

VALUE OF GUERNSEY FINANCIAL SERVICES TO THE UK

JANUARY 2024

ACKNOWLEDGEMENTS

We are grateful to a range of stakeholders who provided input for this study. In particular much of the data that we used was provided by the Guernsey Financial Services Commission, without which our secondary data analysis would not have been possible.

This report represents the findings from our independent research. Any errors or omissions are the responsibility of Frontier Economics.

Contents

Acknowledgements	2
Guernsey Finance Foreword	6
1 Executive summary	7
1.1 Background	8
1.2 Methodology	8
1.3 Key Findings	8
1.3.1 Funds and investment management	8
1.3.2 Fiduciary	10
1.3.3 Insurance	10
1.3.4 Pensions	11
1.4 Next steps and implications	11
2 Introduction	12
2.1 Background and context for this work	12
2.2 Role of Guernsey Finance	13
2.3 Purpose of this report	13
2.4 Structure of this report	13
2.5 Glossary of key terms and acronyms	14
3 Overview of Guernsey's Financial Services sector	18
3.1 Size of the financial services sector	18
3.2 Pillars of the Financial Services sector	19
3.2.1 Funds	19
3.2.2 Fiduciary and private wealth	21
3.2.3 Insurance	21
3.2.4 International Pensions	22
3.2.5 Banking	23

4	Results: Funds and investment management	25
4.1.1	Drivers of financial flows into UK	26
4.1.2	Volume of inward investment into UK from Guernsey funds	27
4.1.3	Evolution over time	30
4.1.4	Additional value added by Guernsey	31
4.1.5	Investment manager fees and UK investor returns	33
4.1.6	Guernsey listings and contribution to London Stock Exchange	34
4.1.7	Guernsey Investment Management	35
5	Results from other pillars	38
5.1	Fiduciary and private wealth	38
5.1.1	Drivers of financial flows into UK	38
5.1.2	International reputation	39
5.1.3	Use of fiduciary and trust structures for philanthropic purposes	40
5.2	Insurance	41
5.2.1	Drivers of financial flows into UK	42
5.2.2	Size of sector	43
5.2.3	UK firm savings	44
5.3	Pensions	45
5.3.1	Drivers of financial flows into UK	45
5.3.2	UK revenue generation	46
6	Methodology	48
6.1	Overview	48
6.2	Highlighting drivers of financial flows into the UK	48
6.2.1	Desk review	49
6.3	Evidence collection	49
6.3.1	Qualitative engagement	49
6.3.2	Quantitative data collection	50
6.4	Quantitative analysis	51
6.5	Limitations	52
7	Conclusions and policy implications	53
7.1	Guernsey financial services generate significant value for the UK	53

7.2	This value is generated through Guernsey’s distinctive capabilities which are not easily replicated	53
7.3	Policy implications	55
8	Bibliography	56
	Annex A – Qualitative engagement	58
A.1	Rationale	58
A.2	Participants	58
A.3	Example topic guide	58
	Annex B Quantitative analysis methodologies	61
B.1	Funds Additionality	61
B.2	Funds economic returns to UK economy	67
B.3	Funds fee revenues for UK Fund Managers	68
B.4	Funds value to UK investors	69
B.5	Insurance cost savings value to UK businesses	70
B.6	Pensions fee revenues to UK professional services providers	71
	Annex C Further detail on drivers of financial flows	73
C.1	Format of framework	73
C.2	Funds	74
C.3	Investment management	76
C.4	Fiduciary	77
C.5	Insurance	80
C.6	Pensions	81

GUERNSEY FINANCE FOREWORD

Guernsey's financial services industry has been closely aligned with the UK's own financial services industry for over 60 years. We are proud to be part of the British family. Our expertise as an International Finance Centre generates significant value to the UK across the full range of specialisms that comprise Guernsey's financial services landscape. This comprehensive and independent report, researched by Frontier Economics, details the ways in which Guernsey supports and partners with the UK, adding considerable worth to its economy in many areas.

Guernsey is also proud to align with the UK's key strategic initiatives such as the provision of sustainable finance in key strategic areas, the target to a net zero economy and the provision of infrastructure across all regions of the UK. In addition, Guernsey has close working relationships with TheCityUK, the BVCA, the AIC and the City of London Corporation, which support the competitiveness of the UK and Guernsey's financial services industries.

This research report makes essential reading for policy makers and industry practitioners as it clearly demonstrates the value provided to the economy of the UK by Guernsey's specialist financial services sector.

The paper draws on qualitative insights and complementary quantitative analysis which clearly demonstrates that Guernsey's finance sector provides a material net benefit to the UK economy and enables us to fully understand the multi-faceted links between Guernsey's finance sector and the UK and the value that is generated through Guernsey's distinctive capabilities which are not easily replicated.

Frontier's research has made it possible to quantify key aspects of this relationship. In particular, as well as our leading insurance, pensions and investment management provisions, Guernsey-based funds channel £57 billion of investment into UK assets, and provide £3-4 billion of social value from these investments every year to the UK.

Guernsey fund investment in the UK also has grown by 14% per annum since 2020 at a time when Foreign Direct Investment into the UK is falling. Not only that, as the primary economic driver of Guernsey's own economy, the positive relationship between Guernsey and the UK also ensures the continuing livelihoods of our own small part of the British family.

Our thanks to Frontier Economics for producing an insightful report that clearly demonstrates how Guernsey's finance sector aligns with UK policy priorities in key strategic areas from net zero to infrastructure, and across UK regions. We hope it will be useful for practitioners and policy makers who wish to see the significant and demonstrable value that Guernsey provides to the economy of the United Kingdom.

Rupert Pleasant

CEO Guernsey Finance

1 Executive summary

Key findings

- Guernsey is a major international finance centre with a strong reputation, which has recently evolved its financial services offer considerably, particularly in sustainability. Guernsey's financial services sector generates significant value for the UK economy, in key strategic areas from net zero to infrastructure, and across UK regions.
 - Guernsey-based funds channel significant investment into the UK economy, and currently hold UK assets worth £57 billion. This investment is genuinely additional for the UK; our analysis finds that approximately £13 billion, or 25% of these investments may not have been invested in the UK, if these funds had been domiciled in alternative international finance centres. Guernsey's contribution to the UK may also increase in the future; Guernsey-based funds' capital investment into UK assets has increased by 14% per year since 2020. The value of Guernsey's investment should not be understated, as total Foreign Direct Investment into the UK is falling.
 - Guernsey-based funds also enhance the UK's investment portfolio, by providing efficient access to a broader set of international investment opportunities. Our analysis finds that these investments generate returns of £7 billion per year for UK investors.
 - Guernsey is also an established centre for investment management, home to a diverse range of niche investment firms. These firms contribute to the flow of funds into the UK, also providing revenue generation for UK based intermediaries, brokers and exchanges.
 - Guernsey fiduciary licensees support UK law firms, accountants and property advisor services, boosting the competitiveness of UK firms, and generating UK services exports. Guernsey trust structures facilitate philanthropic activity, creating further UK social value.
 - Guernsey's insurance sector also serves UK businesses, particularly through captive insurance services enabling UK firms to mitigate niche risks where the market might not offer coverage at Guernsey's premia. Our analysis finds that UK FTSE 100 companies may collectively save almost £100 million per year by using Guernsey captives.
 - Guernsey pension providers also generate significant revenue for UK professional services firms and investment managers. Our analysis finds that Guernsey international pensions generate approximately £30 million per year in total for these businesses.
 - These inward financial flows and provision of quality, specialised services to UK businesses are not readily available from alternative international finance centres, or easily replicable. Guernsey's value to the UK is generated through its distinctive capabilities – accumulated expertise over the past 50 years, access to international markets, strong regulation and reputation – and its strong, historical links with the UK.
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1.1 Background

Guernsey is part of the Channel Islands, situated off the Normandy coast of France. Guernsey is self-governing, self-legislating, self-administering and self-financing but loyal to the British Crown. Guernsey is in the same time zone as the United Kingdom and uses the British pound. The finance sector is Guernsey's largest sector in terms of employment and earnings. Guernsey's finance industry also provides significant benefits to the UK. Guernsey Finance is a joint industry and government initiative established to promote Guernsey's financial services sector internationally. Frontier Economics were commissioned by Guernsey Finance to provide evidence on the nature and scale of current linkages between the Guernsey finance industry and the UK economy and society.

1.2 Methodology

We have used a mixed methods approach throughout. We have drawn on qualitative insights and complementary quantitative analysis. This approach allowed us to fully understand the multi-faceted links between Guernsey's finance sector and the UK and to quantify key aspects of this relationship. We started by articulating how different pillars of the Guernsey finance sector lead to financial flows into the UK. We then gathered and aggregated a range of secondary data sources to support our analysis which consisted of: (1) contribution modelling of the value of financial flows from the Guernsey Financial Services sector to the UK. (2) Additionality modelling of the additional value added by Guernsey to UK economic activity, over and above the next best feasible alternatives for the UK. (3) Descriptive analysis of quantitative data to provide further evidence on Guernsey's financial impact on the UK.

1.3 Key Findings

We have organised our findings into four areas which represent key pillars of the Guernsey financial services sector (1) funds (2) fiduciary (3) insurance and (4) pensions. In reality the pillars are not independent, but instead they are interlinked and also enabled by other parts of Guernsey's financial ecosystem, including banking.

1.3.1 Funds and investment management

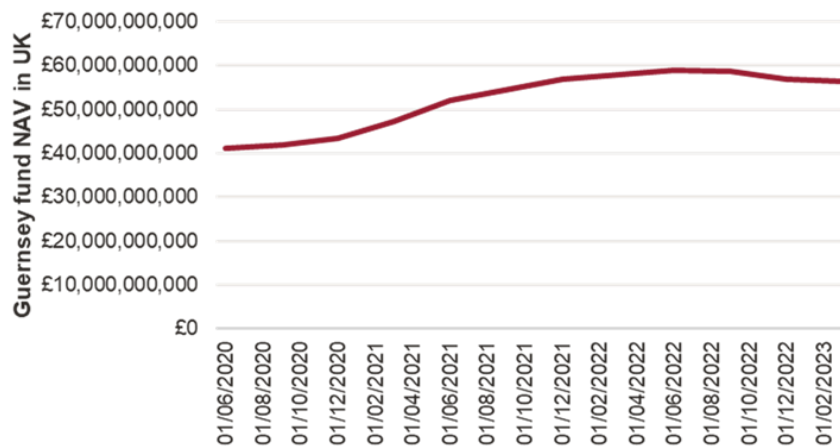
Guernsey channels large amounts of capital investment into the UK. Guernsey-based funds currently hold UK assets worth £57 billion.¹ A significant proportion of this investment into the UK would not have occurred in the past if these funds were domiciled elsewhere. Specifically even over a long time horizon the UK would have been unable to recoup approximately £13 billion of this investment from alternative sources, if existing linkages to Guernsey were broken. In other words, approximately a quarter of the investments by Guernsey funds into the UK are due to Guernsey specifically and its unique relationship with the UK. In the short

¹ Guernsey Financial Services Commission annual returns data, Fund Investment Assets Under Management by destination jurisdiction of investment. Figure as of Q1 2023.

term a higher proportion of the overall £57 billion investment may be at risk if the relationship between Guernsey and the UK was weakened as linkages with other jurisdictions would have to be developed and strengthened, which takes time.

Guernsey fund investment in the UK has grown by 14% per annum since 2020.² This growth has occurred at a time when FDI into the UK is falling.³ The evidence collected suggests that Guernsey’s absolute and relative contribution to the UK economy is likely to rise further over time.

Figure 1 Change in stock of Guernsey fund investments in the UK (2020-23)



Source: GFSC

The investments made by Guernsey domiciled funds are spread across a number of key asset types such as Private Equity (£26 billion), property (£11 billion) and infrastructure (£8 billion). These assets generate private returns for investors but also generate wider social returns for the UK as a whole. The social value for the UK from this investment includes benefits for UK residents from improved infrastructure in the energy, health or education sectors as well as more extensive social housing stocks. We estimate that these are collectively worth approximately £3-4 billion per year to the UK.

Many of the funds domiciled in Guernsey are managed by UK investment managers. Our analysis suggests that UK-based fund managers generate £2 billion of fees annually, from Guernsey-based funds. This income will be taxed in the UK. All of these benefits are made possible because of Guernsey’s unique funds offering which features a range of products, extensive market access and a reputation for upholding international standards.

Guernsey funds activity is also a world leader in sustainable finance. As of March 2023 there were 11 “Green Funds” authorised or registered with GFSC with a collective gross asset value

² Calculated using Guernsey Financial Services Commission annual returns data, Funds Investment Assets Under Management figures as of Q4 2020 and Q4 2022.

³ [House of Commons Library \(June 2023\) Foreign Direct Investment Statistics](#)

of £6.3 billion. The Guernsey Green Fund enhances investor access to the green investment space by providing a trusted and transparent product that contributes to internationally agreed objectives of mitigating environmental damage and climate change. Likewise, the GFSC also designates Natural Capital Funds. This designation endorses schemes through which investment can be made into initiatives which make a positive contribution to, and/or significantly reduce harm done to, the natural world. The Natural Capital Fund regime has a broader, nature-focused, scope than the Guernsey Green Fund regime, whose focus is centred on climate change mitigation and adaptation.⁴

UK investors also realise private returns of in the region of £7 billion annually, from Guernsey-based funds who are able to provide access to a wide range of global markets and channel investment into diverse opportunities.

Guernsey is also an established centre for investment management, home to a diverse range of niche investment firms. These firms contribute to the flow of funds into the UK via direct investments into UK equities and bonds and they also provide revenue generation opportunities for UK-based intermediaries, brokers and exchanges.

1.3.2 Fiduciary

Guernsey fiduciary providers have deep and long established relationships with UK professional services firms who refer clients to Guernsey providers. This increases the competitiveness of UK firms and means UK firms can serve their international end clients better and generate additional exports and revenues.

Guernsey trust structures also facilitate philanthropic activity which will create further social value for the UK.

1.3.3 Insurance

The GWP of Guernsey-based insurance vehicles is £4.8 billion per annum. Insurance regulation in Guernsey is responsive and designed to accommodate a range of different types of vehicles. The bulk of Guernsey insurance vehicles are either special purpose (57%) or captives (36%). Special purpose vehicles allow for additional broker led investment in UK markets and therefore boost liquidity and competition which benefits end consumers. Captives allow UK firms to protect against niche risks where the standard market might not offer coverage. FTSE 100 companies may be collectively saving almost £100 million per year as a result of using Guernsey captives.

While Guernsey is the biggest European captive domicile statistics compiled by Allianz show the biggest captive domiciles globally are Bermuda, Cayman Islands and the USA.⁵ If Guernsey ceased to be an option for UK firms seeking to establish a captive insurer they would

⁴ <https://www.gfsc.gg/industry-sectors/investment/guernsey-sustainable-funds/investment-natural-capital-funds>

⁵ <https://commercial.allianz.com/solutions/alternative-risk-transfer/captives.html>

have to look elsewhere in Europe (such as Luxembourg) or further afield. This would in turn lead to less insurance business flowing through London's wholesale insurance markets.

1.3.4 Pensions

The Guernsey pensions sector is large with total assets under management (AUM) of all Guernsey domiciled pensions providers of over £11 billion in 2021. Guernsey international pension activity generates significant revenue for UK professional services firms and UK investment managers. This revenue could be as high as £30 million per year. Guernsey's physical location makes it accessible for UK employers and individuals. Guernsey-based intentional pension providers are therefore far more likely to make use of UK professional services and investment management firms than pension schemes in other international jurisdictions.

1.4 Next steps and implications

Guernsey and the United Kingdom are linked in a symbiotic relationship which benefits both jurisdictions. All of the factors we have described above emphasise that Guernsey is currently an important partner for the UK and the importance of this partnership will grow further.

The international context within which the UK economy operates is undergoing significant change. UK-Guernsey linkages can play a key role in ensuring that the UK is able to meet high priority policy objectives relating to high growth, clean energy and well-funded public services. The UK-Guernsey partnership should be nurtured and supported by policymakers in both jurisdictions to protect existing value and identify future opportunities.

2 Introduction

In this section we provide a summary of the objectives of our work and the ordering of remaining report sections. We also provide a glossary of key terms used throughout the report.

2.1 Background and context for this work

Guernsey is part of the Channel Islands, situated off the Normandy coast of France. The Channel Islands have a unique relationship both with the British monarchy and the Westminster government as ‘Crown Dependencies’. They are self-governing, self-legislating, self-administering and self-financing but are loyal to the British Crown, with their courts subject to the decisions of the Judicial Committee of The Privy Council.⁶

Guernsey has developed into a leading independent finance centre. Guernsey's finance sector has a global reputation for quality, security, innovation, and meeting international standards.⁷ Guernsey is at the forefront of meeting international standards on transparency and information exchange and has been whitelisted by both the OECD and EU. In 2017, Guernsey confirmed its commitment to international tax co-operation by signing the OECD's Multilateral instrument to implement tax treaty related measures to combat Base Erosion and Profit Shifting and treaty abuse. Guernsey introduced economic substance legislation in 2019 to ensure that companies which are tax resident in Guernsey and undertaking specific activities can demonstrate substantial economic presence.

In 2019, the International Association of Insurance Supervisors (IAIS) approved the Detailed Assessment of Observance of IAIS Insurance Core Principles by the Bailiwick of Guernsey. The IAIS is one of the principal international standard setting bodies, to which the Bailiwick has a long standing commitment. The report found that Guernsey has “a high level of observance of current international standards”. The finance sector has processes in place to prevent harmful tax practices, and operates a stringent anti-money laundering regime. Guernsey has an A+/A-1 credit rating from Standard & Poor's, representing the island's strong capacity to meet its financial commitments. Guernsey is a specialist centre for investment fund business, particularly in alternative assets, such as private equity and property. Guernsey is also Europe's leading domicile for Captives⁸ and a hub for private wealth.

The finance sector remains Guernsey's largest sector in terms of employment activity and earnings. The sector, including legal and accounting activity, adds in the region of £1.2 billion to the island's economy equating to 36% of the island's economic output.⁹ In addition to the contribution to the local economy, Guernsey's finance industry also provides significant

⁶ <https://commonslibrary.parliament.uk/research-briefings/cbp-8611/>

⁷ <https://www.gov.gg/financesector>

⁸ A captive insurance company is a wholly owned subsidiary insurer that provides risk mitigation services for its parent company or related entities.

⁹ <https://gov.gg/CHttpHandler.ashx?id=159288&p=0>

benefits to the UK. Guernsey is the closest global finance centre to the UK and the two hubs enjoy a collaborative relationship. Stakeholders from the Guernsey sector work closely with a range of UK-based finance institutions including the British Private Equity & Venture Capital Association (BVCA), TheCityUK and the Association of Investment Companies (AIC).

The international context within which the UK economy operates is undergoing significant change. Therefore, maintaining and extending the current mutually beneficial linkages between Guernsey's finance sector and the UK is vitally important. These UK-Guernsey linkages can play a key role in ensuring that the UK is able to meet high priority policy objectives relating to inclusive and sustainable economic growth.

2.2 Role of Guernsey Finance

Guernsey Finance is a joint industry and government initiative established to promote Guernsey's financial services sector internationally. Guernsey Finance conducts marketing, communications and business development on behalf of its members from Guernsey and overseas.¹⁰

Guernsey Finance Mission

To promote and connect Guernsey as a leading finance centre in its chosen markets.

2.3 Purpose of this report

Frontier Economics were commissioned by Guernsey Finance to research the nature and scale of current linkages between the Guernsey finance industry and the UK economy and society. This report summarises all of our findings.

We have collected data and qualitative evidence to identify, quantify and interpret the value that Guernsey's finance sector contributes to the UK. We have presented this evidence within an overarching conceptual framework that structures our conclusions. Where possible we have focused on both (1) current economic benefits of the Sector to the UK and (2) future trends which may influence the sector and provide further benefits to the UK.

2.4 Structure of this report

The remainder of this report is structured as follows:

- in Section 3 we describe the Guernsey finance sector and its constituent components;
- in Section 4 we present our results for the funds pillar;
- in Section 5 we present the results for all other pillars;

¹⁰ <https://www.weareguernsey.com/>

- in Section 6 we outline the methodology that we have employed throughout this work to generate the findings;
- in Section 7 we set out our policy recommendations and conclusions; and
- finally in the Annex sections we provide further detail on our quantitative and qualitative analysis.

2.5 Glossary of key terms and acronyms

In the table below we have provided a glossary and key terms, acronyms and other relevant jargon related to Guernsey finance to help with interpretation of this report.

Table 1 **Glossary**

Term	Explanation
Anti-Money Laundering (AML)	General term for the laws, rules, and processes that prevent money laundering. Money laundering is the process by which the proceeds of crime are processed ('washed') through the financial system in an effort to disguise their illegal origin
Assets under management (AUM)	The total market value of the investments managed by a person or entity on behalf of investors
Alternative funds	Alternative investments are investment options outside of traditional investments such as stocks, bonds, and cash. Alternative investments may include a wide range of assets such as real estate, commodities, private equity, hedge funds, art, collectibles, or cryptocurrencies
Captives	A captive insurance company is a wholly owned subsidiary insurer formed to provide risk mitigation services for its parent company or related entities
Combating Financing of Terrorism (CFT)	The offence of terrorist financing involves the provision, collection or receipt of funds with the intent or knowledge that the funds will be used to carry out an act of terrorism or any act intended to cause death or serious bodily injury. CFT relate to preventative measures which aim to block terrorist financing.
Closed-ended funds	A closed-end fund is a type of mutual fund that issues a fixed number of shares through a single initial public offering to raise capital for its initial investments. No new shares will subsequently be created.

Term	Explanation
Environmental, social, and corporate governance (ESG)	ESG is a set of aspects considered when investing in companies, that recommends taking environmental issues, social issues and corporate governance issues into account
Fiduciary sector	Provision of specialist asset and wealth management services for sophisticated clients and businesses. The industry provides a diverse range of trust and corporate services to an international client base covering private client, corporate and institutional businesses.
Foreign Direct Investment (FDI)	A foreign direct investment (FDI) refers to purchase of an asset in another country, such that it gives direct control to the purchaser over the asset
Green finance	set of financial regulations, standards, norms and products that pursue an environmental objective. It allows the financial system to connect with the economy and its populations by financing its agents while maintaining a growth objective
Incorporated Cell Companies (ICC)	An ICC is a company which has the power to establish incorporated cells as part of its corporate structure. Like a protected cell company (“PCC”), an ICC may comprise any number of incorporated cells (“Cells”). However, unlike a protected cell of a PCC an incorporated cell has many of the attributes of a non-cellular company. Each incorporated cell has its own board of directors, its own memorandum and articles of incorporation and each is a separate legal entity which must be registered at the Guernsey registry and can sue and be sued in its own name
Index Linked Securities (ILS)	Insurance-linked securities (ILS) are broadly defined as financial instruments whose values are driven by insurance loss events. Those such instruments that are linked to property losses due to natural catastrophes represent a unique asset class, the return from which is uncorrelated with that of the general financial market.
International Pension Plan (IPP)	International Pension Plans provide a solution for multinational companies and executives for whom there is no suitable local pension provision. Compliance considerations and withholding tax requirements are key areas of focus.
Initial Public Offering (IPO)	An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance for the first time.

Term	Explanation
Logic model	A logic model is a graphic which represents the theory of how an intervention produces its outcomes
National Private Placement Regime (NPPR)	NPPR is a mechanism that allows non-EU alternative fund managers/non-EU alternative funds to continue to market in Europe without using the Alternative Investment Fund Manager Directive (AIFMD) passport.
Non-Executive Director (NED)	NEDs stand back from the day-to-day running of the business, drawing alongside the executive team as required to facilitate the strategic decision-making process
Open-ended fund	An open-end fund is a diversified portfolio of pooled investor money that can issue an unlimited number of shares. The fund sponsor sells shares to investors and redeems them. These shares are priced based on their current net asset value, often on a daily basis.
Private Trust Companies (PTC)	A private trust company (“PTC”) is a company that acts as a trustee to a specific trust or a group of connected trusts, often for one family. In Guernsey, acting as trustee is a regulated fiduciary activity for which a full fiduciary licence is required if it is done “by way of business”
Private Trust Foundations (PTF)	A PTF is a privately owned company or a foundation established to act as the trustee to a family's trust (or group of trusts related to a family). The company or foundation is ultimately controlled by the settlor of the trusts or the family as a whole.
Protected Cell Companies (PCC)	A protected cell company (PCC) is a legal entity that consists of a core linked to several cells. Cells in a PCC have separate assets and liabilities and are independent of one another. A PCC is governed by a single board of directors that oversees the entire legal entity
The International Stock Exchange (TISE)	The International Stock Exchange is a stock exchange headquartered in St. Peter Port, Guernsey. The TISE provides a listing facility for international companies to raise capital from investors worldwide
Theory of Change (ToC)	Captures the theory of how the intervention is expected to work, setting out the pathways to impact, from the steps involved in achieving the desired outcomes, the assumptions made and wider contextual factors.

Term	Explanation
UK Alternative Investment Fund Manager (AIFM)	The Alternative Investment Fund Managers Regulations (UK AIFMD) provide a regulatory framework for alternative investment fund managers (AIFMs). The scope of UK AIFMD is broad and, with a few exceptions, covers the management, administration and marketing of alternative investment funds (AIFs). Its focus is on regulating the UK AIFM rather than the AIF.

Source: *Frontier based on review of evidence*

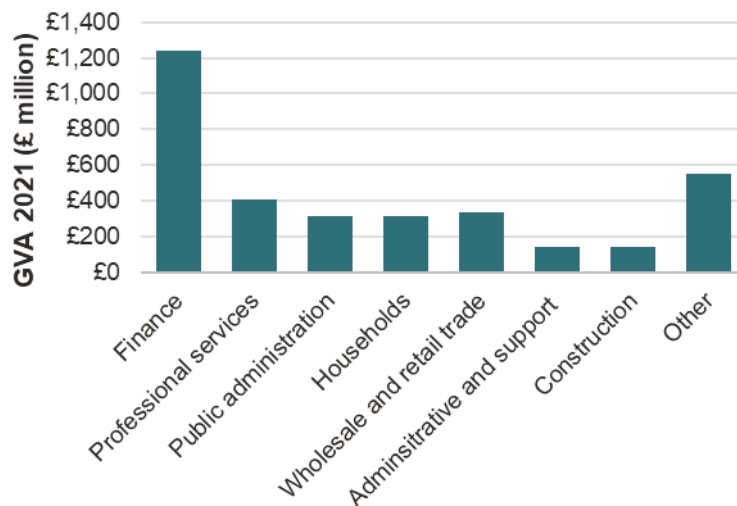
3 Overview of Guernsey’s Financial Services sector

In this section we describe at a high level the composition of Guernsey’s financial services sector and key areas of focus across the industry.

3.1 Size of the financial services sector

The finance sector in Guernsey has the highest sectoral Gross Value Added (GVA) by far of any economic sector on the island. In 2021 (the most recent year for which complete data is available), the finance sector accounted for 36% of island-wide GVA (£1.2 billion of a total £3.4 billion).¹¹ The next largest sector, professional services, accounted for just 12%.¹² The finance sector records the highest earnings across sectors and is the largest employer on the island.¹³ In March 2019, median earnings in finance were more than £50,400 and the sector employed more than 5,960 people, almost 20% of total island-wide employment.¹⁴

Figure 2 Guernsey finance GVA



Source: States of Guernsey (2022)¹⁵

¹¹ <https://gov.gg/CHttpHandler.ashx?id=120674&p=0>

¹² <https://gov.gg/CHttpHandler.ashx?id=120674&p=0>

¹³ <https://gov.gg/CHttpHandler.ashx?id=159288&p=0>

¹⁴ <https://gov.gg/CHttpHandler.ashx?id=159288&p=0>

¹⁵ <https://gov.gg/CHttpHandler.ashx?id=120674&p=0>

3.2 Pillars of the Financial Services sector

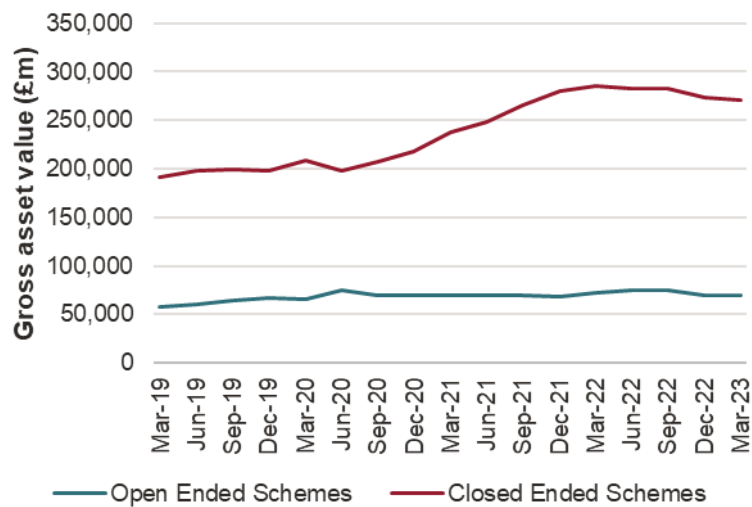
Guernsey’s finance sector covers a wide range of services. This includes funds, insurance, fiduciary, pensions, investment management and banking. Below we provide an overview of key pillars.

3.2.1 Funds

Guernsey is a leading specialist centre in the servicing of alternative assets such as private equity, infrastructure and alternative debt. For nearly 50 years, Guernsey has provided an alternative but complementary domicile for fund managers to domicile their funds.

This industry pillar includes open-ended funds (such as hedge funds and equity funds) and closed-ended funds (such as private equity, real estate and infrastructure) domiciled in Guernsey. The gross asset value of Guernsey funds as of 31st March 2023 was £340 billion.¹⁶ The majority of this is in closed-ended schemes.¹⁷

Figure 3 Gross asset value of Guernsey funds



Source: GFSC (2023)¹⁸

Guernsey domiciled funds act as a conduit for overseas investment into multiple jurisdictions and provide options for capital deployment, including private equity, infrastructure and property.

¹⁶ <https://www.gfsc.gg/industry-sectors/investment/statistics/archive>

¹⁷ <https://www.gfsc.gg/industry-sectors/investment/statistics/archive>

¹⁸ <https://www.gfsc.gg/industry-sectors/investment/statistics/archive>

Investment management

Guernsey is also an established centre for investment management. In particular Guernsey is home to a range of investment and stockbroking firms who offer multiple services including fund management, discretionary investment management, advised and execution only broking to private clients, investment funds and institutions.

These providers include both indigenous firms who are based solely in Guernsey as well as branches of international investment management organisations. Their clients are Guernsey residents, including high net worth individuals living in Guernsey, as well as international investors from abroad.

Investment management firms will channel capital into a range of asset classes including Guernsey domiciled funds, fixed income securities, stocks and private equity in multiple jurisdictions. As of November 2023 there are 696 investment licences registered with the GFSC.¹⁹

Provision of investment management services on Guernsey is heavily linked to other pillars of the financial sector which we describe in this report. Specifically, multiple investment management providers in Guernsey also offer banking services and Guernsey trust companies (described in detail below) are an important source of capital into investment management firms. Finally, in some cases Guernsey investment management providers may offer their own unitised funds for investors (as well as channelling investment into other Guernsey domiciled funds).

Sustainability

More recently the Guernsey funds sector has developed a specialist expertise in sustainable finance.²⁰ As of March 2023 there were 11 “Green Funds” authorised or registered with GFSC with a collective gross asset value of £6.3 billion.²¹ The Guernsey Green Fund designation endorses schemes through which investments into various green initiatives can be made. The Guernsey Green Fund enhances investor access to the green investment space by providing a trusted and transparent product that contributes to the internationally agreed objectives of mitigating environmental damage and climate change.²² This is in line with the UK’s ambition for the financial system to play a major role in the delivery of the UK’s net zero target and for

¹⁹ <https://www.gfsc.gg/commission/regulated-entities> accessed 3rd November 2023. In some cases an individual firm may hold multiple licences.

²⁰ <https://www.weareguernsey.com/finance-industry/thematics/sustainable-finance/>

²¹ <https://www.gfsc.gg/industry-sectors/investment/statistics/archive>

²² <https://www.gfsc.gg/industry-sectors/investment/guernsey-green-fund>

a "nature positive" future.²³ GFSC reviewed the Guernsey Green Funds population in 2021 and found that they are investing in appropriate assets.²⁴

GFSC is also a member of the Network for Greening the Financial System (NGFS).²⁵ The NGFS is a network of central banks and supervisors who share best practices and contribute to the development of environment and climate risk management in the financial sector. At the invitation of the NGFS as part of COP26, the GFSC made a pledge to extend their regulatory regime to include sustainable funds in addition to the current coverage of green funds.²⁶

3.2.2 Fiduciary and private wealth

The fiduciary sub-sector is the most diverse and one of the longest running financial services industries in Guernsey. Services are provided to international private clients and the corporate sector.²⁷

Guernsey has a long-established tradition of providing specialist wealth management services for sophisticated clients and their families. Guernsey is home to a range of regulated trust companies, ranging from bank-owned institutions to local boutiques and the diversity, breadth and depth of expertise in the island provides international clients with a one-stop shop for wealth management.²⁸

The private wealth management sector in Guernsey has grown considerably since its birth in the 1960's with over 150 trust companies now operating from the Island. Following the introduction of regulations in 2001, licensing and supervising trust and company service providers, this part of the finance industry has become known as the "fiduciary sector".²⁹

3.2.3 Insurance

Guernsey is home to a specialist insurance sector, providing alternative risk transfer solutions to sophisticated clients such as corporations, investment managers and pension schemes. 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.³⁰

²³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998102/CCS0521556086-001_Mansion_House_Strategy_Document_FINAL.pdf

²⁴ <https://www.gfsc.gg/news/enhancing-sustainable-finance-bailiwick>

²⁵ <https://www.gfsc.gg/news/network-greening-financial-system-ngfs>

²⁶ <https://www.gfsc.gg/sustainable-finance>

²⁷ <https://gov.gg/CHttpHandler.ashx?id=100892&p=0>

²⁸ <https://www.weareguernsey.com/finance-industry/trust-company/>

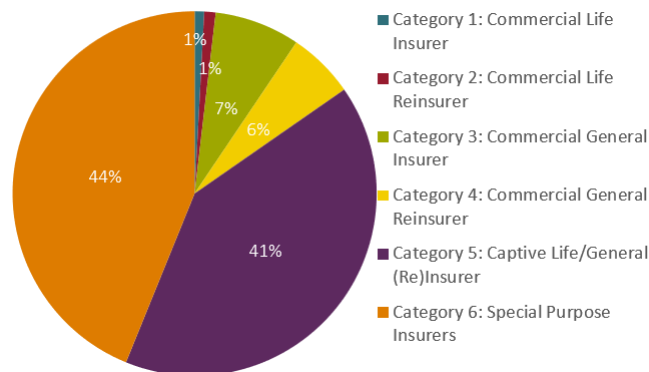
²⁹ <https://www.guernseytrustees.org/guernsey-trust>

³⁰ <https://www.gfsc.gg/industry-sectors/insurance>

Apart from captives, Guernsey is also recognised as being a centre for reinsurance and insurance linked securities (ILS); offering in particular collateralised catastrophe reinsurance. An active international life industry is also present in Guernsey offering tailored life insurance-based products to global customers including expatriates and multinational employers.

Local retail insurance sees over thirty intermediaries selling the personal and commercial products of international insurers and some of the island’s eight domestic insurance companies.³¹

Figure 4 Guernsey insurance providers’ business category



Source: GIIA, 2019/20

Note: This excludes 5 providers who classified themselves as “non-standard”

In 2019/20 a survey of 598 Guernsey-based insurance entities indicated that total net assets across the entire industry of £10.6 billion.³² The majority of providers who responded to the survey classified themselves as Special Purpose Insurers (43%) or Captive Life / General (Re-Insurer). The remaining providers were classified as commercial providers of different types.

In 2019 the sector employed approximately 750 employees, representing 12% of the employees within the wider finance sector and generated nearly 15% of the finance sector’s GVA.³³

3.2.4 International Pensions

Guernsey is an established centre of excellence for international retirement benefit plans.³⁴ An international pension plan (IPP) is a pension plan established in a location, such as Guernsey, which is the home country of neither the employer nor the employees, to provide benefits for the global employees of an international employer. It is not generally possible for an international employer to retain all its global employees in a single pension plan established

³¹ <https://gov.gg/CHttpHandler.ashx?id=105029&p=0>

³² GIIA

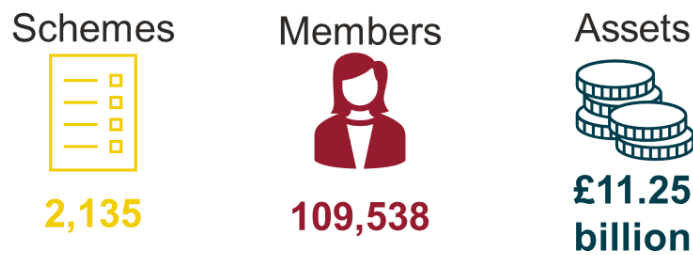
³³ <https://www.gov.gg/CHttpHandler.ashx?id=151400&p=0>

³⁴ <https://www.sovereigngroup.com/our-services/pensions/pensions-locations/guernsey/>

in its home country. This might be due to economies of scale, lack of local pension vehicles, or legal and tax issues. Therefore, it may be that an IPP is the most appropriate solution.³⁵

Guernsey provides experience and expertise in the establishment, administration and management of these plans. Guernsey is home to a broad range of pension providers from bank-owned institutions to independent boutiques as well as specialist legal, tax and actuarial advisers.³⁶ Some descriptive statistics relating to Guernsey pension providers are illustrated below.

Figure 5 Guernsey pensions descriptive statistics



Source: GFSS³⁷

Guernsey firms provide specialist pensions services and a full range of retirement benefit solutions. Some plans are designed for globally mobile employees who may build up pension rights while working in a number of jurisdictions. Other types of plans provide individuals and corporates with a solution in locations where little or no pension legislation exists or pension providers are limited. Such areas include Africa, the Middle East, and South America.³⁸

Guernsey’s supervisory regime for pension schemes and gratuity 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.³⁹

3.2.5 Banking

Guernsey is home to a mature banking sector; comprised of international private and retail banks. There are more than 20 licensed banks operating in Guernsey, including those from

³⁵ <https://www.gapp.gg/pensions/>

³⁶ <https://www.weareguernsey.com/finance-industry/pensions/>

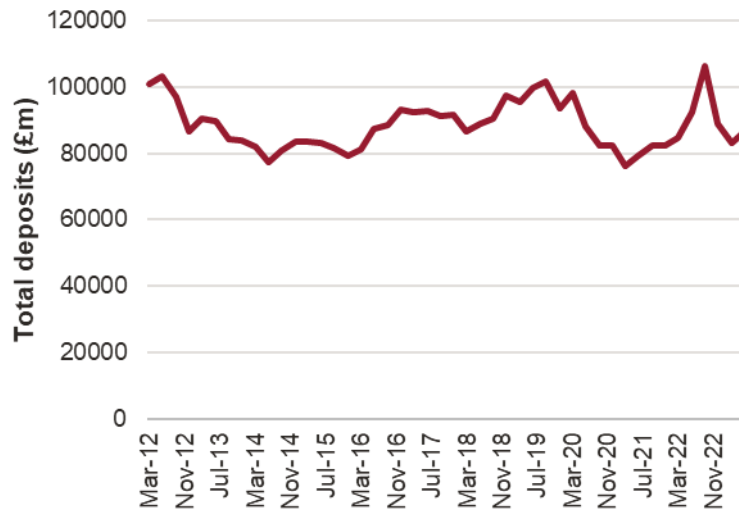
³⁷ <https://www.gfsc.gg/sites/default/files/2022-06/20220606%20Pensions%20Thematic%20Final.pdf> accurate as of Q2 2021

³⁸ <https://www.weareguernsey.com/finance-industry/pensions/>

³⁹ <https://www.gfsc.gg/industry-sectors/pensions>

the UK, Europe, South Africa, North America and elsewhere.⁴⁰ Total deposits held by Guernsey banks as of March 2022 was £85 billion.⁴¹

Figure 6 Volume of Guernsey banking deposits



Source: GFSC⁴²

Banking provides the overall finance sector with diversity and economic resilience. Banking helps to mobilise deposits for other purposes, provides credit as well as offering employment opportunities. The range of services offered by banks in Guernsey is diverse. Some provide retail banking services essential to the local community. Others serve the HNW and institutional investor community.⁴³

In addition, the banking sector provides vital support services to the other pillars we have listed above. For example, there is a symbiotic relationship between banking and fiduciary sections and Guernsey is able to offer a wide range of on-island fiduciary banking services, giving it an advantage over several competitor jurisdictions.⁴⁴ Also banks support other financial services businesses operating in Guernsey providing custody, foreign exchange and other banking services to the investment, fund administration and insurance sectors. Therefore, the value that other pillars of Guernsey’s financial services sector generates of the UK is in large part enabled by the banking system.

⁴⁰ <https://www.weareguernsey.com/finance-industry/banking/>

⁴¹ <https://www.weareguernsey.com/finance-industry/banking/> <https://gov.gg/CHttpHandler.ashx?id=159288&p=0> The equivalent figure for UK banks in 2023 was £2.4 trillion <https://www.bankofengland.co.uk/statistics/tables>

⁴² <https://www.gfsc.gg/industry-sectors/banking/statistics>

⁴³ <https://www.gfsc.gg/industry-sectors/banking>

⁴⁴ <https://gov.gg/CHttpHandler.ashx?id=100892&p=0>

4 Results: Funds and investment management

Key Findings

- Guernsey channels **£57 billion**⁴⁵ of capital into the UK on an ongoing basis. A significant proportion of this would not have occurred if these funds were domiciled elsewhere. Over a long time horizon we estimate that the UK would have been unable to recoup £13 billion, if existing linkages to Guernsey were broken. In the short term a higher proportion of the £57 billion investment may be at risk if the relationship between Guernsey and the UK was weakened as linkages with other jurisdictions would have to be developed.
- Guernsey's contribution is likely to increase over time. Guernsey's gross capital investment into the UK has grown by **14% per annum** since 2020.⁴⁶ This growth has occurred when FDI into the UK is falling.
- Guernsey funds invest in key UK assets, including Private Equity (£26 billion), property (£11 billion) and infrastructure (£8 billion).⁴⁷ These assets generate private returns for investors and lead to £3-4 billion of annual social value for the UK (e.g. improved social housing).
- Guernsey is also an established centre for investment management, home to a diverse range of niche investment firms. These firms contribute to the flow of funds into the UK and provide revenue generation opportunities for UK intermediaries, brokers and exchanges.
- Many of the funds domiciled in Guernsey are managed from the UK. UK fund managers generate £2 billion of fees annually, from Guernsey-based funds. This income generates tax revenue for the UK. UK investors also realise private returns of approximately £7 billion annually from Guernsey funds which provide UK investors with access to global markets.
- The International Stock Exchange (TISE) is headquartered in Guernsey and over 850 UK private equity issuers have listed on TISE. In total, the UK accounts for 55% of TISE listed business, from the 850 private equity issuer and other UK businesses listing on TISE.⁴⁸ TISE has international recognitions and memberships – including from UK's HMRC – which enables TISE to support international investment into the UK. TISE also has Europe's most comprehensive sustainable segment.⁴⁹
- Guernsey funds also support the vibrancy of the London Stock Exchange (LSE). Over the last 10 years Guernsey-based funds accounted for 30% of LSE Initial Public Offerings⁵⁰ in the AIM, Special Fund and Premium Segment of the LSE.

⁴⁵ Guernsey Financial Services Commission annual returns data, Fund Investment Assets Under Management by destination jurisdiction of investment. Figure as of Q1 2023.

⁴⁶ Calculated using Guernsey Financial Services Commission annual returns data, Funds Investment Assets Under Management figures as of Q4 2020 and Q4 2022.

⁴⁷ Calculated using Guernsey Financial Services Commission annual returns data, Fund Investment Assets Under Management by asset type. Figure as of Q1 2023.

⁴⁸ Figures taken from TISE representative expert interviews.

⁴⁹ <https://tisegroup.com/sustainable/>

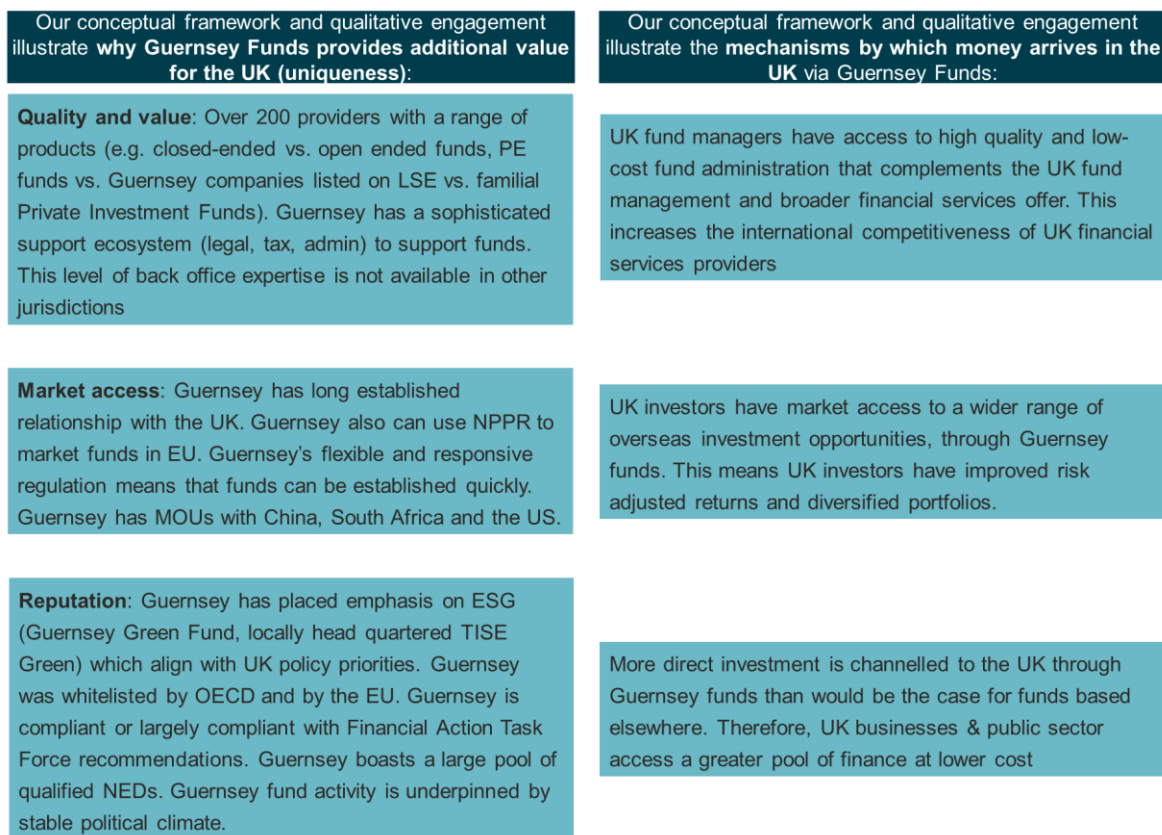
⁵⁰ Figures taken from Association of Investment Companies representative expert interviews.

In this section we describe the value generated by Guernsey to the UK, due to funds. The remainder of this section presents our evidence supporting the key findings above from expert interviews, quantitative analysis and relevant studies.

4.1.1 Drivers of financial flows into UK

Below we have summarised the results of our qualitative assessment of Guernsey funds. This illustrates what makes it unique from the UK’s point of view and how the sector leads to financial flows into the UK. Further detail is available in the Annex.

Figure 7 Drivers of financial flows: Guernsey funds



Source: Frontier based on review of evidence and qualitative engagement

This assessment draws heavily on our qualitative engagement which emphasised the role of Guernsey funds as an economic enabler for the UK.

Guernsey funds channelling investment into the UK

" Guernsey funds are an economic enabler. They aggregate and channel money into the UK. Guernsey is used as a funnel for foreign money to come

into the UK.... Foreign money wants to come into UK via a neutral stable jurisdiction. "

UK law firm

We were also told that Guernsey fund activity has led to the accumulation of specific forms of expertise which benefits the UK further.

Specific areas of expertise

"There are certain areas where we [Guernsey] have a different level of exposure and expertise so we can add value to UK advisors. We often see cross border mergers and acquisitions activity in the form of someone buying a fund administration business. We can address issues that arise in that transaction because we see that type of transaction all the time. We can add that sector specific expertise. "

Guernsey law firm

4.1.2 Volume of inward investment into UK from Guernsey funds

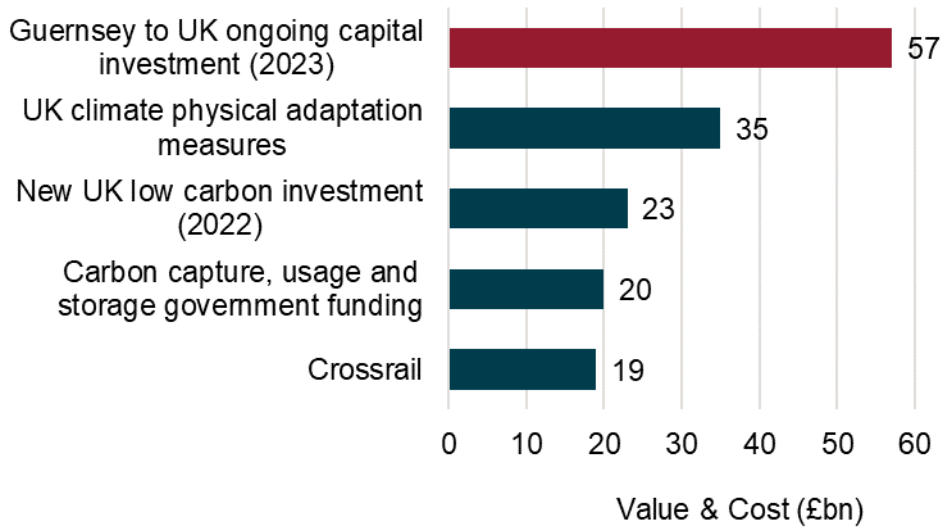
Guernsey-based funds currently hold a stock of £57 billion gross ongoing investment in UK-based assets.⁵¹ This is a significant figure, larger than the multi-year cost of several important UK Net Zero initiatives,⁵² as well as the total new low carbon investment delivered in the UK in 2022.⁵³ It is also significantly larger than the cost of several UK major infrastructure projects, including the estimated cost of Crossrail. Figure 11 places Guernsey's £57 billion ongoing investment into the UK in the context of these UK Net Zero investments.

⁵¹ Guernsey Financial Services Commission annual returns data, Fund Investment Assets Under Management by destination jurisdiction of investment. Figure as of Q1 2023.

⁵² For example, since the Net Zero Strategy, government have confirmed a portfolio of net zero research and innovation (R&I) investment of approximately £4.2 billion over the period from 2022-25. (Source: [HM Government \(March 2023\) Powering up Britain - The Net Zero Growth Plan](#)).

⁵³ It was estimated that in 2022 alone, £23 billion of new low carbon investment was delivered in the UK. (Source: [DESNZ, DEFRA, HM Treasury, BEIS \(April 2023\) Mobilising green investment: 2023 green finance strategy](#))

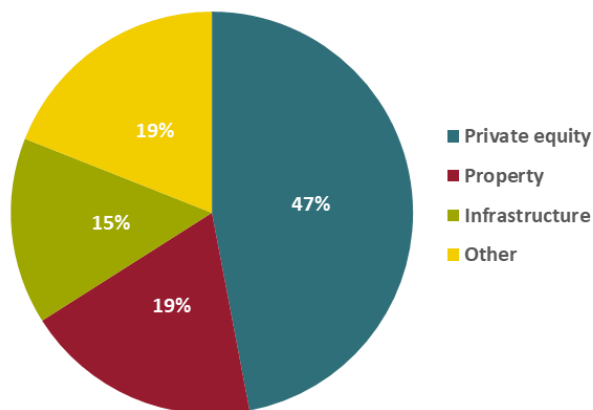
Figure 8 Guernsey ongoing investment into the UK



Source: [UK Green Finance Strategy 2023](#) for CCUS & New UK low carbon investment, [Climate Change Committee \(2023\)](#) for climate physical adaptation measures costing £5bn per year in the remainder of this decade. The cost of Crossrail was estimated at [£19 billion](#).

This £57 billion is distributed across a number of asset types which we have illustrated below. Private equity, property and infrastructure are the three largest investment asset types, which collectively account for over 80% of all investment by Guernsey funds into the UK.

Figure 9 Breakdown of Guernsey fund UK investments by investment class



Source: Frontier analysis of Guernsey Financial Services Commission data

Therefore, Guernsey funds are supporting small and rapidly growing businesses in the UK as well investing in infrastructure (such as green power generation assets) and facilitating improvements to the housing stock. All of this investment across asset types will generate private returns for investors, but importantly also generate social value for the UK. Social value

in this context refers to the positive impacts that these investment assets have on the UK as a whole (e.g. benefits of improved energy security from investing in a new wind farm).

Previous work has highlighted the significant social value that certain types of investment can unlock. For example, analysis commissioned by Local Trust concluded that every £1 invested in infrastructure in certain areas of the UK could generate returns of 20% per annum.⁵⁴ Other studies have looked at the value of investments in social housing specifically and concluded that the annual social value return is between 6.5% and 10.7%.⁵⁵

Therefore, to be conservative we have assumed an average social value rate-of-return of 6% of the £57 billion stock of Guernsey UK investments.⁵⁶ This equates to social value for the UK of approximately £3-4 billion every year.

This is roughly double the annual private returns that those same investments would have generated (proxied by annualised 10 Year FTSE 100 gross total return net of inflation). This 2:1 ratio between private and social returns is also in line with previous evidence.⁵⁷

Not all of the £57 billion investment will represent new asset origination (e.g. funding construction of new social housing), but rather some of it will reflect purchases of existing assets. Both of these type of investments can create social value either by directly expanding capital stocks or providing other asset originators with an exit route and therefore making the overall capital market more efficient.

Case study: NextEnergy Solar Fund

The NextEnergy Solar Fund (NESF) is domiciled in Guernsey and was awarded the Green Fund designation in February 2020.⁵⁸ NESF invests primarily in solar power plants in the UK (~85% of its asset base). As of December 2022 NESF owned 91 UK operating solar assets which collectively accounted for 830 MW of Solar PV assets.⁵⁹

These investments are directly contributing to the development of a resilient, low cost, low carbon power sector which is a key UK policy objective. Specifically, the British Energy Security Strategy has set out a target for the UK to deliver a five-fold increase in the deployment of solar by 2035.⁶⁰ Ofgem has highlighted the importance of solar in this regard

⁵⁴ Frontier Economics (2021).

⁵⁵ Constellation Consulting Group (2016)

⁵⁶ Excluding debt instruments

⁵⁷ The consensus from the literature is a 2:1 ratio between social and private returns. See for example: <https://www.frontier-economics.com/media/015adtpq/rate-of-return.pdf>

⁵⁸ <https://www.weareguernsey.com/finance-industry/thematics/sustainable-finance/guernsey-green-fund/case-studies/#:-:text=London%2Dlisted%20fund%20NextEnergy%20Solar,power%20plants%20in%20the%20UK.>

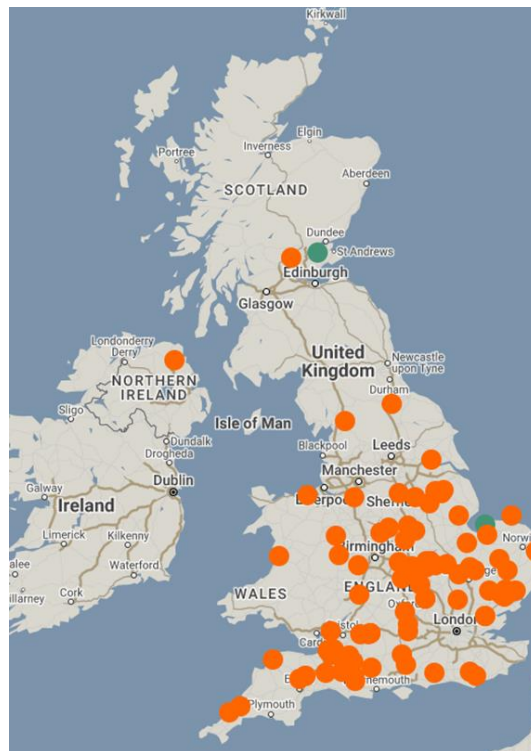
⁵⁹ <https://www.nextenergysolarfund.com/portfolio/our-solar-assets/>

⁶⁰ <https://www.gov.uk/government/publications/british-energy-security-strategy>

as a source of local power generation.⁶¹ Ofgem has also noted that the expansion of solar generation can help to generate a surplus of clean energy within the UK which can drive down prices for consumers.

NESF investments include assets in every nation and region of the UK. This can bring further social benefits in the form of evenly spread employment and economic activity away from major urban centres.

Figure 10 NESF UK investment locations



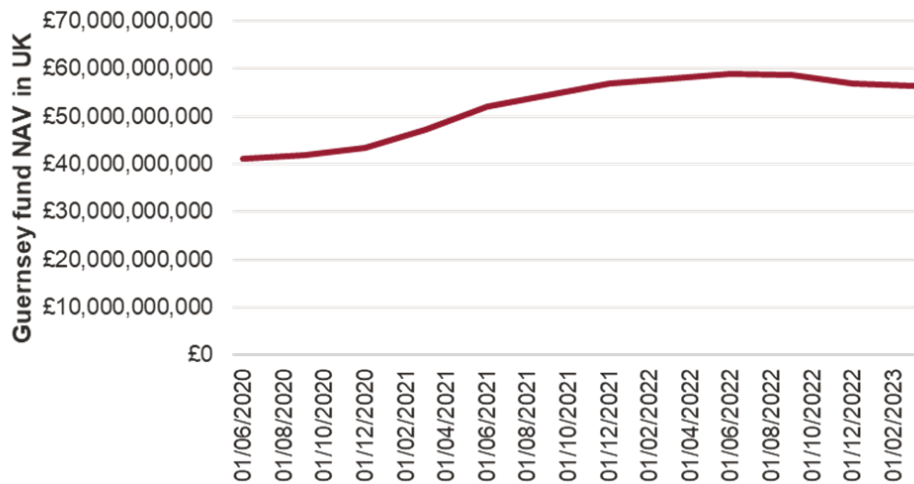
Source: <https://www.nextenergysolarfund.com>

4.1.3 Evolution over time

Guernsey funds' net asset value in the UK is large and also growing. Guernsey funds total stock of investment in the UK has risen by over a third during the last three years alone.

⁶¹ <https://www.ofgem.gov.uk/publications/net-zero-britain-developing-energy-system-fit-future>

Figure 11 Change in stock of Guernsey fund investments in the UK (2020-23)



Source: GFSC

FDI is vitally important for the UK,⁶² especially given current contextual challenges. The UK Government is currently reviewing ways in which to boost FDI into the UK. The UK is currently confronted by tough competition for FDI from countries such as France, Ireland and Singapore.⁶³ Analysis by the House of Commons Library showed that FDI into the UK (from all sources) fell in value every year from 2016 - 2021.⁶⁴ This emphasises the importance of investment from Guernsey funds.

4.1.4 Additional value added by Guernsey

As we set out above the Guernsey-based funds sector has distinctive capabilities and advantages which means that it is more likely to channel investment into the UK than funds based in other jurisdictions. We used a three-stage method to quantify the proportion of the £57 billion investment which may never have materialised in the UK if existing links between the UK and Guernsey were severely weakened.⁶⁵

We estimate that approximately **£13 billion** (23%) of Guernsey’s current £57 billion investment stock in the UK would not have occurred were the funds located elsewhere. In the short term a higher proportion of the overall £57 billion investment may be at risk if the relationship

⁶² [DIT \(March 2021\) Understanding FDI and its impact in the United Kingdom for DIT’s investment promotion activities and services](#)

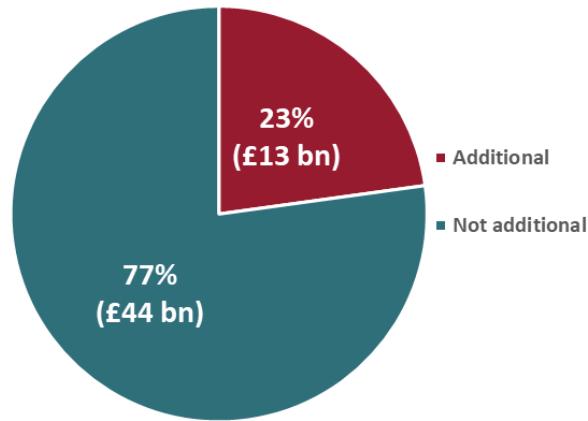
⁶³ <https://www.ft.com/content/23a1ca1b-e23b-4333-94e9-7dcc2301c02a>

⁶⁴ [House of Commons Library \(June 2023\) Foreign Direct Investment Statistics](#)

⁶⁵ We assume that any reduction in current linkages between Guernsey and UK would also affect linkages between Jersey and the UK and Isle of Man and the UK.

between Guernsey and the UK was weakened as linkages with other jurisdictions would have to be developed and strengthened which takes time.

Figure 12 Additional value added by Guernsey



Source: Frontier analysis of GFSC data

Annex B.1 describes our methodology in full. We have provide a brief summary below. First, we use expert input and judgement to assess which other international finance centres would be the domicile for Guernsey’s funds AUM (if the Guernsey funds sector was no longer viable).

We then estimated the proportion of investment that would flow to the UK from each of these alternative international finance centres, using evidence from Mercado (2020),⁶⁶ which we identified as the most relevant academic paper specifying the relationship between bilateral country-to-country financial flows.

Finally, we combined our estimates from these steps to estimate the percentage shortfall in AUM sent to the UK by the alternative international finance centres that would most likely receive Guernsey’s funds AUM, in the event that doing business with the Guernsey funds sector was no longer viable.

This finding is supported by our qualitative engagement:

Non-Guernsey Alternatives

"The volume of Guernsey funds business would be very difficult for other jurisdictions to pick up, they wouldn't have the bandwidth. If UK advisors

⁶⁶ [Mercado \(2020\)](#)

could no longer use Guernsey as a destination for funds they would have fewer options and be less able to serve their end clients in some situations."

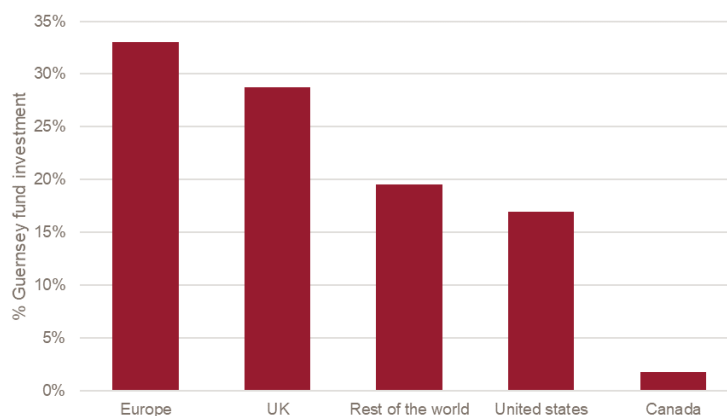
Guernsey law firm

4.1.5 Investment manager fees and UK investor returns

Many of the funds domiciled in Guernsey are managed by UK investment managers. The total AUM for all Guernsey funds in the first quarter of 2023 was approximately £300 billion. In line with previous work which was based on detailed engagement with individual funds⁶⁷ we have assumed that 42% of Guernsey funds are using a UK fund manager and the average annual investment management fee for UK-based fund managers is 1.5% of total AUM.⁶⁸ Therefore, UK fund managers generate approximately £2 billion of fees annually, from Guernsey-based funds. This income will be taxed in the UK and generate revenue for the Exchequer.

UK investors also realise private returns of in the region of £7 billion annually, from Guernsey-based funds who are able to provide access to a wide range of global markets and channel investment into diverse opportunities. We have calculated this return by examining the breakdown of final investment destinations for Guernsey domiciled funds and calculating an average annual return for each destination using the most relevant stock market index.⁶⁹ Below we have illustrated the investment destination breakdown for Guernsey funds.

Figure 13 Guernsey Fund investment destination breakdown



Source: Frontier analysis of GFSC data, and data collection from Bloomberg on Fund returns across local stock markets

⁶⁷ [Frontier Economics \(2020\)](#)

⁶⁸ This is based on a previous piece of research carried out by Frontier Economics (2019). This work adopted a 1.5% management fee based on expert advice.

⁶⁹ We used 10 year annualised total real returns data net of quarterly inflation, for the relevant local stock market index. Stock market indices used included: S&P 500 (US), FTSE 100 (UK), Eurostoxx 600 (Europe), S&P/TSX Composite (Canada), A&P/ASX 200 (Australia).

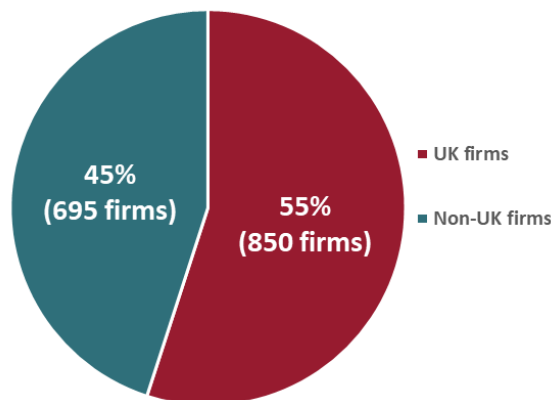
4.1.6 Guernsey listings and contribution to London Stock Exchange

Guernsey is home to the International Stock Exchange (TISE). To date over 850 UK private equity issuers have listed on TISE.

TISE lists UK companies who are issuing debt or equity to raise money (often from international investors) to invest into the UK.⁷⁰ This funding then goes into a variety of different sized companies, industries and parts of the real UK economy. This in turn supports jobs and tax revenues in the UK.

Therefore, Guernsey provides a secure and efficient listing venue for UK companies which meets investor expectations. TISE also has international recognitions and memberships – including from UK’s HMRC – which enables TISE to support international investment into the UK. TISE also features Europe’s most comprehensive sustainable market segment, enabling the flow of capital into environmental investments and is a member of the UN Sustainable Stock Exchanges.^{71 72} Overall, more than £13 billion listed on TISE is supporting environmental, social and sustainable initiatives.⁷³

Figure 14 Breakdown of TISE listed business (UK and non-UK)



Source: Frontier analysis of TISE data

Finally, Guernsey funds also support the vibrancy of the London Stock Exchange (LSE). Over the last 10 years there have been 130 investment company IPOs on AIM, Special Fund and Premium Segments of the LSE⁷⁴. Guernsey-based funds accounted for 30% these IPOs. In

⁷⁰ TISE also lists other non-UK entities (Guernsey, Jersey, US, European domiciled vehicles) which invest (often international capital) into the UK

⁷¹ <https://tisegroup.com/media/iceb2vft/tise-recognitions-memberships.pdf>

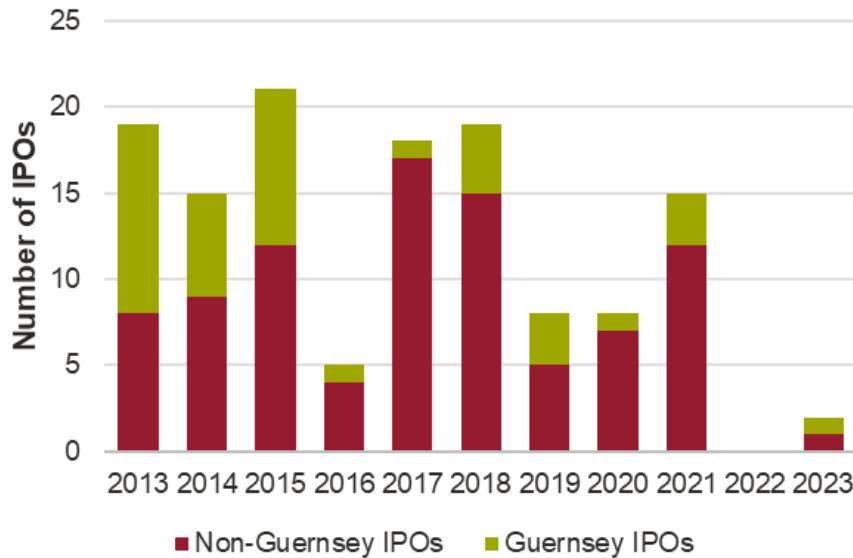
⁷² <https://tisegroup.com/sustainable/>

⁷³ <https://tisegroup.com/news/2023/supporting-the-transition-to-a-sustainable-future>

⁷⁴ Data provided by UK Association of Investment Companies

some individual years this figure was over 50%. This will have helped to ensure that LSE retains its position as a market leading exchange.

Figure 15 Investment company IPOs 2013-23



Source: AIC data

4.1.7 Guernsey Investment Management

Guernsey is an established centre for investment management, home to a diverse range of niche investment firms with well qualified and experienced staff.

Figure 16 Drivers of financial flows: Guernsey investment management

Our conceptual framework and qualitative engagement illustrate why Guernsey Investment Management provides additional value for the UK (uniqueness):	Our conceptual framework and qualitative engagement illustrate the mechanisms by which money arrives in the UK via Guernsey Investment Management:
<p>Expertise: Guernsey’s highly educated workforce and rich investment management history means that private and institutional clients place a lot of trust in them. This is reinforced by linkages and complementarities between investment management and other Guernsey financial sector pillars.</p>	<p>Facilitation and support of UK based intermediaries who will fulfil certain Guernsey trades.</p>
<p>Reputation: Guernsey can be a location for tax efficient investment. However, multiple international organisations such as OECD and the IMF has certified Guernsey as being compliant with international best practice and standards of transparency. Guernsey is seen as a stable political environment in which to base funds for international investments.</p>	<p>More direct investment is channelled to the UK through Guernsey investment managers than would be the case for funds based elsewhere. Therefore, UK businesses & public sector access a greater pool of finance at lower cost</p>
	<p>UK investors have market access to a wider range of overseas investment opportunities, through Guernsey investment managers. This means UK investors have improved risk adjusted returns and diversified portfolios.</p>
	<p>UK Investment Management firms can grow via a Guernsey branch. Guernsey investment management activity leads to additional funds flowing into UK assets.</p>

Source: Frontier based on review of evidence and qualitative engagement

These providers include both indigenous firms who are based solely in Guernsey as well as branches of international investment management organisations.

Guernsey investment management firms will channel capital into a range of asset classes including Guernsey domiciled funds, fixed income securities, stocks and private equity in multiple jurisdictions.

This leads to direct benefits for the UK. Firstly stakeholders emphasised that Guernsey activity in this space leads to flows of additional funds into the UK. We were told that Guernsey based investment management firms will hold a higher proportion of sterling assets than investment managers based elsewhere. This is because of the close links between the two jurisdictions as well as the availability of research on UK-based firms for Guernsey investment managers. These investments provide a capital boost for UK markets and firms.

Investing into UK assets

" We bring global investors into UK assets. We support overseas investors investing into UK both directly and indirectly. There are clients that UK based managers would not get without us. That sort of investment might go elsewhere. "

Guernsey investment
management firm

Also as a result of undertaking portfolio management activities Guernsey's investment management sector indirectly supports UK intermediaries including traders, fund managers and exchanges who generate additional revenue. This revenue will in turn lead to additional tax paid in the UK.

Supporting UK financial services firms

" All of the fund management relationships that we have are with UK-based fund managers. A lot of our trading will go through the UK as well as being focused on UK assets. "

Guernsey investment
management firm

Some UK-based investors may also take advantage of Guernsey-based investment management services which will generate additional benefits and help to make the UK investment management sector more competitive and efficient.

Finally, some UK investment management firms have opened a dedicated Guernsey branch. Guernsey therefore offers those organisations growth and expansion opportunities as Guernsey may allow them to access new clients.

The Guernsey investment management sector is able to generate these benefits for the UK in part because of the accumulated expertise which exists. Guernsey's highly educated workforce and rich investment management history means that private and institutional clients place a lot of trust in them. This is reinforced by linkages and complementarities between investment management and other Guernsey financial sector pillars. This is further supported by Guernsey's reputation. Multiple international organisations such as OECD and the IMF have certified Guernsey as being compliant with international best practice and standards of transparency. Guernsey is seen as a stable political environment in which to base portfolios.

5 Results from other pillars

In this section we use a range of data sources to quantify the linkages between Guernsey's fiduciary, insurance and pensions sectors and the UK. Where possible we also convert those linkages into gross economic and social value for the UK.

5.1 Fiduciary and private wealth

Key Findings

-
- Guernsey fiduciary providers have deep, long-established relationships with UK professional services firms who refer a significant amount of end clients to Guernsey providers. This increases the **competitiveness of UK firms** and ultimately means UK firms can serve their international end clients better and generate additional exports and revenues.
 - Guernsey trust structures facilitate philanthropic activity which will create further social value for the UK.
-

5.1.1 Drivers of financial flows into UK

Below we have summarised the results of our assessment of the Guernsey fiduciary sector. This illustrates what makes it unique from the UK's point of view and how the sector leads to financial flows into the UK. Further detail is available in the Annex. Our qualitative engagement emphasised the partnership between Guernsey fiduciary providers and UK professional services firms (law firms, accountants, tax advisors, estate agents) and also highlighted Guernsey's adaptive regulatory environment as a key point of difference.

Partnership between UK firms and Guernsey trust providers

" I work with international clients. Very few of them come to us without coming originally to a UK law firm, a UK tax firm or a UK accountancy firm. That linkage is very important "

Guernsey Association of Trustees

Figure 17 Drivers of financial flows: Guernsey fiduciary



Source: Frontier based on review of evidence and qualitative engagement

The Commission is a flexible, pragmatic, robust financial regulator with guaranteed turnaround times for many regulatory approvals. Guernsey has developed a reputation for nimble financial services innovation, including protected cell companies, and the Private Investment Fund.

Agility

" Guernsey has traditionally been more supportive of smaller trust companies. Guernsey is more nimble than other larger centres. "

Guernsey Association of Trustees

5.1.2 International reputation

Guernsey fiduciary providers take part in global value chains. We were told that the majority of Guernsey's fiduciary business comes from UK professional services firms but the end clients are highly international. Therefore, Guernsey's high quality fiduciary services improve UK firms' offer to international end-clients which in turn will boost UK firms' exports.

Stakeholders emphasised that Guernsey’s reputation in this space is in large part linked to efforts to ensure that all structures are paying correct tax in each relevant jurisdiction. Guernsey is at the forefront of meeting international standards on transparency and has been whitelisted by both the OECD and EU.⁷⁵ In 2017, Guernsey confirmed its commitment to international tax co-operation by signing the OECD’s Multilateral Instrument to implement tax treaty related measures to combat Base Erosion and Profit Shifting and treaty abuse.⁷⁶ Guernsey introduced economic substance legislation in 2019 to ensure that companies which are tax resident in Guernsey and can demonstrate economic presence.⁷⁷

Compliance

" We make sure our structures are paying the appropriate UK taxes and making appropriate declarations. We help structure wealth while meeting regulatory obligations. Guernsey’s tax neutrality sits alongside ensuring clients paying the right charge in the right jurisdiction. "

Guernsey Association of Trustees

5.1.3 Use of fiduciary and trust structures for philanthropic purposes

International finance centres play an integral role in enabling global philanthropic flows. Guernsey’s high standards of governance and transparency are key advantages in this context.⁷⁸

Guernsey’s fiduciary and trust providers also enable the establishment of a range of structures which facilitate philanthropic activity by individuals and organisations. Importantly these structures (including Guernsey Foundations, Guernsey Charitable Trusts and Guernsey Purpose Trusts) can be used to satisfy the needs of the modern philanthropist. Specifically, recent work has shown that high net worth individuals are increasingly keen to be more involved in the actual process of conducting philanthropy (from offering capital all the way through to assessing impacts), rather than simply donating their wealth.⁷⁹

For example the Guernsey Foundation is a hybrid between a company and a trust and is usually established with a particular purpose or mission. This mission could include charitable and philanthropic giving. The Guernsey Foundation has risen in popularity among

⁷⁵ [Guernsey Finance \(January 2022\) Guernsey – The Top Class Jurisdiction For Pensions](#)

⁷⁶ <https://www.weareguernsey.com/business-in-guernsey/taxation/>

⁷⁷ <https://www.weareguernsey.com/business-in-guernsey/taxation/>

⁷⁸ <https://www.weareguernsey.com/news/2022/effective-philanthropy-key-takeaways/>

⁷⁹ <https://www.weareguernsey.com/media/10474/philanthropy-report-v2.pdf>

philanthropists.⁸⁰ This is partially because the Guernsey Foundation enables the individual to maintain a great deal of control over how their wealth is funnelled into a cause or a third-party charitable organisation. Furthermore, Guernsey also has specific skilled professional advisors related to philanthropy and impact investing which other jurisdictions may not have.

We have illustrated the volume of Guernsey philanthropic activity using data from the Guernsey Registry. Data from Q4 2021 shows that there were 112 Guernsey registered Foundations and 536 Guernsey registered charities and non-profit organisations.

Figure 18 Number of Guernsey registered philanthropic vehicles



Source: Guernsey Registry

Given the close historical ties between Guernsey and the UK (as well as the geographic proximity and shared language) a considerable proportion of philanthropic activity managed via Guernsey domiciled trusts will be channelled into the UK.

This philanthropic funding clearly creates significant further social value for the UK via funding innovative medical research or investing to protect biodiversity for example. This will be additional to the social value impacts we reported above in relation to investment funds.

5.2 Insurance

Key findings

- The Guernsey insurance sector is large, earning £4.8 billion gross written premium (GWP) at the end of 2022.
- Guernsey captives may deliver **cost savings** of up to **£100 million per year** for UK FTSE 100 companies.

⁸⁰ <https://www.weareguernsey.com/media/10474/philanthropy-report-v2.pdf>

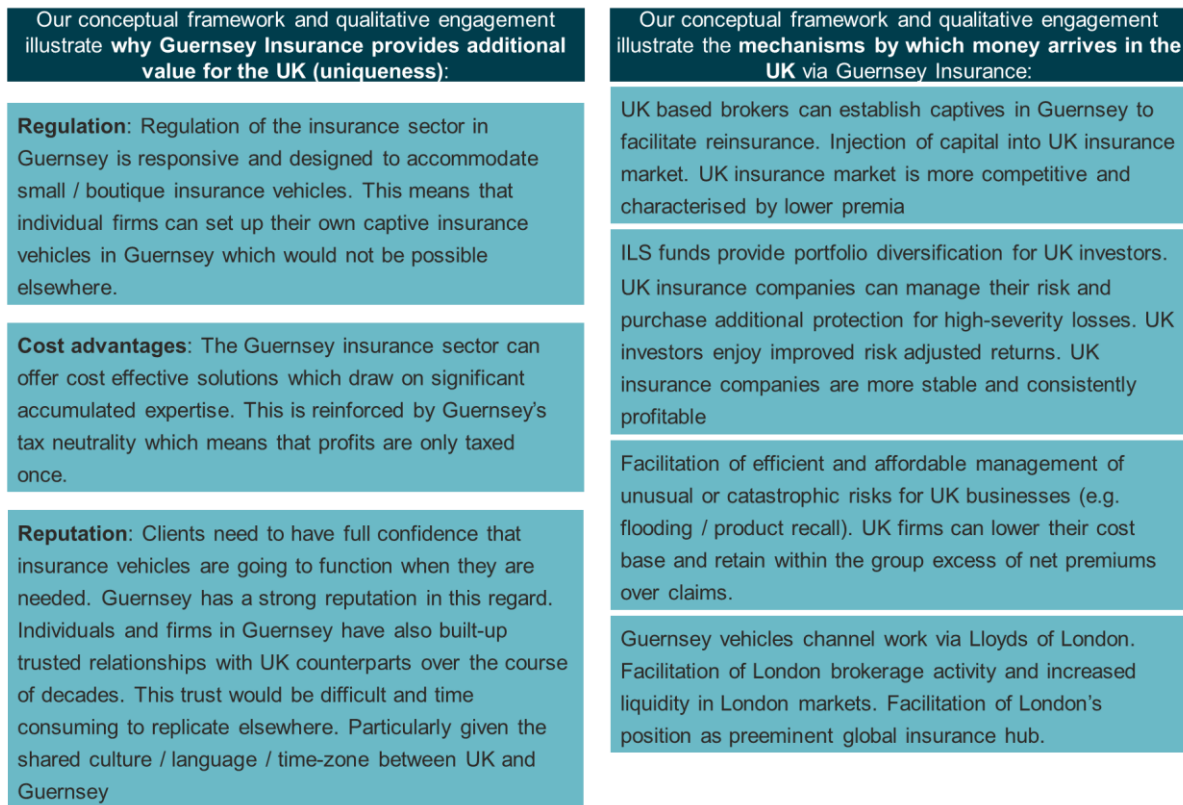
The remainder of this sub-section presents our evidence supporting these findings from expert interviews, quantitative analysis and relevant studies.

5.2.1 Drivers of financial flows into UK

Below we have summarised the results of our assessment of Guernsey insurance. This illustrates what makes it unique from the UK’s point of view and how the sector leads to financial flows into the UK.

Further detail is available in the Annex.

Figure 19 Drivers of financial flows: Guernsey insurance



Source: Frontier based on review of evidence and qualitative engagement

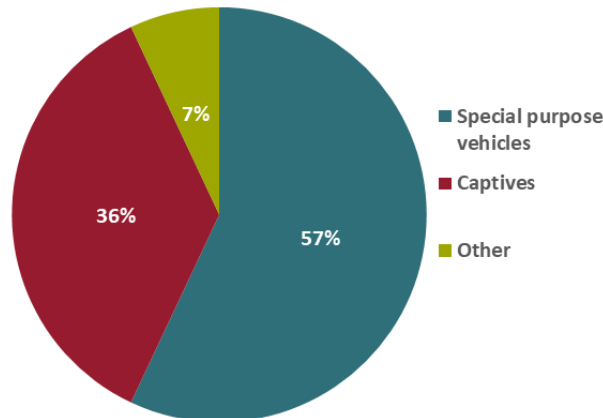
Our qualitative engagement with representatives from the insurance industry called out specifically Guernsey’s history of innovation in this context. This can be demonstrated through the innovative creation of the Protected Cell Company (PCC) on Guernsey.⁸¹ A PCC is a legal entity that consists of a core linked to several cells. Cells in a PCC have separate assets and liabilities and are independent of one another. This product was originally developed for the insurance sector on Guernsey and has now been replicated across the world.

⁸¹ <https://www.guernseyregistry.com/article/121202/Companies>

5.2.2 Size of sector

The Guernsey insurance sector is large, earning £4.8 billion gross written premium at the end of 2022.⁸²

Figure 20 Breakdown of Guernsey GWP in UK by vehicle type



Source: GIIA

We have analysed how Guernsey’s GWP is broken down by insurance vehicle type. The results are illustrated above. The bulk of vehicles are either special purpose (57%) or captives (36%). Both of these vehicle types benefit the UK, but in different ways:

1. special purpose vehicles allow for additional broker-led investment in UK markets and therefore boost liquidity and competition which benefits end consumers. Guernsey’s presence therefore leads to a greater flow of insurance business flowing through London’s wholesale insurance markets. In the absence of Guernsey a significant chunk of this business may instead flow from Bermuda and/or Luxembourg into American or European wholesale markets; and
2. captives allow UK firms to protect against niche risks where the standard market might not offer coverage (see below for greater detail).

Direct broker investment

" Brokers invest their own capital which leads to more liquidity in the UK market. This in turn increases competition and brings down prices. It may also partially secure jobs of people who work for these brokers as the market is more stable "

GIIA

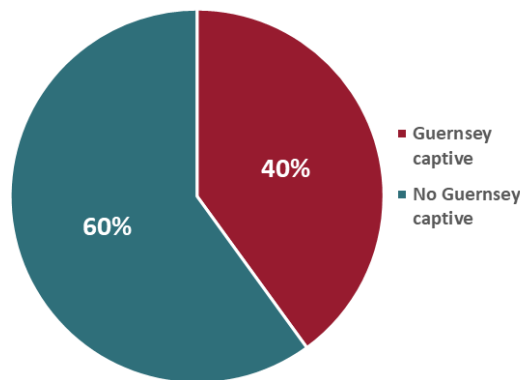
⁸² Guernsey Financial Services Commission data

5.2.3 UK firm savings

Guernsey is the largest captive domicile in Europe⁸³, which demonstrates the scale of Guernsey’s provision of captive insurance to UK companies, given that the vast majority of its services relate to UK clients. To demonstrate some of the benefit accrued by UK businesses through Guernsey captive insurers, we have engaged with an individual large UK firm that established a captive insurance vehicle in Guernsey in 2000. This firm estimated that its Guernsey-based captive has enabled it to save over £2 million per year as a result of reduced premia and investment income.⁸⁴Notably, these savings remained inside the UK parent, as opposed to flowing into an international insurance company.

These cost savings are not isolated to that UK business, given that 40 out of the UK FTSE100 companies⁸⁵ have a Guernsey domiciled captive.⁸⁶

Figure 21 Proportion of FTSE 100 companies with a Guernsey domiciled captive



Source: Guernsey Finance

We have performed illustrative “what-if” modelling, to estimate the total size of cost savings across all these large UK-based firms, assuming they saved similar amounts to the firm described above. Our analysis finds that Guernsey captives may create efficiencies of £93 million per year across these 40 large UK companies. This does not include savings enjoyed by other UK firms who are not included on the FTSE 100 and is therefore a highly conservative estimate of the total cost savings generated by Guernsey-based captive insurance companies for the broader set of all UK businesses.

⁸³ <https://www.weareguernsey.com/news/2023/guernsey-the-largest-captive-domicile-in-europe>

⁸⁴ <https://www.weareguernsey.com/literature/captive-insurance/>

⁸⁵ Figure as of 2020, per the report date.

⁸⁶ [captive-insurance-2020.pdf \(weareguernsey.com\)](https://www.weareguernsey.com/captive-insurance-2020.pdf)

Impact of captives

" Captives are one of the many means corporates buy affordable and broad insurance coverage. A jurisdiction like Guernsey brings down the cost of business for these firms which makes UK PLC more competitive. "

GIIA

Clearly, Guernsey-based captive insurers provide other benefits to UK companies, particularly in enabling UK firms to better mitigate niche risks, such as flooding or product recall.

While Guernsey is the biggest European captive domicile statistics compiled by Allianz show the biggest captive domiciles globally are Bermuda, Cayman Islands and the USA.⁸⁷ If Guernsey ceased to be an option for UK firms seeking to establish a captive insurer they would have to look elsewhere in Europe (such as Luxembourg) or further afield (likely the North American domiciles we have listed above). This would in turn lead to less insurance business flowing through London's wholesale insurance markets and more money flowing through equivalent markets in Europe and the USA respectively.

5.3 Pensions

Key findings

- The Guernsey pensions sector is large with total AUM of all Guernsey domiciled pensions providers of over £11 billion as of Q2 2021.⁸⁸
 - Guernsey international pension activity generates **fee revenue** of up to **£30 million per year** for UK professional services firms and investment managers.
-

The remainder of this sub-section presents our evidence supporting these findings from expert interviews, quantitative analysis and relevant studies.

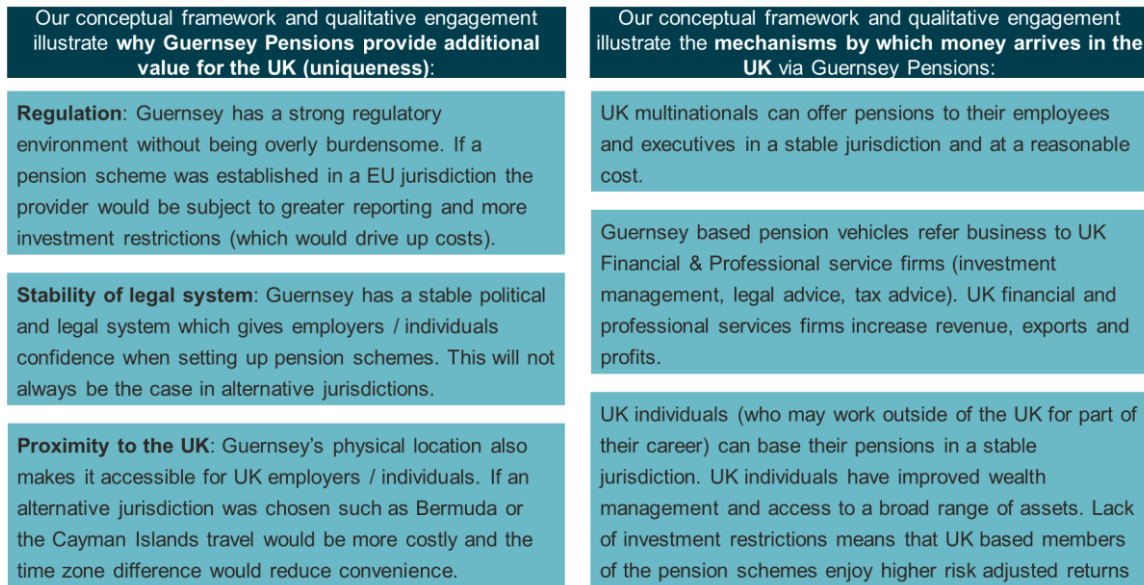
5.3.1 Drivers of financial flows into UK

Below we have summarised the results of our assessment of Guernsey's international pensions sector. This illustrates what makes it unique from the UK's point of view and how the sector leads to financial flows into the UK. Further detail is available in the Annex.

⁸⁷ <https://commercial.allianz.com/solutions/alternative-risk-transfer/captives.html>

⁸⁸ <https://www.gfsc.gg/sites/default/files/2022-06/20220606%20Pensions%20Thematic%20Final.pdf>

Figure 22 Drivers of financial flows: Guernsey pensions



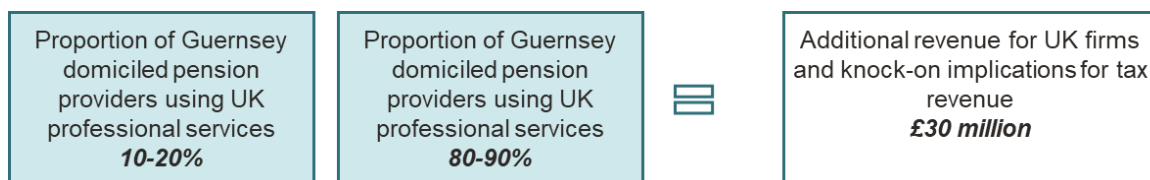
Source: Frontier based on review of evidence and qualitative engagement

Interviewees emphasised the advantages of Guernsey’s proportionate regulatory regime in this context. We were told that Guernsey has a pragmatic and approachable regulatory environment. This environment coupled with shared time zone with the UK makes Guernsey a convenient jurisdiction to do business with.

5.3.2 UK revenue generation

Our qualitative engagement highlighted an example of a specific Guernsey-based international pension scheme with approximately £120 million of AUM. This scheme was spending £700,000 each year with UK auditors, actuaries and investment managers.

Figure 23 UK revenue generation from Guernsey international pensions



Source: Expert engagement and desk review

We can scale this example up to the entire industry using overall AUM for all pension providers on Guernsey (£11.25 billion)⁸⁹ and expert assumptions on the proportion of Guernsey pensions schemes that will make use of the UK-based professional services.

This analysis suggests that the additional revenue for UK firms may be in the region of £30 million each year. This will benefit those specific firms but also generate significant additional tax revenue for the public purse in the UK.

Support services

"All of those (international pension) operations will need professional services provided to them. This includes investment management, legal advice and tax advice. Typically, Guernsey-based providers will use UK-based firms for that purpose. Other major [international] pension jurisdictions would use US-based advisors because of their location. "

GAPP

If these pension schemes were based in another international finance centre it would be highly unlikely that the usage of UK professional services would be anywhere near as common. Therefore, Guernsey is adding value to the UK which would not be replicated if existing linkages were weakened.

⁸⁹ Statistic provided by Guernsey Association of Pension Providers.

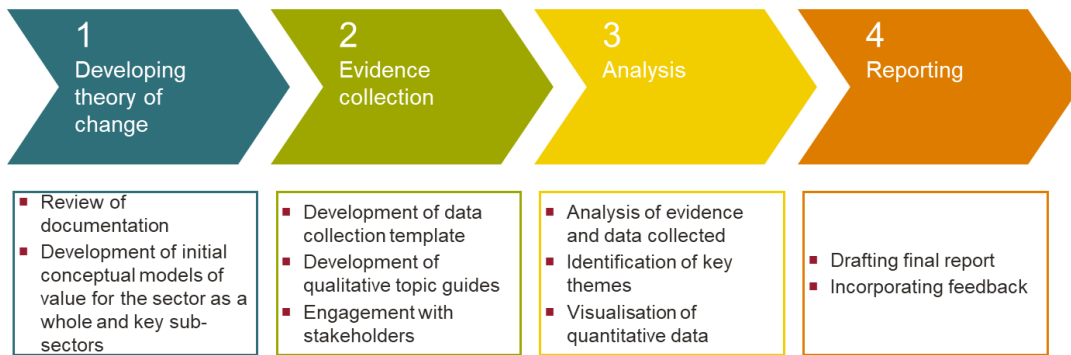
6 Methodology

This section sets out the approach that we have used to evidence the value of Guernsey’s finance sector to the UK.

6.1 Overview

We have delivered this work through a series of activities and consultations, summarised below.

Figure 24 Overview of methodology



Source: Frontier

All of our work is based on a robust conceptual framework that underpins our analysis. This framework provided a structure for data collection including both qualitative engagement with UK and Guernsey-based stakeholders as well as secondary data gathering. We then analysed and synthesised this information before summarising our findings in this report. Throughout this work we met regularly with representatives from the Guernsey Finance team who shared relevant documentation with us and provided feedback on draft outputs. This final report represents Frontier Economics’ independent assessment of the value of the Guernsey finance industry to the UK.

We have provided further detail on each step below.

6.2 Highlighting drivers of financial flows into the UK

We have used a theory of change (ToC) framework to illustrate how different pillars of the Guernsey finance sector (see next section for details) generate value for the UK. The ToC sets out the drivers by which each part of Guernsey’s finance sector leads to financial flows into the UK. To identify these drivers we considered conceptually how Guernsey interacts with the UK and the anticipated outcomes that arise from these interactions.

This approach is fully in keeping with best practice. The UK Government's Magenta Book recommends that a key first step of an evaluation is developing a ToC.⁹⁰ The ToC captures the theory of how the intervention is expected to work, setting out the steps involved in achieving the desired outcomes, the assumptions made and wider contextual factors. In line with the Magenta Book our ToC considers the proposed inputs (such as policy direction and the accumulation of financial services expertise on Guernsey) and the causal chain that leads from these inputs through to the expected outputs and outcomes.

6.2.1 Desk review

Our identification of drivers was based on an extensive review of documents we identified via online searches or provided by the Guernsey Finance team and other stakeholders. These documents included descriptions of key services provided by the Guernsey finance sector, sub-sector overviews, descriptions of global value chains, previous Frontier reports and case studies of interactions between UK firms and the Guernsey finance sector.⁹¹

We developed pillar specific drivers following a detailed review of the secondary evidence described above. We then refined our framework following a workshop session with Guernsey Finance team members. Finally, the drivers were finalised after engaging with key Guernsey finance stakeholders (see below for details).

We present the key drivers of financial flows into the UK from Guernsey activity in each of our two results sections (5 and 6). Further, more granular detail is included for each pillar in the Annex.

6.3 Evidence collection

In order to meet the objectives of this study and quantify the size of the financial flows into the UK we also undertook bespoke primary qualitative data collection and gathering of existing secondary data.

6.3.1 Qualitative engagement

We carried out semi-structured interviews with nine organisations who either (1) play some role in the Guernsey finance sector or (2) were impacted by the Guernsey finance sector. These stakeholders included representatives from Guernsey finance trade bodies and industry associations, Guernsey-based firms, UK-based professional services firms, UK-based trade bodies and consultancies who have carried out previous work in this context.

⁹⁰

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/879438/HMT_Magenta_Book.pdf

⁹¹ See Section 8 for a full list of sources used

These engagements allowed us to refine our theory of change and identify existing sources of data.

We developed a bespoke topic guide ahead of each interview to ensure that key topics were covered and that interviewees could provide insights on topics in which they have expertise.

We have included a list of organisations consulted and an example topic guide for these interviews in Annex A. The insights we collected during this qualitative engagement also informed the method we used to quantify impacts.

6.3.2 Quantitative data collection

Results from quantitative data analysis form a key part of our evidence base for the study. We collected quantitative data from a range of sources to support our analysis. The Guernsey Financial Services Commission (GFSC) provided us with data across all pillars. We supplemented this with additional data from other sources. We have provided further detail below

- GFSC provided us with industry-level data on funds, fiduciary and insurance pillars, based on business level submissions to GFSC:
 - Funds data covered AUM held in Guernsey-based funds (on a quarterly basis), the distribution of that AUM by investment type and by destination jurisdiction. The location of the fund promoter was also provided as well as a breakdown of Guernsey-based funds by asset type. Data covered the period Q2 2020 to Q1 2023.
 - Fiduciary data covered the total annual turnover for Guernsey fiduciary licensees, disaggregated by the country location of clients. Data was provided on an annual basis for 2020 to 2022.
 - Insurance data covered Guernsey-based insurer gross written premium and gross assets, in total and split by insurance services (e.g. captive insurance). Data was provided for 2022.
 - Pensions data was also collected from the GFSC website, on the AUM of Guernsey-based pension providers in 2021.⁹²
- The Guernsey International Insurance Association (GIIA) provided industry-level data on the Guernsey insurance sectors, from a GIIA survey of Guernsey-based insurers between 2019 to 2020. The data covered: Guernsey-based insurer gross written premium and net assets, split by country location of end client. Data was provided for 2019.
- Our interviews provided additional quantitative evidence, case study examples and modelling parameters all of which fed into our analysis. Evidence was collected from the

⁹² Guernsey Financial Services Commission [Pension Transfer Thematic Review, 2021-22](#).

UK Association of Investment Companies, The International Stock Exchange, headline results from a Guernsey fiduciary sector survey performed by KPMG, and a Guernsey Association of Pension Providers representative.

- We also extracted quantitative information from broader literature, including Guernsey Finance material⁹³ and a previous Frontier Economics study⁹⁴ on the economic contribution of Guernsey funds investment flows.

6.4 Quantitative analysis

Our quantitative analysis complements our qualitative findings, by estimating the scale of magnitude of Guernsey’s economic contribution to the UK, based on robust, industry-level evidence. We have performed three types of quantitative analysis.

1. Contribution modelling of the value of UK economic activity that is supported by Guernsey financial services, which quantifies specific benefit pathways:
 - a. Guernsey-based funds supporting ongoing investment into the UK economy, and the annual economic value associated with such investment to the UK.
 - b. Guernsey-based funds supporting ongoing investment into the UK economy, broken down across UK asset types.
 - c. Guernsey-based funds activity supporting annual fee revenue generation for UK Fund Managers.
 - d. Guernsey-based funds activity supporting annual investment returns for UK investors, by providing access to overseas investment opportunities.
 - e. Guernsey-based Fiduciaries allowing UK professional services firms to better serve their international end clients therefore boosting UK exports.
 - f. Guernsey-based insurance companies delivering annual cost savings for UK-based companies with a Guernsey-based captive.
 - g. Guernsey-based pension providers supporting annual fee revenue for UK professional services firms.
2. Additionality modelling of the additional value added by Guernsey to UK economic activity, over and above the next best feasible alternatives to the UK. Any quantitative analysis of additionality complements our qualitative assessment of Guernsey’s additionality achieved through its distinctive capabilities and offer to international clients.

⁹³ [WeAreGuernsey information](#) on the benefits of using Guernsey-based captives.

⁹⁴ [Frontier Economics \(2020\)](#)

- a. Our additionality modelling focuses on the proportion of the ongoing investment inflow to UK that would not have occurred if Guernsey-based funds were located in other international financial centres. Our additionality result can be applied to contribution modelling pathways 1a) and 1b) above.
 - b. Guernsey's contribution in the form of cost savings for UK businesses in 1e) has high additionality, since our method compares the cost of a Guernsey-based captive against the average market cost of insurance.
3. Descriptive analysis of quantitative data to provide additional evidence on our conceptual drivers of value.

Annex B describes our quantitative analysis and methodologies in further detail.

6.5 Limitations

When undertaking any analysis of this type there is uncertainty around the precise magnitude of impacts identified. To mitigate this we have used a mixed methods approach throughout and drawn on both qualitative insights and quantitative analysis. The qualitative insights we have gathered are fully consistent with our quantitative findings. This provides further confidence that Guernsey offers key additional value to the UK's economy and society. In addition, all of our analysis has been subject to rigorous quality assurance both from a conceptual and technical point of view.

We have gathered as much secondary data as was feasible give the scope and timings of this study. We have not undertaken any large-scale primary quantitative data collection as part of this work. This inevitably means that while we have been able to quantify significant parts of our conceptual logic models, not every impact channel has been included in our calculations. This is because data is not currently available to quantify all aspects of the Guernsey UK relationship.

Finally, where possible, we have noted qualitatively how current linkages between Guernsey's finance industry and the UK could evolve in the future. However, the precise nature of this future relationship and the actual activities undertaken will depend on a range of uncertain factors, not least ongoing innovation in financial service provision.

7 Conclusions and policy implications

This section presents this study's key findings and possible implications for UK policymakers.

7.1 Guernsey financial services generate significant value for the UK

Our analysis has shown that the Guernsey finance sector creates significant value for the UK's economy and society. In particular, Guernsey funds are a conduit through which billions of pounds of investment flows into the UK. This investment supports capital investment in tangible assets and finances high-growth UK businesses. These assets generate private returns for investors but also generate social returns for the UK. These social returns can stem from improved infrastructure or more extensive social housing stock for example. Guernsey aligns to the UK's values on increasing sustainable finance and is an international leader in the development and support of sustainable finance.

Guernsey also plays a key role in boosting the revenue of the UK finance industry. This includes significant UK asset management fees of Guernsey domiciled funds and increased revenue for UK professional services firms as a result of international pension activity in Guernsey. Guernsey fiduciary providers also have deep and long-established relationships with UK professional services firms who refer a significant amount of end clients to Guernsey providers. This increases the competitiveness of UK firms and ultimately means UK firms can serve their international end clients better and generate additional exports and revenues.

Guernsey fiduciary services and funds also provide a pathway for UK investors to invest in a wide range of global markets (including the UK) and generate substantial private returns.

Guernsey insurance expertise and capabilities allows UK firms to reduce their costs. Guernsey special purpose insurance vehicles also allow for additional capital investment into UK insurance markets which contributes to lower premia for end customers in the UK.

We have provided monetary estimates for each of these channels in earlier sections of this report. We recognise the impracticality of stating the precise value of Guernsey's finance sector to the UK. However, it is abundantly clear that the Guernsey finance sector provides a material net benefit to the UK economy, contrary to the misassumption that Guernsey is acting as a drain on investment into the UK.

7.2 This value is generated through Guernsey's distinctive capabilities which are not easily replicated

Our study identifies a set of core capabilities possessed by Guernsey, that drive financial flows with the UK and the associated economic benefits. Guernsey's capabilities in the international financial services space are as follows.

- **Skills:** Guernsey’s financial services industry has been the engine of the island’s economic growth over the past 50 years.⁹⁵ This has led to an accumulation of expertise which applies to all pillars and contributes to Guernsey’s reputation for quality. It is also clear that Guernsey’s business model has constantly evolved over this period. Specifically, Guernsey has added increased diversification within multiple sectors such as niche financial services (e.g. captive insurance).⁹⁶ This expertise cannot be easily or rapidly replicated elsewhere.
- **Market access:** Guernsey has long established relationships with the UK and can also market funds in other key international markets and aggregate capital from around the world. Guernsey is in the same time zone as the UK and is therefore able to transact with both Singapore and New York in the same business day. These market access advantages means that Guernsey based providers can play a key role in international value chains alongside UK firms.
- **Reputation:** Guernsey has a robust legal system grounded in the rule of law. In line with the UK, common law principles are dominant in relation to financial services in Guernsey (e.g. law of trusts and corporate law). The Guernsey finance sector is fully aligned with key UK policy priorities. Firstly, Guernsey has placed an emphasis on sustainable finance via initiatives such as the Guernsey Green Fund. Guernsey also has a proven track record of international engagement and the application of international standards. For example, in 2019, the International Association of Insurance Supervisors (IAIS) approved the Detailed Assessment of Observance of IAIS Insurance Core Principles by Guernsey.⁹⁷ The report found that Guernsey has “a high level of observance of current international standards”.⁹⁸ The finance sector has processes in place to prevent harmful tax practices and operates a stringent anti-money laundering regime. Guernsey has an A+/A-1 credit rating from Standard & Poor’s, representing the island’s strong capacity to meet its financial commitments.⁹⁹ Guernsey has been whitelisted by both the OECD and EU.^{100 101} Finally, UK stakeholders view Guernsey as having an effective and pragmatic regulatory regime.

These capabilities are distinctive to Guernsey as an international finance centre. Therefore, a significant proportion of the ongoing economic value generated by Guernsey to the UK is additional value to the UK over the medium-longer term. In other words, the UK would be likely to lose significant economic value in the medium-longer term if Guernsey’s position as an

⁹⁵ <https://www.weareguernsey.com/news/2019/how-guernsey-is-part-of-the-british-financial-services-family/>

⁹⁶ <https://www.weareguernsey.com/news/2018/highlighting-best-practice/>

⁹⁷ <https://www.iaisweb.org/uploads/2022/01/190625-Assessment-Report-MAP-Guernsey-2018-20191.pdf>

⁹⁸ Page 4 <https://www.iaisweb.org/uploads/2022/01/190625-Assessment-Report-MAP-Guernsey-2018-20191.pdf>

⁹⁹ <https://www.gov.gg/CHttpHandler.ashx?id=92915&p=0>

¹⁰⁰ <https://www.oecd.org/countries/niue/jurisdictions-committed-to-improving-transparency-and-establishing-effective-exchange-of-information-in-tax-matters.htm>

¹⁰¹ <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/> Guernsey is marked as *Cooperating with the EU and not having pending commitments*.

international finance centre is weakened, or if the economic links between Guernsey and the UK are reduced.

7.3 Policy implications

Guernsey and the UK are linked in a symbiotic relationship. All of the factors we have described above emphasise that Guernsey is currently an important partner for the UK and the importance of this partnership is likely to grow further over time.

The international context within which the UK economy operates is undergoing significant change. Therefore, maintaining and extending the current mutually beneficial linkages between Guernsey's finance sector and the UK is vitally important. UK-Guernsey linkages can play a key role in helping the UK to meet priority policy objectives relating to high growth, clean energy and well-funded public services.

This approach would be in keeping with stated UK policy objectives for the financial services sector. The UK's current position as a global financial hub helps to enhance existing strong relationships with international jurisdictions, attract investment and boost cross-border trade. Guernsey already plays a key role in achieving this ambition and aspires to continue providing value to the UK's economy.¹⁰²

102

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998102/CCS0521556086-001_Mansion_House_Strategy_Document_FINAL.pdf

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Annex A – Qualitative engagement

In this Annex we provide further detail on the qualitative engagement we carried out to inform our conclusions.

A.1 Rationale

We wanted to collect nuanced insights on the nature of UK-Guernsey linkages and better understand the nature and extent of Guernsey-specific efficiencies in this context. To facilitate this we carried out a programme of semi-structured interviews stakeholders in Guernsey and the UK.

A.2 Participants

We interviewed representatives from the following organisations:

Table 2 List of interviewees

	Organisation
1	Guernsey Financial Services Commission
2	Guernsey Investment and Funds Association
3	Guernsey International Insurance Association
4	Guernsey Association of Trustees
5	Guernsey Association of Pension Providers
6	Stephenson Harwood
7	KPMG
8	The International Stock Exchange
9	Association of Investment Companies

Source: *Frontier*

A.3 Example topic guide

In each case we developed a bespoke topic guide ahead of each interview to ensure that key topics were covered and that interviewees could provide insights won areas in which they have expertise. An example topic guide is set out below.

Background

Guernsey's finance industry provides significant benefits domestically and to the UK. Guernsey Finance want to evidence the value of the entire sector to the UK.

Frontier Economics are working with Guernsey Finance to collect data and robust evidence on this value to UK. The first stage of our work involves the development of a series of logic models which will illustrate how each pillar of the Guernsey Financial sector creates value. These logic models will be based in part on direct engagement with yourselves and industry associations. During these interviews we can explore the nature and magnitude of current UK-Guernsey linkages and the additional value that Guernsey offers in this context.

This note sets out the key topics we want to cover during each interview. However, we will not artificially constrain the conversations if stakeholders want to provide input on other relevant topics not explicitly covered below.

Introduction

- Frontier to provide interviewee with an overview of the project and the role we are playing
- Interviewee to provide an overview of their role in relation to the Guernsey Finance sector.

Description of activity

- Could you give us an overview of the your sub-sector within the Guernsey finance industry?
 - Key products and services offered
 - Primary clients and customers
- How is this sub-sector evolving?

Nature of UK linkages

- What are the linkages between this area of Guernsey finance and the UK?
- How have these pathways grown over time?

Impact on UK

- How does the UK benefit from these linkages?

Guernsey additionality

- What makes Guernsey unique or different in this context?
- What other options existing for UK firms/investors?

Enablers / barriers

- What changes would enhance current mutually beneficial linkages between Guernsey funds and the UK?

Data collection

- What metrics are most important to measure the scale of these linkages?
- Who is best placed to provide this information?

Annex B Quantitative analysis methodologies

B.1 Funds Additionality

We have assessed the extent to which Guernsey’s £57 billion ongoing investment into the UK would be recouped by the UK from alternative international finance centres. The investment that the UK would not recoup is referred to as Guernsey’s additionality to the UK, reflecting the amount of ongoing capital investment that would be lost to the UK if for whatever reason international value chains were unable to use Guernsey-based funds.

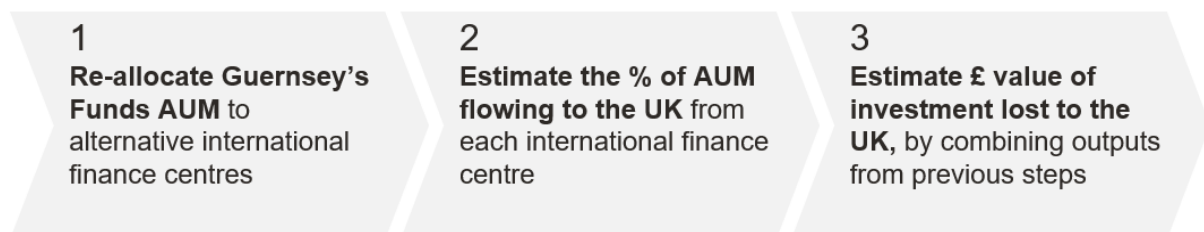
Our additionality analysis is underpinned by a comparison between two states of the world:

- the current ‘factual’ state where Guernsey channels £57 billion investment out of its ~£300 billion Fund-based AUM to the UK; and
- a hypothetical ‘counterfactual’ state where significant restrictions are imposed on Guernsey providing Financial Services, such that it becomes prohibitively difficult for international investors, Fund Managers and end clients to use Guernsey-based funds in broader international finance value chains. Guernsey’s ~£300 billion investment is shifted to alternative international finance centres, which then channel their additional AUM into various country markets across the globe, including the UK.

It is important to properly define the relevant counterfactual state. It is highly likely that any significant restrictions applied to Guernsey’s Financial Sector would also apply to the Financial Services sectors of other Crown Dependencies, namely Jersey and Isle of Man. On that basis, the counterfactual state also includes similar restrictions applied to Jersey and Isle of Man.

We will compare the difference in the investment inflows to the UK across the factual and counterfactual states, focusing on the change in UK investment inflows related to Guernsey’s factual £57 billion ongoing investment into the UK¹⁰³. The difference between the £57 billion factual investment to the UK and the counterfactual UK investment inflow to the UK estimates the ‘additional impact’ of Guernsey as an offshore finance centre.

We apply the factual-counterfactual comparison using a three-step method.



¹⁰³ Analysing the loss of UK investment inflows from Jersey and/or the Isle of Man is not relevant to this study, which focuses on the economic contribution of Guernsey Financial Services, and is therefore outside the scope of this analysis.

Step 1: Re-allocating Guernsey’s Fund AUM

The first step is to understand which international finance centres are most likely to receive Guernsey’s funds AUM, in the counterfactual state.

To determine this, we first identify the origin countries for Guernsey’s funds AUM, using GFSC data on Guernsey’s funds AUM, split by jurisdiction of the fund promoter¹⁰⁴. We then apply a rule that the international finance centre that is nearest to the jurisdiction of the Fund promoter would receive that origin jurisdiction’s AUM in the counterfactual state.

This is an assumption-based rule, but our view is that this assumption is reasonable and we note it has been used in a previous Capital Economics (2016) study¹⁰⁵, estimating the additional value of Jersey’s Financial Services sector to Great Britain. We have also tested our re-allocation with industry experts who have confirmed that it is reasonable as a baseline, and further tested the sensitivity of our results to an alternative re-allocation across international finance centres.

Table 3 presents our re-allocation of Guernsey’s funds AUM to alternative international finance centres in the counterfactual state.

Table 3 Re-allocating Guernsey Fund AUM to alternative finance centres

Origin of funds AUM	Alternative International Finance Centre	Re-allocated funds AUM (£ billion)	Distribution across origin regions
UK	Switzerland	126	42%
Europe	Switzerland	38	13%
North America	Cayman	32	11%
Channel Islands		91	30%
South America	Cayman	1	0.4%
Middle East	Dubai	0.6	0.2%
Africa	Dubai	5	2%
China	Hong Kong	0.0	0.0%
Australia	Hong Kong	3	1%

¹⁰⁴ Defined as the person or fund management business that has the investment idea and starts the fund. While an imperfect measure of the country of origin of Funds AUM, this is the best available evidence, and a reasonable proxy for the country of origin for the majority of Funds AUM.

¹⁰⁵ <https://www.jerseyfinance.je/media/PDF-Research/JERSEY'S%20VALUE%20TO%20BRITAIN%20-%20SUMMARY%20REPORT.pdf>

Origin of funds AUM	Alternative International Finance Centre	Re-allocated funds AUM (£ billion)	Distribution across origin regions
Asia ex China	Hong Kong	3	1%
Unknown	Hong Kong	3	1%
Total		300	100%

Source: Frontier based on review of evidence

Table 3 does not re-allocate Guernsey-originating funds AUM to alternative international finance centres. This is equivalent to assuming that the entirety of Guernsey-originating funds AUM will be invested into the UK in the same proportions across the factual and counterfactual states. Our reasoning for this assumption is that we do not have a strong basis for reallocating Guernsey-originating funds AUM to an alternative international finance centre, such as Switzerland. However, it may be the case that a proportion of Guernsey-originating funds AUM would indeed shift to an alternative international finance centre in the counterfactual, with a corresponding reduction in the total investment inflow to the UK. By removing Guernsey-originating funds from the scope of our analysis, our baseline analysis can be viewed as conservative and may therefore understate Guernsey’s additionality.

Step 2: Estimating the % of AUM flowing to the UK, by international finance centre

Guernsey channels approximately 20% of its funds AUM to the UK in the factual state. It is likely that Guernsey channels a larger proportion of its funds AUM to UK investment uses compared to alternative international finance centres, due to a combination of Guernsey’s proximity to the UK, its common language and shared legal origins, and its historical economic links.

A smaller proportion of funds AUM is therefore likely to be channelled to the UK by alternative international finance centres in the counterfactual state. The key task in step 2) is to estimate the size of the reduction in the proportion of funds AUM channelled to the UK, for each international finance centre.

To do that, we use evidence from an academic study by Mercado (2020), which estimates the scale of impact of various drivers on bilateral country-pair financial flows. From a systematic review of the literature, we identified Mercado (2020) as the most relevant paper, given that it uses a robust econometric method based on gravity modelling, it relates to financial flows which closely matches the context of funds investment flows, and its findings relate to a sufficiently recent time period 2000-16.

Mercado generates estimates for the impact of the following drivers on bilateral financial flows.

- Distance: they estimated the elasticity of financial flows to increased distance; in other words, the expected percentage reduction in financial flows if the distance between two countries increased by 1%¹⁰⁶.
- Common language: they estimated the elasticity of financial flows to an increase in common language. Mercado used figures from Melitz & Toubal (2012)¹⁰⁷, who constructed a common language index for different countries, measuring the percentage likelihood that two randomly selected individuals in different countries speak the same language.
- Common legal framework: they estimated the elasticity of financial flows to an increase in having a common legal framework. Mercado used evidence from Mayer et al (2008)¹⁰⁸ to determine whether various international finance centres shared a common legal framework with the UK.
- Trade: they estimated the elasticity of financial flows to greater two-way trade in goods and services as a percentage of GDP. Mercado used trade as a proxy for the degree of cross-border asset holdings between a country-pair.

We used Guernsey’s share of AUM to the UK as a starting point, and then applied the above elasticities to the relevant values of each economic driver for both Guernsey UK as a pairing, and the alternative finance centre and UK pairing. For example, the relative distance between Guernsey-UK and Switzerland-UK is almost three times further for Switzerland. On that basis, we estimate that there would be a 4% reduction in the outflow proportion of funds AUM from Switzerland to the UK, compared to Guernsey to the UK. If Guernsey’s outflow to the UK is 25%, then this would equal a reduction in the outflow to the UK for Switzerland, equal to 1%¹⁰⁹ of the total funds AUM re-allocated to Switzerland.

We calculate the percentage reduction related to each individual driver, separately for each alternative international finance centre. Table 4 presents our results on the percentage reduction in funds AUM investment to the UK, across international finance centres.

Table 4

Origin of Funds	Alternative international finance centre	Reduction in the % funds investment outflow to UK
UK	Switzerland	-30%
Europe	Switzerland	-30%

¹⁰⁶ Mercado estimated that doubling the distance between two countries reduced financial flows by an amount equivalent to 0.03% of the reporting country’s GDP.

¹⁰⁷ <https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=3be2921154db493260522a4e9b13e5293f812ca0>

¹⁰⁸ <http://el.mouhoub.mouhoud.free.fr/wp-content/mayer-coloniaux-liens-cepil.pdf>

¹⁰⁹ Calculated as 4% x 25%.

VALUE OF GUERNSEY FINANCIAL SERVICES TO THE UK

Origin of Funds	Alternative international finance centre	Reduction in the % funds investment outflow to UK
North America	Cayman	-15%
Channel Islands		0%
South America	Cayman	-15%
Middle East	Dubai	-85%
Africa	Dubai	-85%
China	Hong Kong	-85%
Australia	Hong Kong	-85%
Asia ex China	Hong Kong	-85%
Unknown	Hong Kong	-85%

Step 3: Estimating the value of investment inflows lost to the UK

Finally, for each alternative international finance centre, we multiply the percentage reduction in investment to UK by the percentage reduction in the proportion of AUM flowing to the UK.

Table 5 presents our results across the four drivers of funds investment flows.

Table 5

Origin of funds AUM	Alternative international finance centre	% of Guernsey AUM by origin of funds AUM	Base AUM sent by Guernsey to UK (£57bn x % of Guernsey AUM from origin)	Reduction in % funds outflow to the UK	£ value lost by the UK (Guernsey-UK AUM x % reduction)
UK	Switzerland	42%	£24bn	-30%	-£7bn
Europe	Switzerland	13%	£7bn	-30%	-£2bn
North America	Cayman	10%	£6bn	-15%	-£0.9bn
Channel Islands		30%	£17bn	0%	£0.0bn
South America	Cayman	0.4%	£0.2bn	-15%	-£0.0bn

VALUE OF GUERNSEY FINANCIAL SERVICES TO THE UK

Origin of funds AUM	Alternative international finance centre	% of Guernsey AUM by origin of funds AUM	Base AUM sent by Guernsey to UK (£57bn x % of Guernsey AUM from origin)	Reduction in % funds outflow to the UK	£ value lost by the UK (Guernsey-UK AUM x % reduction)
Middle East	Dubai	0.2%	£0.1bn	-85%	-£0.1bn
Africa	Dubai	2%	£1bn	-85%	-£0.8bn
China	Hong Kong	0.0%	£0.0bn	-85%	-£0.0bn
Australia	Hong Kong	0.9%	£0.5bn	-85%	-£0.4bn
Asia ex China	Hong Kong	1%	£0.6bn	-85%	-£0.5bn
Unknown	Hong Kong	1%	£0.6bn	-85%	-£0.5bn
Total		100%	£57bn		-£13bn

Sensitivity analysis

We also test our analysis under two different alternative specifications:

- **Assuming that EU and UK investments would flow to Switzerland and Luxembourg.** The main funds additionality analysis assumes that the entirety of UK and EU investments would flow to Switzerland. Under this sensitivity, we assume that capital flows originating from the UK and EU would be allocated to Luxembourg and Switzerland in equal parts. As a result, we estimate that approximately £11 billion of Guernsey's current £57 billion investment stock in the UK would not have occurred were the funds located elsewhere.
- **Using Distance and Common language as the only drivers of bilateral financial flows.** Mercado's study (2020) found the relationship between the Common legal framework variable and financial flows to be significant at a 10% level for a one-sided t-test. Moreover, the study is based on a sample where the highest level of trade as percentage of GDP is 22%. Since Guernsey's ratio between trade and GDP is considerably higher (ca 80%), there is uncertainty around whether the Mercado's regression results would also extend to Guernsey. For this reason, we have estimated the % of AUM flowing to the UK using Distance and Common language as the main drivers of bilateral financial flows. We estimate that approximately £8 billion of Guernsey's current £57 billion investment stock in the UK would not have occurred were the funds located elsewhere.

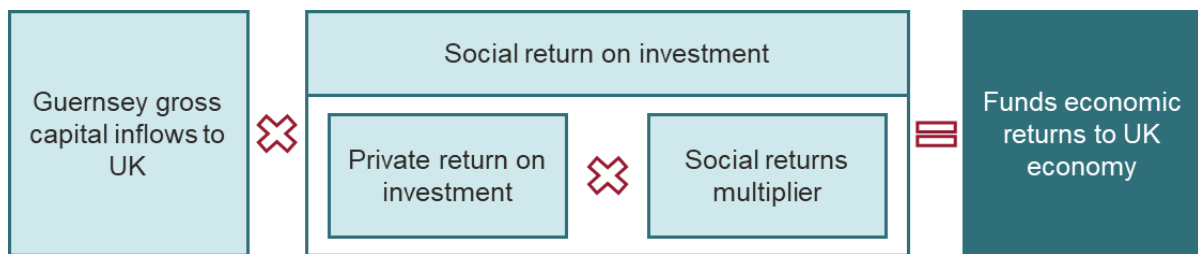
The results of both sensitivities do not materially differ from the main analysis results.

B.2 Funds economic returns to UK economy

We estimate the funds economic returns to the UK economy as the social value generated annually by Guernsey funds’ investments in the UK.

First, we use GFSC data on the breakdown of Guernsey Fund AUM investment to the UK by asset type¹¹⁰, to which we apply an estimated average social return of investments. Figure X presents our calculation.

Figure 25 Process to estimate the Funds economic returns to the UK economy



Source: Frontier Economics

Previous work has highlighted the significant social value that certain types of investment can unlock. For example, analysis commissioned by Local Trust concluded that every £1 invested in infrastructure in left-behind certain areas of the country could generate returns of 20% per annum.¹¹¹ Other studies have looked at the value of investments in social housing specifically and concluded that that annual return is between 6.5% and 10.7%.¹¹²

Therefore, to be conservative we have assumed an average social value rate of return of 6% of the £57 billion stock of Guernsey UK investments. This equates to social value for the UK of approximately £3-4 billion every year.

This is roughly double the annual private returns that those same investments would have generated (proxied by annualised 10 Year FTSE 100 gross total return net of inflation). The table below contains the data used to estimate the total economic returns of Guernsey funds to the UK economy.

¹¹⁰ GFSC Q1 2023 UK Guernsey funds investment.

¹¹¹ Frontier Economics (2021)

¹¹² Constellation Consulting Group (2016)

Table 6 Calculation of funds economic returns to UK economy

	Guernsey capital inflows to UK (£bn)	Annual social returns (%)	Additional return (£bn)
Private Equity	26.78	6.00%	1.61
Infrastructure	8.25	6.00%	0.50
Property	10.71	6.00%	0.64
Equity	5.38	6.00%	0.32
Debt	2.79	0.00%	0.00
Other	2.60	6.00%	0.16
Total			3.22

Source: Frontier Economics

B.3 Funds fee revenues for UK Fund Managers

We have modelled fees for UK Fund Managers generated by Guernsey-based funds. To do so, we use information from GFSC on the total Guernsey funds AUM,¹¹³ to which we apply the estimated percentage of funds using a UK fund manager¹¹⁴ and the annual investment management fee for UK-based fund managers.¹¹⁵

Figure 26 Funds fee revenues for UK Fund Managers calculations



Source: Frontier

¹¹³ Source: Total Guernsey funds in 31/03/2023. Provided by GFSC.

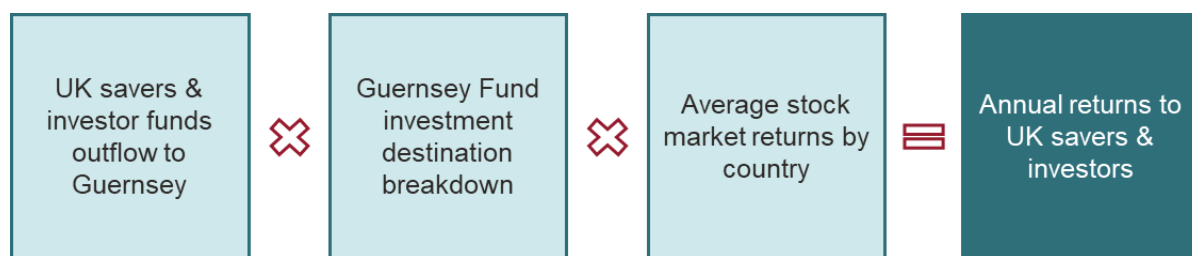
¹¹⁴ We use the proportion of Guernsey-based Fund AUM with a UK Fund Promoter as a proxy for the proportion of Guernsey-based Fund AUM with UK Fund Managers. The underlying source is GFSC data for 2021Q4 on Net Asset Value by Jurisdiction of Fund Promoter.

¹¹⁵ Source: [Frontier Economics - Capital Flows: Analysis of Guernsey's Investment Funds Sector, p. 40](#)

B.4 Funds value to UK investors

We estimate the funds value to UK investors as the annual returns generated by Guernsey-based funds channelling investment into overseas opportunities. To do so, we first estimate the breakdown of UK outflow to Guernsey across different jurisdictions. To these values, we apply the estimated average stock market return for each of the jurisdiction identified. In the Figure below we have presented our calculations.

Figure 27 Process to estimate the funds value to UK investors



Source: Frontier Economics

GSFC data indicate that UK savers & investor funds outflow to Guernsey amounts to £126bn. We estimate the destination of this investment using information collected in 2019 by Frontier Economics¹¹⁶ on the destination of capital flowing to the UK into Guernsey funds, complementing it with data shared by GFSC on the Guernsey funds’ Net Asset Values by jurisdiction of destination.¹¹⁷ In particular, the Frontier Economics report estimates that 33% of UK capital flowing to Guernsey is invested in Europe, 17% in the USA, 29% in the UK, and the remaining 21% in the Rest of the World. We use GSFC data to further break down the ‘Rest of the World’ destinations. As a result of this exercise, we estimate that 1.7% of funds is invested in Canada, while 0.9% is allocated Australia, 0.7% in China, and 0.3% in South Africa.

Moreover, we estimate the average stock market return for each of this jurisdiction Bloomberg data on the 10-year Gross Total Annual Return¹¹⁸ for the main indices of each destination. The table below provides more details on index selected for each market.

Table 7 Annual returns by jurisdiction data

Jurisdiction	Index	10 YR Real Gross Total Annual. Return GBP ¹¹⁹
United States	S&P 500	12.07%

¹¹⁶ Source: [Frontier Economics - Capital Flows: Analysis of Guernsey’s Investment Funds Sector, p. 21](#)

¹¹⁷ Source: Guernsey funds NAV by jurisdiction in 31/03/2023. Provided by GFSC.

¹¹⁸ 10-years gross total annual return is calculated annualising monthly returns.

¹¹⁹ Returns are net of local average 10-years inflation is estimated using data from [OECD](#).

VALUE OF GUERNSEY FINANCIAL SERVICES TO THE UK

Jurisdiction	Index	10 YR Real Gross Total Annual. Return GBP ¹¹⁹
United Kingdom	FTSE 100	3.00%
Europe	EUROSTOXX 600	5.66%
Canada	S&P/TSX Composite	5.61%
Australia	S&P/ASX 200	5.72%
China	SSE Composite Index	4.75%
Other	n/a	3.00%

Source: Frontier Economics, Bloomberg, OECD

Note: GFSC data indicates that the main countries accounting for the 'Other' category are Cayman Islands (5%), Bermuda (1%), India (1%). As these countries do not have their own stock market, we assume that, on average, they would provide an investment return equal to that of the UK.

The table below contains the data used to estimate the funds value to UK investors, combining the amount of UK funds flowing from Guernsey to other jurisdiction and the estimated 10-years annual returns.

Table 8 Funds value to UK investors data

	Guernsey Fund investment destination breakdown (%)	UK investments by destination (£bn)	10 YR Real Gross Total Annual. Return GBP (%)	Return (£bn)
Europe	33%	42	5.66%	2.37
UK	29%	36	3.00%	1.09
United states	17%	21	12.07%	2.58
Canada	2%	2	5.61%	0.12
Rest of the world:	20%	25	3.18%	0.78
<i>Other</i>	<i>18.0%</i>	<i>22.69</i>	<i>3.00%</i>	<i>0.68</i>
<i>Australia</i>	<i>0.9%</i>	<i>1.11</i>	<i>5.72%</i>	<i>0.06</i>
<i>China</i>	<i>0.7%</i>	<i>0.85</i>	<i>4.75%</i>	<i>0.04</i>

Source: Frontier Economics, GSFC data

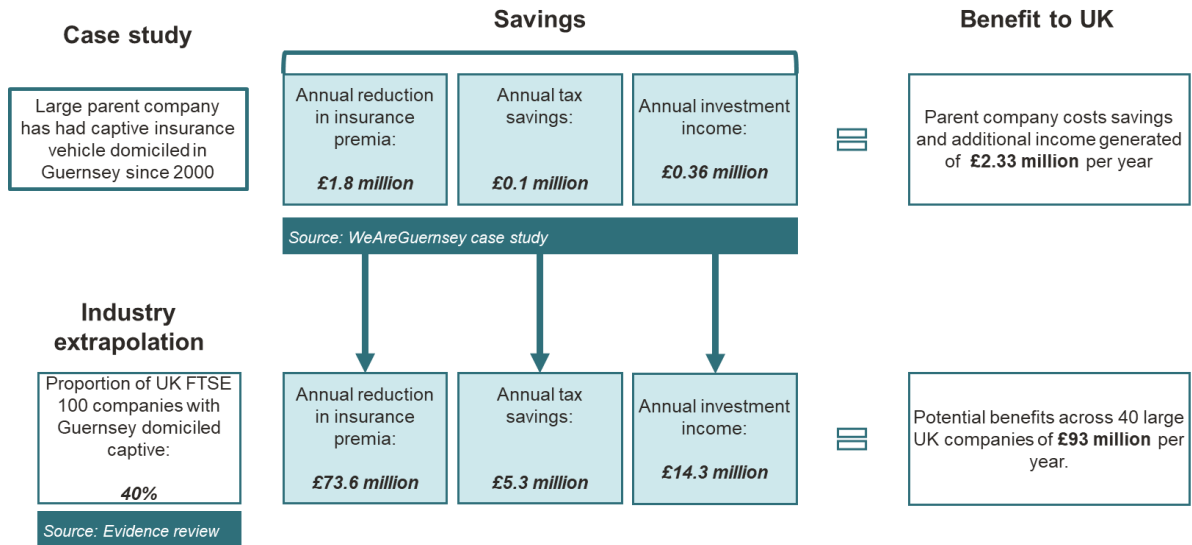
B.5 Insurance cost savings value to UK businesses

We have modelled cost savings to UK firms as a result of Guernsey captive insurance activity based in Guernsey. We use a case study provided by Guernsey Finance which illustrates the

cost savings and additional income generated for a UK large parent company with captive insurance vehicle domiciled in Guernsey.¹²⁰

We combine the case study findings with the fact that 40% of UK FTSE100 companies have Guernsey domiciled captives¹²¹ to estimate the overall potential benefit to the UK. Figure X below illustrates the process followed.

Figure 28 Insurance cost savings value to UK businesses calculations



Source: Frontier

B.6 Pensions fee revenues to UK professional services providers

We have modelled revenue flowing to UK firms as a result of international pensions activity based in Guernsey. During one of our interviews we collected details of a specific Guernsey pension scheme who was relying on UK professional services firms (e.g. actuaries, auditors and investment managers).

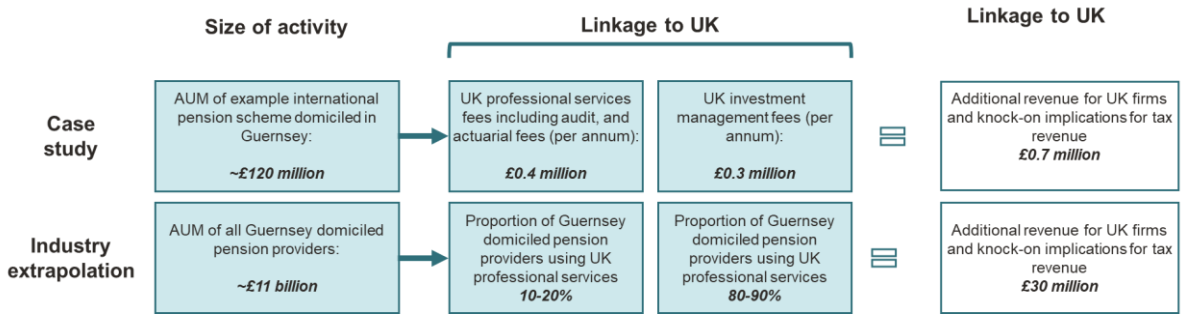
Using this firms AUM's and the entire Guernsey pension sector AUM we were able to extrapolate from this individual example to the entire industry (using estimates for the proportion of Guernsey schemes that would also be using UK advisors).

We have illustrated this process below.

¹²⁰ [WeAreGuernsey – Captive insurance, p. 7](#)

¹²¹ [WeAreGuernsey – Captive insurance, p. 11](#)

Figure 29 UK revenue from Guernsey pension activity



Source: GFSC, Interview case study

Annex C Further detail on drivers of financial flows

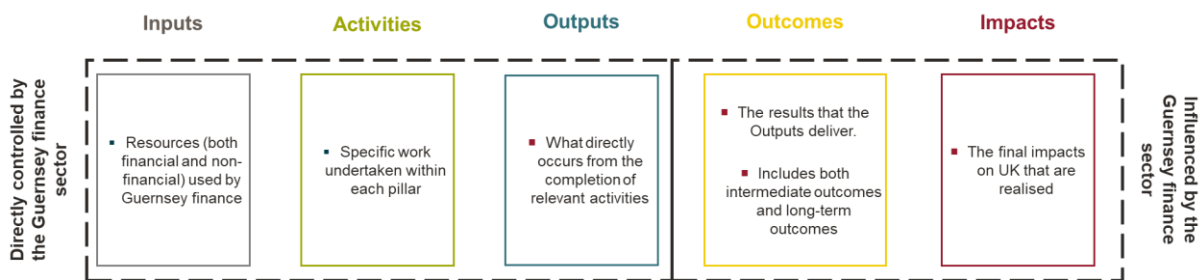
C.1 Format of framework

We have developed a logic model for each pillar of Guernsey’s finance sector to visually illustrate the underlying theory of change in each case. Each logic model describes how that area of activity generates value for the UK.

The logic models that we have developed have five sequential categories.

- Inputs: all resources which feed into activities carried out by Guernsey finance. These inputs will be common across all pillars and cover sector wide resources such as policy direction and accumulated expertise.
- Activities: specific work carried out within each pillar and services provided by firms active in that part of the market. These activities are carried out using the resources described in the previous category.
- Outputs: direct results of the activities from a UK perspective (e.g. injection of capital into UK insurance market as a result of Guernsey FDI).
- Outcomes: longer term results of outputs on the UK (e.g. UK insurance market is more liquid and more competitive).
- Impacts: final impacts on the UK’s economy and society that occur as a result of linkages to the Guernsey finance sector (e.g. UK insurance consumers enjoy lower premia).

Figure 30 Structure of logic models



Source: Frontier based on HMT’s Magenta Book¹²²

Broadly speaking stakeholders within the Guernsey finance sector (and associated bodies) will have a high degree of control over the first three categories. The Guernsey finance sector will have less direct control as we move to the right hand side of the logic models (outcomes and impacts). This is because final impacts on the UK (e.g. increased prosperity) will generally be a function of a wide range of factors (in addition to Guernsey links). It is therefore reasonable to say that final impacts on the UK are in part facilitated by linkages to Guernsey.

¹²² <https://www.gov.uk/government/publications/the-magenta-book>

In our quantitative modelling we have estimated where possible the specific monetised impacts which we can attribute to Guernsey specifically.

The logic models that we developed do **not** capture all activity which is carried out within each pillar. Instead we have focused on specific aspects which relate most closely to the UK. This is in line with the scope of our work and the objectives of this study.

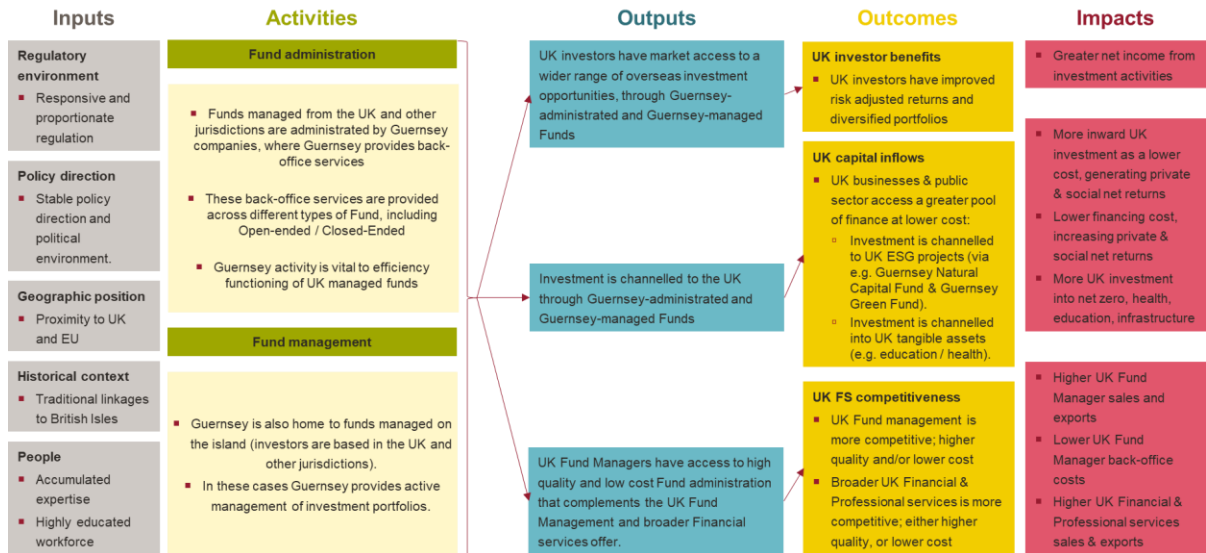
C.2 Funds

We have illustrated the Funds logic model below. As with all pillars Guernsey wide factors such as the regulatory environment, geographic context and skilled workforce provide the inputs for Funds activities.

A broad range of funds related activity takes place on Guernsey. This includes administration of funds which are managed elsewhere (including the UK) and direct management of funds. These funds range from bespoke private equity vehicles to publicly traded listed funds.

Fund investors are themselves based in the UK, in Guernsey and in a wide variety of other international jurisdictions (see Section 6 for more details).

Figure 31 Funds logic model



Source: Frontier based on review of evidence and qualitative engagement

As a result of these activities there are three primary outputs for the UK:

1. UK investors can use Guernsey domiciled funds to access a wide range of international investment opportunities. This in turn can lead to improved risk adjusted returns and greater net investment income.
2. Capital investment is channelled into the UK via Guernsey funds which can lead to greater access to capital for the public and private sector in the UK (at a lower cost than would

otherwise be the case). This in turn can generate commercial and social value (e.g. lower costs for development of beneficial infrastructure such as social housing and renewable energy infrastructure).

3. UK fund managers frequently work with Guernsey based fund administrators. This allows UK fund managers to directly earn management fees (which will be taxed in the UK) and strengthen their offering to international clients which in turn can boost revenue and exports.

Additionality

The logic model that we have presented above illustrates how current linkages between Guernsey funds and the UK generates value for the UK. We have also explored what differentiates Guernsey in this context and why these linkages could not be immediately and fully replicated between the UK and another international finance jurisdiction.

Our review of existing evidence and engagement with stakeholders revealed three factors which meant that Guernsey could add additional value to the UK in relation to funds which would not be in place elsewhere. We have used these factors to inform the modelling approach to deploy for this pillar (see next section for further details):

- **Quality and value:** The Guernsey Funds sector is made up over 200 providers with a range of products which cater for a variety of needs (e.g. closed-ended vs. open ended funds, PE funds vs. Guernsey companies listed on London Stock Exchange vs. familial Private Investment Funds). Guernsey is home to more London listings than any other jurisdiction outside of the UK. Guernsey is also home to the International Stock Exchange (TISE) which contains over 850 UK private equity issuers who are often investing directly into the UK. Guernsey has provided a domicile for fund managers for nearly 50 years. This has led to the development of a sophisticated support ecosystem (including legal services and tax expertise) to support domiciled funds. This back office expertise is not available to the same extent in the UK or in other jurisdictions at a comparable cost. No tax is taken in Guernsey and UK investment managers pay income tax in UK only. In addition, we were told that Guernsey stakeholders have certain expertise due to the specific activity which tends to be undertaken locally (see quote below). This can add further value.
- **Market access:** Guernsey has long established relationship with the UK reinforced by shared culture and geography. Other fund domiciles such as Luxembourg relies on AIFM arrangement access the UK.¹²³ Guernsey also can use NPPR to market funds to EU investors.¹²⁴ Guernsey's flexible and responsive regulation means that funds can be established with 4-6 weeks which is faster than other jurisdictions. Guernsey has

¹²³ <https://www.linklaters.com/en/insights/publications/aifm/aifmd-in-the-uk-after-brexid>

¹²⁴ <https://www.fca.org.uk/firms/nppr>

memoranda of understanding with China, South Africa and the US (Regulation D Private Placement).¹²⁵ Existing funds can also be migrated to Guernsey quickly and easily.

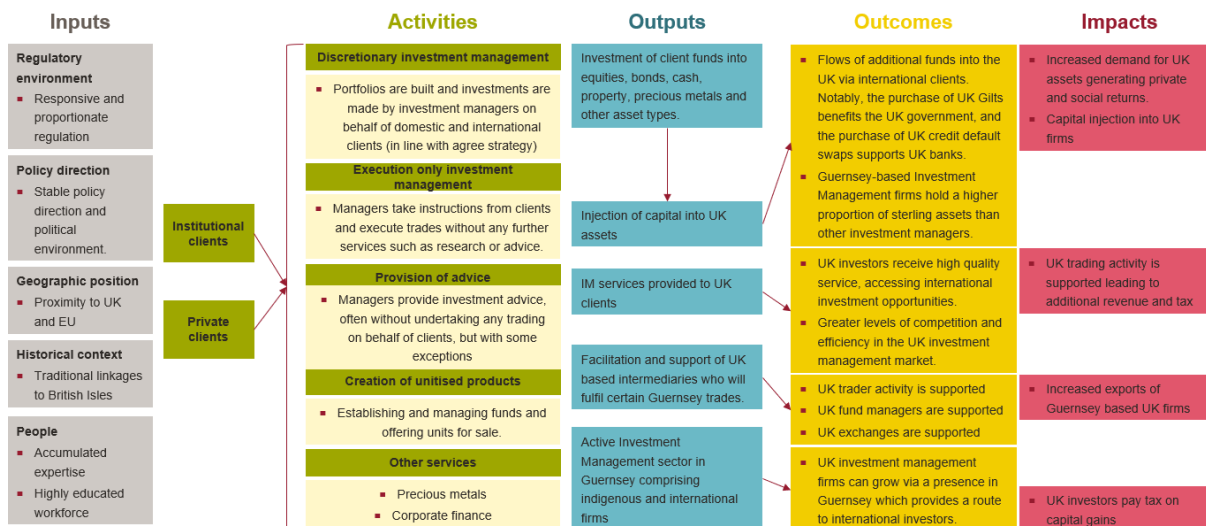
- **Reputation:** Guernsey funds have placed an emphasis of ESG (e.g. Guernsey Green Fund which we described in Section 4, locally head quartered TISE Green, ESG Framework for ILS) which align with UK Net Zero policy ambitions. Guernsey has an excellent reputation internationally and was whitelisted by both OECD and by the EU.¹²⁶ Guernsey proactively introduced Economic Substance legalisation. Guernsey is compliant or largely compliant with Financial Action Task Force recommendations on AML and CFT. Guernsey’s NED community is also a key point of difference. Guernsey boasts a massive pool of qualified people already on significant fund boards. This demonstrates Guernsey’s focus on qualified experts and good governance.

C.3 Investment management

Figure 32 presents the Investment Management logic model. As with all pillars, Guernsey wide factors such as the regulatory environment, geographic context and skilled workforce provide the inputs for Investment Management activities.

A broad range of Investment Management activity takes place on Guernsey. This includes discretionary investment management, execution only investment management and provision of investment advice. Clients include both individuals and institutional investors.

Figure 32 Investment management logic model



Source: Frontier based on review of evidence and qualitative engagement

These activities generate three primary outputs for the UK:

¹²⁵ <https://www.investor.gov/introduction-investing/investing-basics/glossary/regulation-d-offerings>

¹²⁶ <https://www.weareguernsey.com/news/2019/guernsey-stronger-as-updated-economic-substance-guidance-is-published/>

1. Injection of capital into UK assets. For example, Guernsey-based investment managers purchasing UK Gilts benefits the UK government, and their purchase of credit default swaps supports UK banks.
2. Provision of high-quality investment management services to UK clients, benefits UK investors by providing greater investment returns and access to overseas investment opportunities.
3. Facilitation and support of UK based intermediaries who will fulfil certain Guernsey trades.

Additionality

The logic model that we have presented above illustrates how current linkages between Guernsey investment management and the UK generates value for the UK. We have also explored what differentiates Guernsey in this context and why these linkages could not be immediately and fully replicated between the UK and another international finance jurisdiction.

Our review of existing evidence and engagement with stakeholders revealed three factors which meant that Guernsey could add additional value to the UK in relation to investment management which would not be in place elsewhere:

- **Focus on UK assets and UK-based asset managers:** UK investment managers channel clients' funds into global assets. However, a significant proportion of portfolios are sterling denominated. On average Guernsey investment managers are more likely to invest into UK assets and UK-based asset managers than investment in other international financial centres. This is because of greater awareness and research into UK assets by Guernsey investment management providers. Guernsey's shared culture with the UK, geographical position and overlapping legal system means that assets tended to have a UK focus.
- **Expertise:** Guernsey's highly educated workforce and rich investment management history means that private and institutional clients place a lot of trust in them. This is reinforced by linkages and complementarities between investment management and other Guernsey financial sector pillars.
- **Reputation:** Guernsey can be a location for tax efficient investment. However, multiple international organisations such as OECD and the IMF has certified Guernsey as being compliant with international best practice and standards of transparency. Guernsey is seen as a stable political environment in which to base funds for international investments.

C.4 Fiduciary

We have illustrated the fiduciary and private wealth logic model below. As with all pillars Guernsey wide factors such as the regulatory environment, geographic context and skilled workforce provide the inputs for fiduciary activities.

We have divided relevant activity into two categories. The first covers traditional trust work and more innovative related structures (e.g. Private Trust Companies and Private Trust

Foundations which are trust structures used by high net worth individuals wishing to establish and manage their own trust company, usually with the assistance of family members and trusted advisers). The second category covers corporate services including Protected Cell Companies (PCC) and Incorporated Cell Companies (ICC).¹²⁷ These models involve establishing multiple cells (which may or may not be separate legal entities) to allow UK corporate customers to reduce their costs, ringfence liabilities or assets and optimise capital.

These activities generate a number of outputs. Firstly, UK corporates and individuals have access to high quality fiduciary services which leads to improved asset protection, risk management and succession planning. Secondly, UK financial and professional service firms are more internationally competitive as a result of their linkages to Guernsey based fiduciary providers. This in turn can boost UK financial and professional service sales and exports as they are better able to serve their end clients.

This final point was emphasised heavily during our qualitative engagement. Stakeholders noted how referrals from UK based lawyers was a very common source of work for Guernsey fiduciary providers. This is a clear sign that these UK based firms value the specific expertise that Guernsey providers can offer.

Figure 33 Fiduciary and private wealth logic model



Source: Frontier based on review of evidence and qualitative engagement

This type of partnership between Guernsey and UK firms are completely in keeping with HM Treasury’s stated ambitions for the UK financial services sector. The UK Government wants to use the UK’s current position as a global financial hub to enhance existing strong

¹²⁷ <https://www.weareguernsey.com/news/2022/25-years-of-pccs-a-diverse-product-for-a-diverse-jurisdiction/>

relationships with international jurisdictions, attracting investment and boosting cross-border trade.¹²⁸

Additionality

Our review of existing evidence and engagement with stakeholders revealed three factors which meant that Guernsey could add additional value to the UK in relation to fiduciary and private wealth which would not be in place elsewhere:

- Linkages to UK legal firms: We were told by numerous stakeholders that the proximity of Guernsey to the UK and historical ties means that UK firms have established deep connections with Guernsey private wealth and fiduciary providers. Previous work has noted that the knowledge and skills of the Guernsey based trust/fiduciary workforce is a key factor in developing trust and long term client relationships.¹²⁹ This trust has built up over time and would be costly and time consuming to develop between UK firms and other jurisdictions. Guernsey offers the right business environment to support a fiduciary industry, including legal and accounting practices experienced in fiduciary matters and an experienced fiduciary workforce.
- Tax neutrality and international compliance: Guernsey’s tax neutrality means that overseas clients can use the island’s Trust services without the concern of incurring additional tax levies. In addition, Guernsey’s tax neutrality sits alongside broader efforts undertaken by fiduciary providers to ensure that domiciled structures are paying the appropriate taxes internationally (e.g. when returns are on-shored back to the UK). We were told by stakeholders that in some cases Guernsey fiduciary providers will make sure there the end client has appropriate tax advice in place to guarantee that all obligations are being met.
- Regulation and legislative environment: Guernsey has a strong regulatory environment. The GFSC is seen as “knowledgeable and respected” while also being “approachable and pragmatic”.¹³⁰ Guernsey has a reputation for high quality amongst industry stakeholders. Previous work has noted that UK based law firms highlight associate quality with the Guernsey fiduciary market.¹³¹ A robust legal regime which is familiar to UK firms and an internationally recognised stable political environment are also important aspects in the island’s reputation. Finally, Guernsey’s size means that it can adapt quickly to emerging trends and better serve more niche clients

¹²⁸

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998102/CCS0521556086-001_Mansion_House_Strategy_Document_FINAL.pdf

¹²⁹ <https://gov.gg/CHttpHandler.ashx?id=100892&p=0>

¹³⁰ <https://gov.gg/CHttpHandler.ashx?id=100892&p=0>

¹³¹ <https://gov.gg/CHttpHandler.ashx?id=100892&p=0>

C.5 Insurance

We have illustrated the insurance logic model below. As with all pillars Guernsey wide factors such as the regulatory environment, geographic context and skilled workforce provide the inputs for insurance activities. We have divided relevant activity into five categories, covering captive insurance, insurance linked securities, direct broker investments (via individual vehicles), direct foreign investment and all other relevant insurance activity. Captives allow UK firms to manage specific risks in a more efficient and cost effective way. In some cases we were told that it can also enable firms to enter new markets which may require types of insurance coverage that are hard to buy externally (e.g. flood risk or product recall coverage).

Figure 34 Insurance logic model



Source: Frontier based on review of evidence and qualitative engagement

ILS provide UK investors with an additional investment opportunity (potentially boosting diversification and risk adjusted returns) and also support UK based fund activity. We were told that Guernsey fulfils vital back-office functionality for these type of ILSs. UK based hedge funds are reliant on these administrative functions which can be carried out in Guernsey in a cost effective manner.

Direct broker investment and re-insurance of the policies they sell via bespoke Guernsey based vehicles can boost liquidity and stability of the UK insurance market. These broker-led vehicles may not always meet the capital requirement thresholds for formation in the UK. Therefore, in the absence of Guernsey as a nearby international finance location they may not be established at all.

Finally, Guernsey based insurance business channels work to UK brokerages and in part facilitates UK's continued position as a preeminent global insurance hub.

All of these outcomes can contribute to a more competitive final insurance market in the UK which benefits customers in the form of lower quality adjusted prices and ongoing innovation.

Additionality

Our review of existing evidence and engagement with stakeholders revealed three factors which meant that Guernsey could add additional value to the UK in relation to international pensions which would not be in place elsewhere. We have used these factors to inform the modelling approach to deploy for this pillar (see next section for further details):

- Regulation: Regulation of the insurance sector in Guernsey is responsive and designed to accommodate small or boutique insurance vehicles. This means that individual firms or brokers can set up their own captive insurance vehicles in Guernsey which would not be possible in the UK (due to minimum capital requirements). It is also possible to establish new vehicles in Guernsey rapidly. The UK's Prudential Regulation Authority is designed primarily to oversee the activities of very large entities.
- Cost advantages: The Guernsey insurance sector can offer cost effective solutions which draw on significant accumulated expertise. This is reinforced by Guernsey's tax neutrality which means that profits are only taxed once.
- Reputation: Clients need to have full confidence that insurance vehicles are going to function when they are needed. Guernsey has a strong reputation in this regard. Individuals and firms in Guernsey have also built up trusted relationships with UK counterparts over the course of decades. This trust would be difficult and time consuming to replicate elsewhere. Particularly given the shared culture, language, time-zone between UK and Guernsey.

C.6 Pensions

We have illustrated the international pensions logic model below. This focuses on international pensions rather than the domestic sector.¹³² As with all pillars Guernsey wide factors such as the regulatory environment, geographic context and skilled workforce provide the inputs for pension activities.

We have divided relevant activity into two categories. The first covers the usage of Guernsey as a base for workforce pensions schemes which may be targeted at specialist parts of their international workforce. The second category covers personal pensions which individuals may choose to set up in Guernsey themselves. This second category overlaps heavily with the wealth management activity described in relation to the previous pillar.

As a result of this international pensions activity based in Guernsey UK multinationals can offer their employees a savings vehicle in a secure environment with pragmatic regulation and

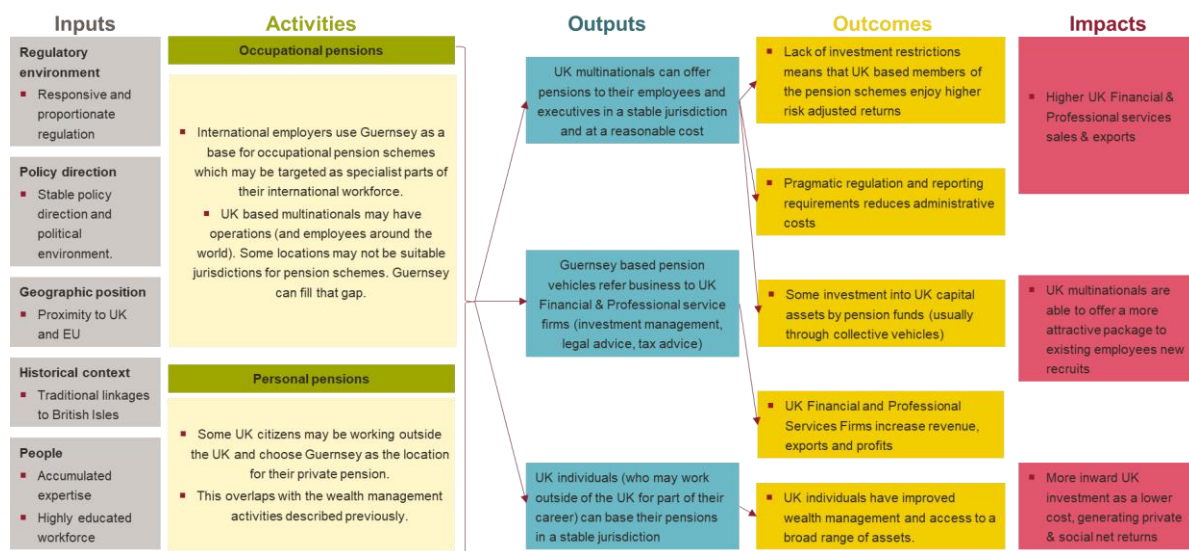
¹³² Unlike for example the UK the domestic pensions sector (for Guernsey residents/citizens) in Guernsey is relatively modest when compared with the international pensions sector.

limited investment restrictions. This in turn could mean that UK multinationals find it easier to attract and retain staff.

Secondly, Guernsey based international pension providers frequently refer business back to UK financial and professional service firms (including actuarial support and investment management expertise). The presence of this activity in Guernsey therefore means higher exports and income for these UK firms (and more taxes paid in the UK). This would not happen to the same extent for pensions based in other international finance locations.

The Guernsey based pension providers will in some cases also invest directly into UK assets which will generate further social returns.

Figure 35 Pensions logic model



Source: Frontier based on review of evidence and qualitative engagement

Additionality

Our review of existing evidence and engagement with stakeholders revealed three factors which meant that Guernsey could add additional value to the UK in relation to international pensions which would not be in place elsewhere:

- Regulation:** Guernsey has a strong regulatory environment without being overly burdensome. We were told that if a pension scheme was established in a EU jurisdiction the provider would be subject to greater reporting and more investment restrictions (which would drive up costs).
- Stability of legal system:** Guernsey has a stable political and legal system which gives employers and individuals confidence when setting up pension schemes. This will not always be the case in alternative jurisdictions.

- **Geographic position:** Guernsey's physical location also makes it accessible for UK employers / individuals. If an alternative jurisdiction was chosen such as Bermuda or the Cayman Islands travel would be more costly and the time zone difference (relative to the UK) would reduce convenience. This would weaken relationships between pension providers and UK professional services firms and reduce the likelihood of inward investment coming into the UK from these pension schemes.

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