Guernsey:

responding to Brexit with confidence

On 23 June 2016, Britain shocked the world by voting to end its 43 year relationship with the European Union. Deutsche Bank director for the Channel Islands, Daniel O'Driscoll, discusses the implications this is likely to have for Britain's crown dependencies – and Guernsey in particular.

Daniel O'Driscoll
director
Deutsche Bank
Channel Islands

With a strong track-record in adapting to macro trends, regulatory shifts and developments in overseas markets, Guernsey, as an international finance centre, is used to changing to the times, particularly given the size of its private wealth management sector supporting clients pursuing wealth, estate and succession planning strategies on a global scale.

The result of the UK's referendum on EU membership in June this year, however, posed firms and the authorities in Guernsey with some particularly challenging questions. Although the result was, it seems, a shock to businesses both here and in the UK, with many polls managing to predict the outcome with such inaccuracy, for Guernsey now the key is to focus on the future challenges and where the opportunities may be.

For Deutsche Bank, being ahead of the curve in identifying and acting on both the challenges and opportunities Brexit presents is important, particularly in the Channel Islands, where stability and certainty are at the

core of what internationally-mobile private clients need.

Agreements

Although the UK government is gradually outlining its plan of action, what the Brexit process and outcome will actually look like is uncertain.

Initially, this uncertainty manifested itself in overseas investors delaying their decisions or even diverting their attention elsewhere whilst the UK formulates a coherent plan. The UK real estate investment market in particular saw fund suspensions in the immediate aftermath of the referendum, particularly at the retail end of the market.

Given Guernsey's strong commercial and financial links with the UK, all this will have an impact, albeit temporary, on business flows for Guernsey firms too as they grapple with the uncertainty.

However, perhaps of more concern is the issue of market access across the new-look EU trade bloc. How Guernsey approaches these market access negotiations with the UK and the EU directly will be absolutely key for its financial services industry and its ability to continue to provide seamless cross-border support to private clients.

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Although the Channel Islands have to date largely ridden on the tails of the UK to ensure trade agreements are in place, it is likely that in the future Guernsey will need to focus a lot more on negotiating the best deal for itself when it comes to tax compliance and market access agreements. That could be through closer engagement with the EU directly or by ensuring a clear voice within the UK's trade agreement program.

The good news is that firms in Guernsey, such as Deutsche Bank, are well used to adapting to market requirements and being sensitive to working within the parameters of global regulatory initiatives, and this sort of maturity and experience will be vital in the new look Europe.

However, firms can only do so much when it comes to matters of policy. It is also critical that trade bodies, such as the Guernsey International Business Association and the Guernsey Investment Funds Association as well as finance industry representative body Guernsey Finance, continue with their good work and make strong representations in the corridors of power at home, in the UK, and overseas. In this way, Guernsey can act positively and not be left on the back foot.

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Partnership

This all sounds quite daunting, but it is also quite possible that this new environment will offer some good opportunities for Guernsey's financial services industry and certainly the sentiment amongst Guernsey's private client community is measurably positive.

Of course, the fate of the UK economy in particular is a major factor in Guernsey's success and, despite some predictions of a short to medium term economic slowdown in the UK, the UK remains the biggest player in mobilising EU capital around the world, facilitating around 80 percent of EU flows globally.

This sort of scale, infrastructure and experience may be difficult to replicate elsewhere. London is likely to remain a powerhouse in Europe for some time.

This ongoing success of the UK and London in particular is clearly important for Guernsey, and we know that London lawyers and advisers see the partnership between Guernsey and the UK, facilitated by the expertise of the broad range of high-quality law firms in the jurisdiction, as valuable in managing internationally-focussed transactions.

As long as UK assets remain attractive to overseas investors, and as long as UK investors need specialist cross-border structuring support, Guernsey will have a key role to play. That demand is rising, not diminishing.

Interestingly, there is perhaps scope too for Guernsey companies to provide some useful support to UK-based firms as the UK begins to visualise its different relationship with the EU. As a 'third country' in relation to the EU, Guernsey is already in a sort of 'Brexit' position, being outside of the EU but with certain agreements in place. As such, firms in Guernsey could provide some useful intelligence in terms of their experience with initiatives such as the EU Alternative Investment Fund Managers Directive (AIFMD).

Certainty

Further, there's no doubt that the UK is likely to experience a fair degree of uncertainty over the coming years as it becomes clearer what its position outside of the EU looks like and as it clarifies its various trade deals.

In the meantime, high net worth individuals and their families and advisers may increasingly look to the familiar, well-experienced, tried and tested Guernsey environment for support in structuring their cross-border investments. In fact, for Guernsey's trust industry, Brexit means little change and for most fiduciaries, it is very much a case of business as usual, particularly given the global nature of the trust sector.

What Brexit is likely to underline is the importance of Guernsey's relationships with emerging growth markets and the jurisdiction is in a good position in this sense. In recent years, it has established strong links with key markets such as the Middle and Far East, as well as Latin America, Africa and elsewhere for the benefit of the industry as a whole. In all cases, private clients want security and certainty in managing their affairs, and access through a robust, professional framework, to sought-after UK assets. Guernsey is strongly placed to deliver that.

Overall, Brexit certainly gives Guernsey's private client community something to think about, but it is important not to react quickly and rashly. Being decisive where needed will be important, but what Guernsey does well is providing certainty and stability when it comes to cross-border structuring. It can continue to deliver that by sticking with existing partnerships, developing relationships in growth markets, and diversifying into newer areas.

The new-look EU landscape is a long-term project, but remaining calm, patient and level-headed, is what will appeal to private clients and what will position Guernsey strongly not only to meet the challenges of Brexit, but to seize the opportunities it presents too.