with the ABI on the evening before the Motor Conference. Along with

representatives of the industry, we were delighted to be joined by Minister Isola and other representatives of the Finance Centre. Our goal in 2017 is to continue to grow ABI involvement from the non-motor Gibraltar insurance industry.

I would like to take the opportunity to thank Chris Hill for his leadership of the Motor Forum over a number of years and his hard work in building the close relationship which we now have with the ABI. It is largely thanks to Chris' efforts, that Gibraltar is now represented on the ABI Motor Committee. I hope he will remain actively involved in the Gibraltar insurance industry. I would also like to thank Pete Creed for agreeing to take over the Chairmanship of the Motor Forum and would urge all motor insurer members to continue active engagement with this forum during 2017.

## **Brexit**

Finally, I cannot omit mention of the UK Referendum on EU membership in June of last year. While Gibraltar voted overwhelmingly to remain, the UK voters as a whole returned a decision to leave. It now looks increasingly likely that Article 50 will be triggered by 31 March, starting the two-year process of extricating ourselves from the EU.

Until negotiations start in earnest, it is difficult to predict what long-term impact this will have on Gibraltar. Informed opinion appears to indicate that passporting into the UK will be protected, therefore securing the future for the majority of the local insurance industry. But a significant number of our members passport into other European jurisdictions, either solely or in addition to conducting business in the UK. And of course, we must remember that for Gibraltar the relationship with our neighbour Spain will be of key significance in this process.

For the time being, companies need to be aware of the risks Brexit may pose, consider the options available and the critical path to achieving the desired outcome, and be prepared to take action should it be needed. But it is probably too early in the process to make any firm decisions. In any case, Gibraltar's unique position and its close relationship with the UK could present us with additional opportunities, as we seek to attract UK focussed businesses.

## **Conclusion**

2016 has no doubt been a year of great change for Gibraltar and its industry, for the UK, and for the wider European market. Solvency II, Brexit, and regulatory changes have brought both challenges and opportunities. As we move into 2017 and beyond, we should achieve greater clarity over what these changes could mean to us. In particular with regard to Brexit, there is no question that we are seeing history being made. It will be interesting to look back in five years' time and see how history will judge this key time of change.

Last but by no means least, I would like to thank the other Officers and members of all Committees for their untiring efforts and hard work in ensuring that Gibraltar remains a strong, professional, and well-regulated place in which to conduct insurance business.

**Liz Quinn**  
**Chairman**