Welcome to our first newsletter of 2020 and a new decade. This newsletter proudly reflects the success that Aon has created for clients after more than 40 years in Guernsey, highlighting the latest developments taking place.

Our 100-strong Aon Guernsey team includes some of the world’s most experienced insurance experts and we are continuing to develop our people and to invest in technology and new products from our state-of-the-art corporate headquarters at Admiral Park.

Milestones have included founding the world’s first Protected Cell Company, White Rock PCC, creating the Guernsey Insurance Linked Securities sector and launching the Island’s first commercial rated reinsurance companies, Kelvin Re and Humboldt Re.

More recently we established the Insurance Centre of Excellence (ICoE) to reinforce the high-quality underwriting and claims capability for our sizeable captive and ILS portfolio. This has been made possible by the appointment of highly experienced underwriter Christina Bell as Executive Director and Head of Captives and ILS Insurance Underwriting.

Aon Guernsey is now also drawing on Aon’s global expertise in the pensions industry to deliver Aon’s flagship international mastertrust vehicle, United Pensions International, for internationally mobile employees. The initiative enables Aon to deliver a fully bundled, best-in-class, delegated corporate retirement and savings product for clients over multiple markets. It positions Aon as a complete retirement and savings provider and we are proud that Guernsey was selected as the domicile of choice.

In this edition of our newsletter we bring you an update on Guernsey’s new economic substance rules and how these relate to the insurance sector. We also look at what directors of insurance entities need to know in advance of a PRISM visit from the regulator.

A further development has been the setting of an unexpectedly low Ogden rate and we explore the anticipated impact of this on captives.

We trust that you will find this content informative and of interest and we would welcome any conversations arising from the issues covered.

We would like to thank our clients, colleagues and business partners for supporting Aon over the years and we look forward to working together for many more years to come.

I hope you enjoy this newsletter.

Best regards,

Paul Sykes
Office Move

Aon Guernsey completed its 40th anniversary year by moving into new offices at Admiral Park in November 2018. We have grown to become the leading insurance manager firm in Guernsey and our new modern premises have and will continue to enable us to empower results for clients, inspiring trust and delivering excellence.

Our new office provides a space where colleagues can focus more on collaboration and interaction which is designed to deliver results to clients. It also demonstrates our commitment to Guernsey and our goal to become the biggest insurance manager in the world.

Diana Knott celebrates 35 years at Aon

The variety offered by a career in captive insurance is recognised and valued by Aon Guernsey’s long-serving Executive Director Diana Knott, whose connection with the company goes back a remarkable 35 years. Diana first joined Prescot Management as its second employee, in a bookkeeping role. The business was owned by Minet Insurance Brokers, at that time one of the largest global insurance broking businesses, and was purchased by Aon in 1997.

With considerable experience in all aspects of captive management, Diana became a director of Aon Insurance Managers (Guernsey) in 2004 and manages a book of diverse captive and PCC clients. Her clients, for many of which she is a board director, include professional accounting firms, financial institutions and FTSE 100 beverage and retail businesses.

“Captive insurance is far from boring, with so many different facets to the business – running regulated insurance companies, providing accountancy and insurance services, developing insurance programmes, whilst dealing closely with main board directors and risk managers of some very interesting FTSE 100 and other large businesses,” she said.

The Guernsey insurance sector has changed enormously over the past three decades. In the early days, setting up a captive required an informal conversation with the Guernsey insurance regulator and a few forms to complete. Nowadays, with the ever-changing regulatory environment, there are stringent processes in place to ensure compliance with regulatory requirements and corporate governance.

Diana enjoys the longevity of her client relationships and that continuity has been important as many of her clients have evolved to become more complex over the years as Aon has been able to add value to these relationships.

Aon too is now a world apart from the smaller insurance organisation with whom she cut her teeth in the industry and she recognises the wealth of experience and opportunities that it offers its employees, including the up and coming recruits of today.

Outside of the office Diana enjoys spending time with her partner Bill, travelling, gardening and looking after their menagerie of rescue dogs and cats.
Being savvy about substance

In November 2019 Guernsey’s Revenue Service published guidance on the Island’s new economic substance rules.

We asked Carey Olsen partner Christopher Anderson to outline the implications of the substance requirements for the insurance industry and for directors.

What type of insurance business is affected by the rules?

Any licensed insurer which is a Guernsey tax resident company, including the life and non-life sectors and reinsurance, is in scope. A Guernsey-registered company not resident in Guernsey for tax purposes is not subject to the substance requirements but it must apply to the Revenue Service to ensure that it is not considered Guernsey resident.

Guernsey registered companies which are tax resident in the UK will be unable to comply with the substance rules and must also apply to the Revenue Service to cease being tax resident in Guernsey. Insurance brokers, intermediaries and managers which provide insurance-related services but are not insurers are outside the scope of the rules.

What are the criteria for a Guernsey tax resident licensed insurance company to comply with the substance requirements?

The company must be:

- Directed and managed in Guernsey
- Carry on core income generating activity (CIGA) in Guernsey
- Employ appropriately qualified people
- Spend money in Guernsey
- Have an office in Guernsey

Evidence of this will need to be included on the new enhanced corporate income tax return for resident companies.

What is the definition of “directed and managed in Guernsey”?

A sufficient number of board meetings must be held in Guernsey, with a quorum of directors present, where strategic decisions are made and minutes taken. If a board meeting takes place outside of Guernsey the company must take care that it does not thereby breach Guernsey substance requirements nor become subject to tax or breach regulatory requirements in that other jurisdiction.

Directors should be well advised to avoid taking a decision or act on behalf of an insurance company when they are off island. The cautious approach for directors is simply don’t make decisions when you are not in Guernsey.

It may now be wise to set up committees of the board, authorised to take decisions and report back to the board. Those committees should comprise directors who are present in Guernsey at the time.

Written resolutions, often circulated via email, are best avoided as they increase the risk of a decision inadvertently being made outside of Guernsey. Such resolutions are considered to be passed where the majority of the directors were present at the time they assent to the decision.

What is a CIGA?

A CIGA includes predicting and calculating risk, insuring or re-insuring against risk and providing client services. When CIGA’s are conducted by the board or a committee of the board, those decisions must be taken in Guernsey. However, isolated decisions may occasionally be taken outside the Island provided the bulk of substantive decision-making occurs in the Island.

Outsourcing

The outsourcing of relevant activities must be considered carefully under the new regime and Carey Olsen has advised a number of clients on this aspect in particular. Our experience to date indicates that the current business models of Guernsey licensed insurers, including those that deploy outsourcing, are capable of achieving compliance with the economic substance requirements.

What are the sanctions for non-compliant businesses?

There are financial penalties, from up to £10,000 for a first breach to up to £100,000 for a fourth breach; an audit can be imposed for continued non-compliance; exchange of information may take place with the tax authorities of another jurisdiction where the company has a touchpoint and there is the potential for the company to be struck off the corporate register.

What’s your overall view of the substance provision and guidance provided?

I welcome them. They are best practice and we need to accommodate that. They give clarity, improve the decision-making process, make it better and more robust and improve governance.

A full briefing note on the new guidance notes is available here: https://www.careyolsen.com/briefings/guernseys-new-economic-substance-requirements-application-insurance-industry
Positive about PRISM

Since the PRISM risk assessment methodology (‘Probability, Risk and Impact System’) was adopted by the GFSC in 2014, it has become a familiar part of the Guernsey regulatory landscape. The methodology focuses on a number of categories of risk, including: governance risk, conduct risk, strategy / business model risk, operational risk and financial crime risk. While some Guernsey-based managed insurers have already been actively engaged in the assessment process (e.g. experiencing on-site visits and key person interviews), insurers assessed as ‘low impact’ by the GFSC have been more passively assessed.

As a proactive insurance manager, Aon has previously promoted awareness of PRISM, including as part of its engagement programme for non-executive directors of Aon managed insurers (for example at the NED Forum hosted by Aon in October 2019).

Aon is ‘positive about PRISM’ for two principle reasons. First, PRISM provides the GFSC with a structured methodology by which it can consistently evaluate and ultimately regulate licensees by employing a risk-based approach focused on risk likelihood and impact. Second, PRISM provides licensees with a defined framework which can influence their regulatory compliance regime. A good explanation of the PRISM methodology is set out in the GFSC publication, Risk Based Supervision in Guernsey, which is available on the GFSC website (https://www.gfsc.gg/).

Even low impact licensees (which are unlikely to undergo a full on-site PRISM assessment) can benefit from adopting a governance approach that reflects the PRISM methodology by taking the opportunity to review their business. Insurer boards should consider whether the insurer’s risk management and corporate governance frameworks are appropriate and coherent. For example, do the insurer’s business plan, risk register, risk appetite and (where applicable) business risk assessments reflect a consistent approach to risk? A licensee with effective risk management, corporate governance and compliance regimes in place should be well prepared for the PRISM experience.

Members of insurer boards should also individually consider whether they can demonstrate that they understand: the evolving regulatory environment in which the insurer operates; the business rationale for the insurance vehicle; the business of the insurer and associated risks; how such risks are mitigated; their obligations in respect of the insurer; the risk and potential impact (both to the insurer and at a jurisdictional level) of the insurer failing; and how they manage conflicts. In addition, directors will need to demonstrate that they have sufficient time to devote to the business of the insurer.

For licensee boards facing a PRISM risk assessment, Maxime Le Tocq of LMRR Limited (our guest speaker at the previously referenced NED Forum) gave practical advice about dealing with an on-site visit including the following ‘dos’ and ‘don’ts’.

Do: make sure you have read any information provided to the GFSC; attend in person (and not via telephone, Skype, video-conference or similar); prepare as a team; ensure that the GFSC’s allocated area is a ‘neutral zone’; be open, clear and factual; have a dedicated note-taker throughout; and respect your regulator.

Don’t: exaggerate an answer under pressure; leave potentially misleading information uncorrected; allow a dominant personality to “take over”; say what you think the GFSC wants to hear; answer mobile phones, check your messages and / or send emails under the table while with the GFSC.

Clients and directors of Aon managed insurers should direct questions about PRISM to their client service team contact in the first instance.

GFSC Handbook – Deadline Reminder

As all clients and insurer board members will already be aware, the GFSC Handbook on Countering Financial Crime and Terrorist Financing was updated in 2019.

For those involved with Guernsey licensed insurers subject to the Handbook (i.e. those licensed to carry on life business), the obligation to appoint a Money Laundering Compliance Officer has now passed but there are other deadlines (especially in relation to customer due diligence (‘CDD’)). Upcoming Handbook related deadlines (some of which are fast approaching) include the following:

- 31 May 2020 – Deadline to revise and approve the insurer’s Business Risk Assessment (‘BRA’) without reference to the National Risk Assessment (‘NRA’) which Aon understands will be published in January 2020. Thereafter, BRA reviews must be prepared with reference of the NRA.
- 31 May 2020 – Deadline for updating and approving AML / CFT policies, procedures and controls.
- 31 December 2020 – Deadline for reviewing existing high-risk business relationships to ensure that compliant CDD is held.
- 31 December 2021 – Deadline for reviewing existing non-high-risk business relationships to ensure that compliant CDD is held.

For managed insurers that have adopted Aon’s policies, procedures and controls, these are currently being updated and Aon will continue to provide updates on these Handbook driven changes. For non-life insurers that are not subject to the Handbook, it is worth noting that the GFSC expects such insurers to continue to take a ‘higher perspective view’ on AML / CFT matters.

Clients and directors of Aon managed insurers should direct questions about the Handbook to their client service team contact in the first instance.
Insurance Centre of Excellence focuses on innovation and sustainability

Aon Guernsey has demonstrated its pioneering spirit by establishing the first Insurance Centre of Excellence (ICOE) to reinforce the best-in-class dedicated underwriting and claims capability for our sizeable captive and ILS portfolio.

Central to the development of this new initiative was the appointment in 2019 of highly experienced underwriter Christina Bell as Executive Director and Head of Captives and ILS Insurance Underwriting.

Christina brings more than three decades of experience to Aon, plus an exceptional track record in Bermuda, London and Zurich.

At its core, the ICOE is focused on enhancing Aon Guernsey’s strategic consultancy offering. This includes specialist programme design, achieving optimal captive utilisation plus identifying further growth and development opportunities, all capabilities way beyond the standard reporting function.

Excellence is down to Aon’s dedicated team of 14 underwriting professionals, the vast majority of whom hold insurance qualifications, and the team is still growing. Their combined and diverse experience spans commercial market underwriting, ILS, claims and captive management underpinned by international insurance experience. Knowledge sharing and product research within the ICOE as well as the wider global Aon Group ensures we are ahead of the curve on emerging risks and captive trends.

Aon Guernsey’s recent growth is in part attributable to a significant uptick in ILS activity, while our captive expertise proactively addresses the hardening market environment by providing innovative solutions to captive owners. Aligned with growth in our business we are actively onboarding additional expertise to the ICOE whilst further upskilling our existing talented team alongside a continuing steady, organic recruitment programme. Our graduate recruits are proactively mentored providing a skilled pipeline of talent for the future.

Christina is “hugely impressed” by Guernsey as an international captive jurisdiction and its robust, purpose-designed regulatory regime.

“It’s an exciting time to be leading the ICOE at Aon Guernsey and I’m delighted to bring to Guernsey new captive underwriting initiatives based on my years in other global markets, in particular Bermuda,” she said.

“We are growing, enhancing and developing both the captive and ILS sectors. In view of the current hardening market conditions it’s a perfect time for clients to consider alternative solutions and for captives to fill gaps in capacity as well as take on new and unconventional lines.”

Some of the ICOE team members sit on global industry practice groups within the Aon Group, specialising in cyber, life sciences and energy, making this expertise and capability available to our Guernsey client base.

Christina Bell

Christina Bell is a captive consulting practitioner and insurance executive with more than 30 years international insurance experience in senior management and team leadership roles, also holding directorship positions on captive company boards. She has a wealth of underwriting expertise including 15 years as a lead casualty underwriter for Swiss Re. She was previously a member of the JLT Insurance Management Bermuda senior executive team, working strategically to optimise captive solutions. Christina is a graduate of Manchester University, an Associate of the Chartered Insurance Institute, a Chartered Insurer and a member of the Institute of Directors.
Meet our Leadership Team

Left to right in photograph -

- **Glyn Smith – Executive Director**
  - Glyn is the Aon Guernsey Executive Director responsible for the Rated Re platform and for leading the team to ensure service delivery. Glyn is a prominent fixture in Guernsey’s insurance market and has a wealth of experience working in the general insurance and captive reinsurance management markets.

- **Stuart Brown – Executive Director**
  - Stuart joined Aon Guernsey in January 2012 as an Executive Director. Responsible for Aon Guernsey’s financial reporting, Stuart is now also Head of the Finance & Administration Centre of Excellence for Aon Guernsey. His areas of technical expertise include captives, SPVs, ILS, passporting insurance business across Europe, insurance audit and insurance regulation. Prior to his relocation to Guernsey, Stuart was the Chief Operating Officer of Aon Gibraltar.

- **Kevin Sockalingum – Chief Actuary – Humboldt Re**
  - Kevin holds the role of Chief Actuary, a Prescribed Position in Guernsey. Kevin is a fellow of the Institute of Actuaries and has held various actuarial positions across Lloyd’s syndicates, reinsurers and insurance companies. Day-to-day Kevin leads a team responsible for risk management, analytics and exposure management.

- **Sam Arlotte – Associate Director – Rated Re**
  - Sam is a an Associate Director at Aon Guernsey and the Financial Controller for Kelvin Re. He is a fellow of the ACCA, having qualified with PwC in their audit and assurance practice. He has gained extensive experience in Guernsey and London working with insurance, private equity and pension clients.

- **Justin Upson – Associate Director**
  - A captive specialist responsible for a number of captive insurance companies and PCCs, Justin is also an Aon Client Promise Leader. His role is to ensure the team delivers value to clients through personalised services based on individual business needs.

- **Mo Rahman – Associate Director – Rated Re**
  - Mo is the financial controller of Humboldt Re. He is a fellow of the ACCA and AIA and has extensive (re)insurance and financial services experiences in London and Bermuda covering finance, audit and projects. Mo started his insurance career in Ernst & Young London. Prior to his relocation to Guernsey, Mo worked with the reinsurance platform of MS & AD insurance group in Bermuda.
Christina Bell – Executive Director
  Christina’s role is head of the captive & ILS, underwriting and claims functions. She also acts as operational executive for a number of captive insurance companies as well as managing the insurance programmes of others. Christina has over 30 years international insurance experience in senior management and team leadership positions.

Jonathan Carter – Head of Risk and Compliance
  Jonathan is a qualified Solicitor and is responsible for the risk and compliance and financial crime functions. Jonathan is also on the board of Aon Services (Guernsey) Limited (Aon’s fiduciary licensee in Guernsey) which provides certain insurance related trust services and also pension services.

Paul Sykes – Managing Director
  Paul has served Aon for over 25 years, developing businesses for Aon and the White Rock group in Guernsey, Gibraltar and Malta. He has worked with clients to set up, manage and direct all kinds of insurance and reinsurance companies. He is former Chairman of the Insurance Industry Associations in both Gibraltar and Guernsey and a past President of the CII in Guernsey.

Martin Etheridge – Associate Director & Head of Underwriting and Claims – Humboldt Re
  Martin is responsible for Underwriting and Claims for Humboldt Re. He has worked in the insurance industry for more than 30 years, during which time he gained experience of both underwriting and broking in the Lloyd’s insurance and reinsurance market. Martin is a Fellow of the Chartered Insurance Institute and is a Chartered Insurance Broker. Martin was previously a senior examiner for CII Principles of Insurance 1988-1993.

Viv Roussel – Head of Human Resources
  Viv has overall responsibility for all aspects of our HR and Learning & Development Functions. With over 20 years’ experience in the field, Viv brings her knowledge and expertise as a qualified coach and practitioner in Emotional Intelligence to align effective HR practices and performance management to organisational business objectives, in order to achieve maximum value and the successful impact of learning for both the organisation and its individuals.

Ben Kirk – Associate Director
  Ben is responsible for Underwriting and Claims for Kelvin Re. He has a wide range of experience across many insurance disciplines including claims, advisory (as a retail broker), captive insurance management and underwriting. Ben is a past council member of the IIG and received the Excellence in Education Award. He is an Associate of the Chartered Insurance Institute.

Ian Lainé – Associate Director
  Ian is our Financial Controller, preparing and supervising a number of internal management accounts and reporting processes, financial statement preparation and annual audit. He also acts as lead accountant and administrator to a number of captive and commercial reinsurance clients and a large insurance-linked securities client while providing support to the Guernsey office on queries in relation to accounting, Guernsey and UK tax and Guernsey Company Law.

Not in photograph -

Rob Fletcher – Executive Director
  Rob has served with Aon Guernsey for over 14 years and manages a portfolio of clients in his role as an Executive Director. Rob is a fellow of the ACCA and has subject matter expertise in relation to accounting, Guernsey, Swiss and UK tax and Guernsey company law. Rob has set up numerous insurance companies including commercial rated reinsurance companies and has extensive experience dealing with A.M. Best from initial rating to rating review. Rob sits on Aon’s global financial institutions practice group and our global regulatory and technical committee.

Diana Knott – Executive Director
  Diana has served with Aon Guernsey for over 35 years and leads a portfolio of clients as an operational executive and sits on the board of various client companies. She has executive responsibility for a diverse range of captive and PCC clients including professional accounting firms, financial institutions and FTSE 100 beverage and retail businesses.

Michelle Robilliard – Associate Director
  Michelle’s main role is to act as the operational executive on a range of insurance vehicles. She is also the Chair of our Operations Committee. Michelle has a breadth of knowledge spanning insurance and reinsurance matters. She has held board positions on both insurance and reinsurance vehicles. Michelle is a fellow of the ACCA and also holds the IOD’s Certificate and Diploma in Company Direction.

Jody Bisson – Associate Director
  Jody has over 20 years’ experience working in offshore financial services. He has worked predominantly in the insurance sector but has operated in a diverse range of offshore industries including captive insurance, underwriting, banking, fund administration, insurance broking and financial advisory services. Jody is a fellow of the ACCA and holds the CII Diploma in Regulated Financial Planning.
Introducing our latest Graduate

Aon Guernsey continues to develop future leaders of its business in Guernsey through its Global Risk Consulting European Captive Graduate Programme. Barnaby Paul is the newest addition to the firm’s graduate cohort having joined Aon in September 2018. Barnaby gained a Bachelor of Arts in History and Politics at the University of Reading.

Barnaby said of his decision to join the graduate scheme: “Aon’s graduate scheme offering appealed to me for a number of reasons. The opportunity to move around the business spending time in the captive reinsurace and insurance-linked securities teams meant that I could gain a broad knowledge in a number of different insurance streams. After speaking to someone I knew who was on the Aon graduate scheme in London, I was impressed by the amount of interaction that the graduates across various jurisdictions had.”

The scheme offers graduates experience of working in the three main areas of the business. Over an eighteen-month period, they will take part in a graduate development programme, training on the job, mentoring, and attending UK based development activities, joining other graduates from our different jurisdictions.

Barnaby was extremely interested in the opportunity to both visit the London office and work on projects with fellow graduates, he said “as someone new to the industry, I would be able to learn both with and from my peers and experience a good amount of job variation.

Furthermore, this truly exemplifies Aon’s commitment to global engagement and potential to move within the business to any of the 500+ Aon offices as my career progresses is something that very few other companies can offer.”

Graduates who choose to join the scheme get exposure to different aspects of the business to assist in helping them decide what they wish to specialise in, while also getting to know the business in a broader sense. They all agree that is a good transition from university to work life. “The scheme allows for you to drive your own career whilst being supported with training and developing business and social skills with clients and colleagues,” said Isabelle Line who joined the scheme in 2016. She is now an Assistant Manager at Aon Guernsey.

CSR – Do you have a charity in mind?

Aon Guernsey supports local charities and individuals through our Corporate Social Responsibility (CSR) programme. We have an application form process, through which charities have the ability to apply for either a donation or staff time to assist a charity in Guernsey.

If you would like to nominate a charity, or are a charity wishing to apply, we encourage you to fill in the application form on our website [https://www.aon.com/guernsey/charity_sep_13.jsp](https://www.aon.com/guernsey/charity_sep_13.jsp).

Since our last newsletter, Aon Guernsey has made several donations to various charities including, Mind Guernsey, St Peter Port Christmas Lights, Les Bourgs Hospice, MUG, Crimestoppers Trust, Ernie’s Angels, Guernsey Safety Calling Challenge, Guernsey Alzheimer’s and St John Ambulance, plus many more.

The mission of our firm is to empower economic and human possibility. We have a commitment to drive impact – and this begins with our colleagues who are a fundamental part of our journey.

Colleagues deliver impact each day, whether that’s through the work we do with our clients or our work directly in the communities where we live and do business.

During the month of June across Aon, thousands of colleagues volunteered as Aon United to help our communities grow. Collectively, we broadened our level of impact and sharpened our focus on our mission to change lives for the better.

A number of Aon Guernsey employees volunteered their time to The Helvetica Challenge which was a triathlon fundraising event, Safer Guernsey who needed local volunteers to help tend to their new premises, and Sarah Groves Runway Ride to raise money for various charities and a small number of employees are currently going through the process of blood donations.
Introducing Aon’s Underwriting Solutions

In response to the continued convergence of the capital markets and the commercial re/insurance industry, we have aligned our organisational structure and created Underwriting Solutions, by integrating our Commercial Re/Insurance advisory, Insurance-Linked Securities and White Rock businesses.

Underwriting Solutions provides bespoke solutions enabled by technology and data & analytics that allow commercial re/insurance companies and Insurance-Linked Securities funds to improve performance and operate more efficiently.

Commercial Re/Insurance

Our Commercial Re/Insurance practice group provides tailored solutions to commercial reinsurance and insurance entities – both life and P&C – based on our clients’ specific needs.

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<td><strong>75</strong></td>
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<td>Total number of entities under management</td>
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Insurance-Linked Securities

Our Insurance-Linked Securities practice group provides a comprehensive range of solutions to insurance-linked securities funds that facilitates the deployment of this alternative capital either through fully collateralised reinsurance transactions – for example cat bonds or sidecars – or via a traditional reinsurance entity where the capital is funded by Insurance-Linked Securities investors.

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<td><strong>US$17bn</strong></td>
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<td>Insurance-Linked Securities assets under management</td>
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White Rock Group

Our White Rock Group is a unique and leading group of insurance and reinsurance vehicles in Bermuda, District of Columbia, Gibraltar, Guernsey, Isle of Man, Malta and Vermont, that offer clients a diverse suite of insurance solutions through utilisation of Protected Cell, Incorporated Cell and Segregated Account facilities.

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Bottling company saves 15% by using Guernsey captive for EB scheme

A major drink bottling group operating in 27 countries has achieved significant savings by taking Aon’s advice to switch its employee benefits package to a pooling arrangement and reinsure most of the premiums into its Guernsey captive.

Aon Guernsey proposed this way of adding value ahead of an imminent client group financial efficiency project and after learning that the client considered their existing EB arrangement to be expensive and inconsistent. A full feasibility study was carried out and the decision was taken to self-insure a proportion of the benefits, including death in service and an element of medical claims.

Aon was appointed global broker for employee benefits. Aon Guernsey, the client group and Aon Global Benefits UK conducted a comprehensive tender to select Zurich Insurance as the fronting partner to write the policy into Europe.

In addition to savings of more than 15%, the group had broad consistency across most of its operating businesses and improved central control. The captive is writing further profitable business which will return dividends to the group.
Aon’s global ILS expertise showcased in London

The streamlining of a number of Aon’s disciplines and areas of expertise around Insurance Linked Securities (ILS) prompted a showcase in London for 120 prominent industry professionals.

Guests from the City and further afield were updated on Aon’s ILS capabilities.

The initiative arose following the realisation that Aon’s offering had evolved considerably across various disciplines and it would be beneficial to align the company’s practice areas to present an holistic offering. This involved pooling the skillsets, expertise and global capability of Aon Captive & Insurance Management, Aon Securities, Aon Reinsurance Solutions, Aon Inpoint, ReMetrica, Aon Actuarial & Analytics and Aon Impact Forecasting.

Aon colleagues enjoyed the opportunity to reconnect with clients, prospects and industry and the Aon United ILS event resulted in an uplift in interest in our global ILS solutions.

Change to Ogden Rate Disappoints Insurance Markets

The Ogden Rate – used to calculate returns on investments made by claimants who accept lump sum compensation – was set unexpectedly low in July 2019 resulting in consequences for captives.

The principle of the Ogden Rate is that the amount insurers must pay out is adjusted, or discounted, to consider life expectancy and the interest the claimant could expect to earn if they invested the money.

The rate, which is set by the Lord Chancellor, is expected to be reviewed again in 2024.

It has been contentious since March 2017, when it was reduced from 2.5% to -0.75%, which was considered likely to significantly increase the quantum of many types of damage awards. As a result of industry lobbying the government partially reversed the decrease by calculating against “low risk” investment rather than “very low risk” and the rate was expected to rise to between 0 and 1%.

It was also proposed that independent experts would be involved in the review process, a diversified portfolio of low-risk investments would be used, rather than just index-linked government securities, and that the discount rate would be reviewed within 90 days of the new law coming into force and at least every three years thereafter.

The setting of a new rate does not require a debate in parliament however, under the Civil Liability Act 2018, a rate-setting order needs to be laid before Parliament by the Lord Chancellor who has the flexibility to adopt a single rate, different rates for different heads of loss and different rates for different loss periods.

The new Ogden Rate for England and Wales was announced in July 2019 with a change from -0.75% to -0.25% and it was decided to retain a single rate which came into force on 5 August.

Given that insurers had anticipated the new rate to be between 0% and 1%, the small scale of the revision is highly disappointing to the insurance industry. It means insurers will have to set aside more money than previously estimated for lump sum payments for personal injury cases, potentially denting their profits and pushing up Liability and Motor Third Party Liability premiums.

Although the impact may be less significant than the 2017 revision from 2.5% to -0.75% which caused liability insurers significant problems, insurers’ liability reserves relating to personal injury claims may once again require re-calibration.

The fixing of the rate for five years will provide insurers with certainty in the immediate term but critics state that this rate is the lowest in the western world and that it leaves England and Wales as an international outlier.

The Scottish government is yet to determine whether it will revise its rate from the current -0.75%, which raises the possibility of a different Ogden Rate and different reserving calculations for personal injury cases north and south of the border. Due to the recent political deadlock in Northern Ireland, the rate there was never amended from the former rate of 2.5%.

Industry reaction

The following points have been raised by the insurance industry:

- AXA commented that “a negative rate simply does not reflect the economic reality of the investment opportunities for those receiving lump sum payments”
British motor insurer Hastings warned on 8 August 2019 of a $10 million hit to its profits from the change in the discount rate.

Confused.com say the average UK motor insurance premium rose 3.5 per cent in the second quarter of the year to £789.

Zurich’s chief claims officer predicted that the rate is likely to reduce both market coverage and affordability for higher risk customers such as road hauliers, commercial fleets, young drivers and older drivers and will have a financial impact on public liability cover for the public sector and businesses.

Fitch considered that the new rate will be “a small one-off negative” for UK motor insurers.

Personal injury lawyers welcomed the government’s changes: “The new rate does reflect the fact that the government accepts it is a risky and costly business for claimants to invest their compensation successfully in order to fully fund the enormous changes in their lives following serious injury,” (Minister Law legal services).

Impact on Captives

Like other insurance companies, captives may expect personal injury reserves for major claims heard in England and Wales to increase as they had assumed a higher Ogden Rate prior to the announcement. There will likely be an impact on premiums, both for captive programmes and for reinsurance/stop-loss protecting the captive’s balance sheet.

Generally, it will be the more complex, large claims, which are most susceptible to changes to the Ogden Rate. Where captives are taking the working layer of a casualty programme the direct impact on their reserves may be more moderate than it would be to insurers writing the whole programme.

A silver lining, perhaps, is that the uncertainty over the Ogden Rate seems to be, for a few years at least, at an end. To the extent that there was an imperative – for example – to delay a claim settlement to await an anticipated improvement to the rate, captives and their appointed claims handlers may now simply proceed to settle claims and make Part 36 offers as normal without this factor causing further uncertainty.

Dates for your diary in 2020

- **18th March**
  Guernsey Captive Briefing - London

- **8th–10th June**
  Airmic – Edinburgh

- **11th June**
  Aon ILS Insights – New York

- **2nd July**
  ILS Insight – Zurich

- **13th–16th September**
  Rendez-vous – Monte Carlo
Awards

Guernsey International Insurance Association’s “Chris Le Conte Award”

Aon Guernsey is delighted to announce that Harriet Walden received the Chris Le Conte Award at the annual Guernsey International Insurance Association’s dinner back in May of 2018.

The award is given to a young individual who demonstrates a significant achievement and contribution to the local insurance industry.

Back in 2014, Harriet won the prestigious Excellence in Education award, and is also a previous winner of the CII Student of the Year Award. She is now the Education Secretary of the Insurance Institute of Guernsey.

“I was surprised and delighted to have been nominated for the Chris Le Conte award for achievement in Guernsey’s Insurance Industry. Before he left Aon to establish Robus, Chris recruited me onto the inaugural Aon Guernsey graduate scheme and so it was a particular honour for me to be presented as the 2018 winner of this award. I’m confident that Aon and Guernsey’s wider (re)insurance sector will continue to develop and inspire innovation and I would encourage young individuals to consider a career within the industry,” said Harriet of her win.

Chartered Insurance Institute’s “Student of the Year 2018”

Alex Symons was the winner of the Chartered Insurance Institute’s Student of the Year Award 2018. Alexis Goater, Chartered Insurance Institute President, said: “Alex was chosen on his merits for a couple of reasons, showing that perseverance pays off, that you can study, still have fun and contribute to charity. What I loved about him was that he never gave up and that is something I admire, lots of people can learn this lesson from him”.

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Guernsey Raiders Ladies are enjoying a strong season in this, their fourth year sponsored by Aon.

The team has turned challenges, such as the frequent early starts for away games and multiple retirements giving way to new young recruits, into opportunities as they continue to impress in the Women’s National Conference 1 South division.

At the end of November they demonstrated a solid team performance beating league leaders Streatham – Croydon with a final score of 15-10, a third straight victory for the home team.

Fly half Justeen Baker, team manager and vice captain, said that morale is very high, under the guidance of coach Dr. Steve Evans.

“Although we have had significant injuries, players have had surgery and are looking at coming back to playing before the end of the season.”

“We have recruited people who have never played rugby before. They have settled in so well and really pushed themselves – thrown in at the deep end, having to play a full 80-minute game and learning as they go. The younger players are coming through and we have had an upward streak.”

The support from Aon is more than just financial, there’s been moral support too with managing director Paul Sykes attending every home game.

“Sponsorship helps us massively. We have amazing kit and the funding covers our overheads which makes the sport very inclusive. There are no barriers to people getting involved and we have some under 18s playing for us who can just focus on their skillsets and playing well,” Justeen said.

The strength of team spirit, the social side of the game and the excitement of the rugby world cup has seen a resurgence of interest from women wanting to try the game and the future is looking very positive for the Guernsey squad.
### Key Contacts

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### About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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