Feb/March/April 2016

GIBRALTAR INTERNATIONAL

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KPMG Round Table: Solvency II

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Editorial Comment

Hazards ahead if Brexit prevails

The impact is unclear on any decision by the UK – and therefore, through association, Gibraltar – to leave the EU after so many years, but it's pretty certain that financial services will survive.

Gibraltar's report on the likely effect and possible options for the jurisdiction will not be revealed until later this year. A referendum on Brexit could be as early as June and definitely before end 2017. In or out of the EU, Gibraltar expects to keep growing, even if using a different marketing tack.

However, financial services providers will be well placed if any new trade agreements are required for continued access, because the jurisdiction has wisely transcribed into law, and implemented, all EU Directives – and they continue to do so. The EU concern to protect consumers against any potential financial failure is shared by Gibraltar; our report in this issue illustrates how the insurance sector has worked to meet new Solvency II capital and risk assessment requirements.

Jersey, Guernsey and the Isle of Man - all outside of the EU – are working to negotiate access to the single market and to protect their economies by at least meeting the Directives, and helps show that it can be done.

In eGaming, despite grand EU principles of open access across borders, there continue to be artificial barriers, or additional licencing requirements, that have dogged Gibraltar's market-leading gaming companies and prevented them from achieving their full potential, so Brexit is unlikely to have much impact.

Less certain, is the extent to which Gibraltar will be able to maintain its planned meteoric economic progress; while most governments are predicting low single figure growth this decade, Chief Minister Fabian Picardo sees Gross Domestic Product (GDP) 33% higher by 2020 – by the end of his second term of office! Much of the impetus is construction-led – a confidence to build new homes and offices – but as yet unproven, is the extent of significant inward investment bringing new businesses and employment.

Marketing the jurisdiction beyond the UK has had limited success in financial services, despite beefed-up resources and marketing funds, although a positive sign is the continued rise in the insurance sector with several new license applications pending. Nevertheless, the current year's budget anticipates personal and company tax revenue unchanged at £232.5m.

The government sees its border with Spain as a major Brexit hazard, but air travel also may be vulnerable. Until a decade ago in the event of bad weather in Gibraltar, flights originating or destined for The Rock could not enter Spanish air space, nor land at Malaga, without first diverting to Tangier, to being reclassified as services from Morocco!

Today Gibraltar is protected by EU rules from Spain's renewed efforts to exclude the jurisdiction from international flight agreements and Spain's current general election turmoil with the possibility of a first coalition government, is unlikely to see good relations with Gibraltar a high priority.

Looking to 2025 Picardo says: "Make no mistake about the fact that we will have to continue repositioning ourselves and further diversifying our economy.

Ray Spencer

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Still 'confident' of strong economic growth, Brexit or not

An analysis of Gibraltar's economic prospects should Britain leave the EU (Brexit) probably will be available to businesses "before the summer", but the detail may well not be made public before voting in a planned UK plebiscite, which some predict could be as early as June

Whatever the outcome of the EU referendum, Gibraltar's Chief Minister, Fabian Picardo, who won a second term of office for his GSLP-Liberal Alliance in November with an increased majority, remains "optimistic", saying "we faced even harder challenges in the past and we have always survived [a reference to the Spanish 16 year blockade of Gibraltar until 1985].

In a January interview with *Gibraltar International,* on the government's economic plan to grow Gross Domestic product (GDP) by at least a third to reach £2.4bn by March 2020, Picardo admitted: "Gibraltar would take a knock in my view if we didn't have access to the [EU] single market." *(See also '£2.4bn GDP by 2020', page 27)*

He said: "It would mean a major economic shift." However, having the UK outside of the EU didn't necessarily mean leaving the single market. If The Rock continued to have access to the single market, "I think Gibraltar has a very bright future, whether the UK is in or out of the EU", he asserted.

> we have to be ready for the end of any EU withdrawal - not before

"It is very likely that the terms of the UK leaving the EU could include the UK continuing to have access to the single market – EEA, EFTA, or whatever the model may be", he insisted. Not knowing at this stage what that process would entail was a problem, he conceded, and whether UK would be allowed continued access to the single market or be prepared to continue paying into the EU at the same level.

Gibraltar's analysis to "understand the potential economic impact of leaving the EU and/or leaving the Single Market, as well as the potential benefits of acceding to the Schengen Area and/or the Common Customs Union" is a Manifesto commitment and when complete will first be shown to the Chamber of Commerce and Federation of Small Business for member reaction.

"I continue to think that Gibraltar would be able to do very well even if the UK were out of the EU single market, but it would be a tougher challenge," he noted. Even a vote for Brexit, "will not be the date the UK would actually leave the EU: that would be a very long and drawn out process, so we would have to be ready for the end of that period – not before then", he pointed out.

The public sector in Gibraltar "has borne the brunt of a lot of the Gibraltar economic activity in the period when there has been an economic crisis in Europe and the rest of the world". It was "picking up the slack", but now "I am looking to the private sector to be the driver of economic growth", he declared.

Huge project value

He pointed to the World Trade Centre being opened in late summer, residential projects at Ocean Village and MidTown's office and residential development, and "new projects that have not yet been announced to the public" have "huge development value".

Construction had been a major feature of GDP growth and "brings in a lot of people who pay in PAYE, a lot of Social Insurance into our economy. I think that is a hugely important sector that we need to ensure is paced in a way that sees growth spreading over the 4-5 year period", he noted.

Sticking points

The £1.1bn planned BlueWater reclamation mixed-use project on The Rock's east side is one of the largest, but government approval to progress has been withheld, because four months after expected developer Camoren Holdings has still to pay a £87m premium.

"There are detailed areas which are sticking points," Picardo explained, adding: "We need to ensure that agreement is something that we do not simply concede, because if that is not in the interests of the tax payers, we will continue to argue for the rights".

However, the largest single State investment since building the new Gibraltar International airport terminal under the previous administration is a £70-80m power station "that will be operational by the first half of 2018, that's for sure" and potentially requires further public borrowing at least during construction. With dual fired Liquefied Natural Gas (LNG) and oil generation, fuel storage plans have caused local controversy, but in addition the government plans LNG bunkering as a hedge to its present extensive oil ship refueling activity.

LNG adds to GDP

"If the fuel of choice for the marine industry is going to change from diesel to LNG then in order to maintain the part that bunkering contributes today to our GDP we need to be in that industry – it's that simple", he declared.

And with Gibraltar marketing itself abroad as financial services' "gateway to Europe", Picardo agrees jurisdiction promotion might need to change. In the meantime, the government is considering marketing Gibraltar's tourist and financial services products in India, principally Delhi, Mumbai and Bangalore and pitching for investment from Morocco.

Greater use of Gibraltar House in London to promote the territory commercially is envisaged. Picardo seeks to increase its effectiveness even further, and to change the 15 years old Gibraltar Day event to portray "a different image of Gibraltar in London, not just the image of the military garrison and not just the image of the Gibraltar of yesterday, but also the Gibraltar of the future".

Ray Spencer

Mind the gaps

By Xavier Denis, Global Strategist, Societe Generale Private Banking

Financial markets often seem fickle. Some of the strongest returns in equities, for example, are recorded when the outlook appears bleakest. Part of the explanation for this can be found in the study of behavioural finance. The latter stages of a bear market often see investors herding together, all seeking to liquidate positions at the same time. And such consensus means that when the selling pressure is eventually exhausted, it becomes easier for the market to rally. In addition, such moves do not require a shift in fundamentals – the easing of negative news-flow can suffice.

In the same vein, markets often fail to move in line with improvements in the macro picture. As a bull market develops, valuations tend to rise and in its latter stages there remains little room for multiples to increase further. Such gaps between market performance and economic fundamentals can be tricky to navigate.

We also see a number of gaps looming in the economic background for 2016, in the outlook for inflation, in central bank policy settings, in corporate leverage and the credit cycle and in corporate earnings growth.

Regarding inflation, the picture has been muddied by the impact of the slump in energy prices, which has pushed the headline index close to zero in the US and below that in a number of eurozone economies. We expect the gap to widen in 2016. As the US reaches full employment, wage pressures will start to build, feeding a pick-up in core inflation in the US next year. In the eurozone on the other hand, unemployment has declined to 10.8% but remains well above the pre-crisis low of 7.2%. In consequence, wage pressures are largely absent and inflation is well below the European Central Bank's 2% target.

The US Federal Reserve (Fed) recently hiked its interest rates for the first time in almost ten years – employment continues to improve and wage pressures to build, reducing the need for such extreme policy settings. In Europe, the ECB faces a sluggish economy, low core inflation and a banking sector which is trimming its loan book to bolster capital buffers. It is no surprise that Chairman Draghi was so vociferous about his intention to ease policy further.

This divergence has been widely flagged to markets, proof that the bout of nerves displayed by emerging market bond investors during 2013's "taper tantrum" has taught policymakers a lesson. Back then, the Fed spooked markets by intimating an early "tapering" (reduction) of its Quantitative Easing (QE) programme, leading to worries of a sharp liquidity squeeze. This time, investors have had ample forewarning of the opposite moves planned by the Fed and the ECB.

The US economic cycle is well advanced, with the recovery now in its sixth year. We note however a steady rise in corporate borrowing (to refinance maturing debt, fund mergers and acquisitions and finance share buybacks). We view this as an early warning of a worsening in credit quality, which in due course will result in a rise in defaults. Prudence is warranted in the US. Conversely, credit trends are more supportive in the eurozone where balance sheets do not exhibit the same strains.

Over the past 18 months, two key factors have driven the outlook for corporate earnings in the US and the eurozone: oil prices and foreign exchange rates. Interestingly, the effects have been opposite on each shore of the Atlantic. US corporate profits have been hard hit by the decline in the energy sector and by the impact of a stronger dollar on multinationals and US exporters. On the other hand, a weaker euro and cuts in energy bills have boosted eurozone profitability. These effects will however begin to reverse from Q2 2016 onwards.

Alternative investments

Potential upside in equity markets will be constrained by the current high valuations and the outlook for earnings growth. In this low growth environment, security selection becomes key – in particular, companies demonstrating an ability to grow their sales and cash flows despite new competitive pressures should do well. Further, Japanese and eurozone equities will remain supported by abundant liquidity.

We continue to see potential in non-directional investment strategies. In particular, alternative investments should benefit from higher dispersion of performance, in strategies such as Global Macro and Long/Short Equity. In addition, the unique characteristics of convertible bonds make them a valuable adjunct to portfolios in a low-return world. In 2016, careful portfolio construction and diversification across themes will prove key.

In summary, the gaps listed above argue for another out of sync year for economies and the financial markets. As the global economy exits the zone of turbulence which will be generated by the shifts in monetary policy, the outlook for 2016 does look more attractive. However, high valuations in both fixed-income and equity markets still translate into very slim margins of safety. Mind the gaps indeed.

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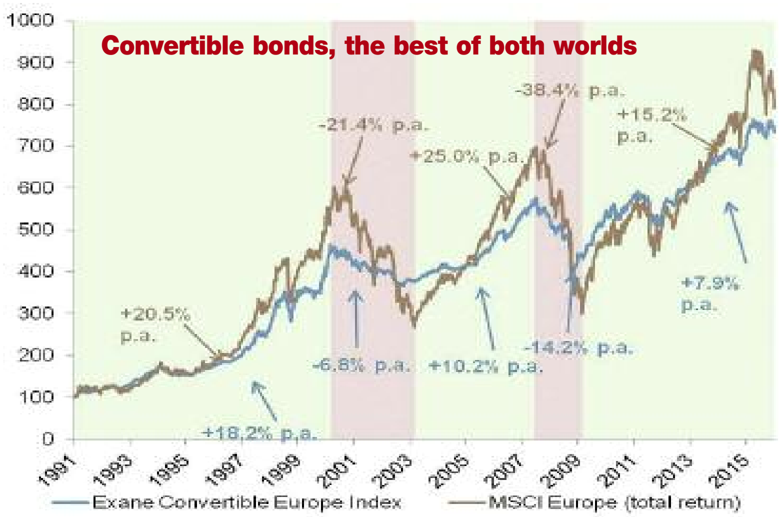

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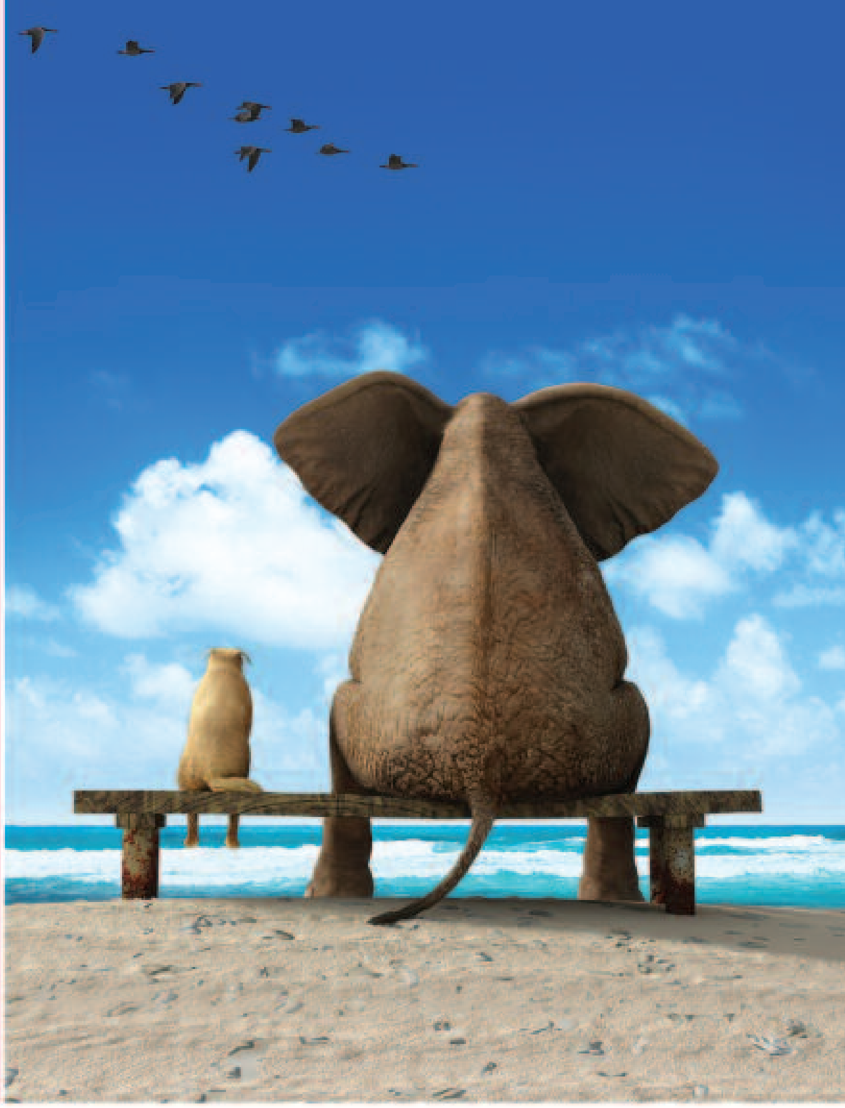

Being disruptive

By Marcus Killick, Isolas

Last month in London I caught my first Uber "cab". It arrived quickly, delivered me exactly where I wanted to go and I stepped from the rear door without reaching for my wallet, having paid with Paypal. For my return journey on the tube I skipped the queue for the ticket machine, put my contactless debit card next to the scanner at the ticket barrier and passed through in a fraction of the time it had taken a few months earlier. Welcome to the new world of disruptive technologies.

Look around, they are everywhere. Airbnb can find you a bed for the night. Instagram can end your political career. Twitter can prove how dull your life is to strangers as well as friends. Yet within this surge many mainstream international financial services centres remain trapped in a rut. Products and services are tinkered with, incremental improvements are made. Yet we were once in the vanguard of new initiatives. We were the disruptive technology of our time. Just look at international business companies, asset protection trusts and funds for experienced and sophisticated investors, to name but a few.

So what happened?

Firstly we became a victim of our success. Why change and develop when what we had was so profitable? Understandable, but flawed, just ask MySpace (or Jeeves) about that one. Secondly, in the face of an onslaught of mostly inaccurate and bias criticism we became introspective and defensive. We have sought to become whiter than white by avoiding risk rather than understanding and managing it.

The result is that, to a certain extent we have lost our edge. Yet as centres we are, by our very nature, capitalist and free market. This makes us part of the system that has proved to be the most adaptive and innovative in the history of mankind. Surely it is time to return to these roots and regain our position as vanguard.

Yes, on occasions companies and trusts were used inappropriately and illegally. Banks are sometimes used, both on and offshore for money laundering. Bad people do bad things and it is in all our interest to stop them where we can. But the system itself is not flawed, nor is it evil. It is simply sometimes misused. To claim otherwise is like blaming drink driving on General Motors simply because they manufactured the car.

So, how do we achieve this? Firstly let's stop being scared of innovation. That includes the industry itself, as well as Governments and regulators. For example, I don't understand how my ipad works, but I am not scared of it. This is not my advocacy for regulatory ignorance, rather our reaction should not be Pavlovian to all that is new. Secondly let us look towards where the next disruptive technology is likely to come from and look to support it.

Gibraltar has two obvious examples of how this can be achieved, one historic and one current. Historically it was one of the first smaller finance centres to encourage the online gaming community. By focusing on the quality rather than the quantity of licensees it quickly attracted some of the largest players in the industry, attracted by a favourable tax environment and an increasing skilled workforce. Gibraltar was also able to provide a regulatory environment robust enough to give protection from reputational risk whilst approachable enough to ensure that bureaucratic over regulation was avoided. The result, a new sector of the economy providing large numbers of jobs and that has proved remarkably resilient to outside economic factors. One could point to the insurance sector in Bermuda to see a similar success story and the smaller international finance sector is dotted with such examples where innovation has led to dominance. But these cases are less frequent than before.

So where now?

By our very nature we are dependent on servicing customers beyond our shores. We are therefore generally reactive and responsive, not simply to events but also to possibilities. One such possibility is now in the world of cyber payments and virtual currencies (a report by Boston Retails found that around 8% of US retailers intend to start accepting Bitcoin as payment in 2016).

Many of us are used to paying for our goods and services online. Despite the numerous scare stories and the occasional loss of privacy (Ashley Madisson being the most recent embarrassing example), the overwhelming majority of payments occur smoothly, efficiently and with the expected level of confidentiality. It is sometimes forgotten that the older methods of payment were hardly risk free. Cheques could be stolen, wallets with cash lost and credit cards cloned.

Yet every innovation carries the fear of the unknown. Bitcoin is poorly understood by most. The idea of mining for currency, of an anonymous creator, of failures like Mt Gox, of wildly fluctuating values, all give legitimate cause for nervousness. Yet, whilst, the fear of virtual currencies is understandable they do represent a potentially massive new area in financial services. The sooner their risk is managed the sooner their potential can be unleashed. And where better to do it in the crucible of financial innovation, the international finance centres.

Time is short to achieve this. For example, the UK Treasury has announced a series of initiatives dealing with digital currency in a report which was published in conjunction with the Chancellor of the Exchequer's annual budget in 2015. The report stated that;

"The government considers that digital currencies represent an interesting development in payments technology…the potential advantages are clearest for purposes such as micro-payments and cross border transactions."

The UK is also considering the development of a "regulatory sandbox" for financial technology companies where entrepreneurs could test ideas and concept technologies in a lightly regulated environment with the informed consent of customers. Whilst the word "sandbox" makes it sound more like a cat's litter tray (isn't "incubator" far less grating?), the fact this is happening now means that, unless we move quickly, another opportunity for the smaller centres to shine may be lost.

I believe the initiative can best be gained by creating the best supportive and regulatory environment. This is one that promotes growth but which provides protection from unnecessary risk. Gibraltar has taken this approach, creating a working group on virtual currency, with support from Government, the regulator and the industry. Part of its aim is to

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More insurers expected as higher capital levels kick in

Gibraltar's insurers today are far better prepared to protect consumers against any potential failure of their businesses after meeting tighter European-wide industry capital and risk requirements from 2016. Introduction of the Solvency II (S2) Directive may well present new business opportunities, *Ray Spencer* finds

At the second in a series of industry-focused round table discussions led by accountancy and auditing firm, KPMG (Gibraltar) in association with *Gibraltar International* Magazine, key insurance sector players were both concerned at the administrative and extra cost burdens of implementing S2, but also excited at the down-stream potential for further developing their businesses.

The Solvency II effect absorbs insurance discussion

Joe Perdoni, Head of Prudential and responsible for insurance companies and S2 at the Gibraltar Financial Services Commission (FSC), revealed there had been "no decline in the number of applications from insurance businesses in Gibraltar; if anything it's gone the other way. We have seen more people interested in the jurisdiction than before."

How well insurers comply with S2 requirements is being closely monitored by the FSC, which felt confident – having taken "quite a firm stance with insurers over our expectation – that they would meet capital requirements from January".

Self-assessments and work by firms to meet capital requirements had demonstrated that the majority of firms had made significant progress towards compliance; the FSC had made clear that access to so-called transitional provisions would be available "only in exceptional cases" to lighten the financial burden of the new requirements for a limited period.

Gibraltar International understands the FSC was closely monitoring only a handful of cases – maybe half a dozen – both large and smaller businesses.

The insurers, managers and administrators meeting at Gibraltar's Finance Centre round table all strongly agreed that Solvency 1 (S1) - was "no longer fit for purpose".

As Perdoni remarked: "We are happy that S2 provides a level playing field across the EU, and as a National Competent Authority we will be supervising to the same standard as every other member state. That helps this jurisdiction."

Highlighting consumer effect

But Danny Gibson, chief executive of successful private employers', public and products liability insurer, CGICE, noted: "Gibraltar writes insurance for 1-in-6 UK cars, and - given more capital is now required and therefore the return to shareholders is less, - the consequence is that rates will rise, although that is exactly what the UK government does not want to happen.

"S2 is good for the consumer, because insurance companies are a lot more solid, but in my opinion it will probably have to be paid for with higher insurance premiums."

Liz Quinn, a director of Quest Insurance Management that looks after ten insurance companies from small owner-managed enterprises to FTSE-250 and NASDAQ listed concerns, disagreed.

"The UK motor industry has not made a profit in the UK for the last 20 years and no-one has put their rates up as a result. The motor industry can be very irrational in the way it behaves and in the last ten years it's all been about turnover."

She pointed out that Gibraltar's insurers compete with UK providers. "Anecdotally, they may have had to put in a little more capital under S2, but nowhere near as much as Gibraltar has had to make up ahead of S2, and if the UK sector does not raise rates, I am not sure it will impact on premiums", she said.

Brian Morrissey, a KPMG actuarial partner, was emphatic: "Ultimately policyholders will have to pay, shareholders won't. With the raft of rules and regulations across S2, including emerging conduct areas, there also may be less choice and less innovation, as consolidation will continue apace."

New public reporting of insurers' financial condition required by S2 "will be totally irrelevant to policyholders," Quinn held. "They will say 'what's this, it doesn't mean anything' - there is so much in there and it's so complicated, it will only help analysts," she added.

Another predicted pressure on insurers from S2 will be a higher audit fee, because of the greater complexity and specialisms required, as companies strive to meet S2 public reporting obligations for the first time.

Jon Tricker, KPMG (Gibraltar) managing director and audit partner, emphasised the importance of auditors reviewing the opening S2 balance sheets "in order to expose any issues early on. The nightmare scenario is an external audit occurring for the first time in 2017 and capital issues then surfacing", he warned.

However, Quinn, who also is an accountant, ventured: "There are so many assumptions and judgments involved in S2 balance sheet preparation, if any of the assumptions are changed only slightly, a totally different outcome would result - and both could probably be justified".

"We could end up without a level playing field within the same jurisdiction, let alone within the rest of Europe," she charged. Highlighting another effect, Quinn maintained: "Gibraltar has a relatively small audit industry and doesn't have the technical expertise that is needed for this, so other people need to be brought in as reporting deadlines get shorter over the next few years."

The FSC will consult with the insurance industry on what constitutes "proportionate", high quality reporting, Perdoni assured, and whilst the UK's Prudential Regulatory Authority (UKPRA) had gone further by requiring formal opinions on the soundness of insurers, "it depends on what the rest of Europe has to say on this, because we want to ensure that our approach is consistent with other jurisdictions".

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Morrissey remarked: "It's important to have somebody come in and walk through the core methodologies, for example. There is a lot of capital management activity using S2 numbers, which surprisingly have not been fully scrutinized or challenged. He added: "In the owner managed and entrepreneurial organisation, the challenge has been subjecting it to detailed and robust second line or external scrutiny."

Tricker went further. "As an auditor there is a simple reality where you have a smaller insurer outsourcing key functions to an insurance manager that prepares all of the S2 documentation: and head office will have other things to be thinking about, so that once they have a document meeting S2 requirements, they are going to spend the minimum time possible in tailoring their document", he felt.

Nigel Feetham (Hassans), Liz Quinn (Quest), Alain Dufraisse (Aon) and Jon Tricker (KPMG) agree smaller entities face tougher prospect.

Reviews by external auditors of S2 policies and frameworks were, unless challenged early in the process, likely to find gaps and areas in need of improvement, which was the reality for companies in Gibraltar by virtue of their size and available resources. "I would expect external audit in the first year to have quite a lot of comments on S2", Tricker asserted.

For captives, knowledge of S2 when a company's main activity was in retail or manufacturing, is not a natural thing. As Alain Dufraisse, a director of captive and insurance management firm, Aon (Gibraltar) pointed out: "With captives we had to go through an education process with the directors representing shareholders as they were not always insurance specialists, but the boards are now 100% engaged and do know what is going on with all aspects of the captives activities. Under S2, they need to evidence this consistently, including in the annual board review"

Education still needed

Stephen Mumford, finance director at Advantage Insurance, emphasised: "Irrespective of the principle activity of the company, all members [of the Board] need to be educated in S2; it's going to be difficult to provide for it in the smaller/mid-sized companies that do not have the necessary resources and access to support."

Gibraltar's ability to create Protected Cell Companies (PCCs) enables insurers still to flourish, because that structure enables risks to be contained, so eliminating S2 issues, apart from capital requirements.

Having worked with leading Gibraltar insurance companies, Nigel Feetham, a senior partner with Hassans law firm, said: "S2 doesn't sit well in terms of smaller owner-managed businesses. I was involved in drafting the original insurance legislation for Gibraltar in 1996-7 and I have seen the entire industry here grow from a couple of captive companies, and from my experience some of the companies who were licensed in the early years probably would not be licensed today; it's capital, governance and culture."

He went on: "Some of the businesses we saw in Gibraltar 10 years ago are very well-embedded in the local industry, but as a consequence if someone came along with the same business today it may well be that they might not meet requirements as, say, if they were setting up the insurer from a small broking business."

Capital return challenges

Allan Christian, a KPMG S2 expert, until recently employed by UKPRA, contended that S2 of itself was not considered a barrier to entry for smaller innovative entities wishing to set up in Gibraltar – the main concern remaining was return on capital, rather than potentially onerous S2 governance requirements. It was a point supported by Quinn, who defended local well-run companies, saying: "The challenge is return on capital under S2."

However, Quinn noted: "With monoline insurers in particular –although already at nearly 300% of the previous S1 capital requirements - that will only just take them over the line for S2, because their balance sheets are shrinking, the capital requirements are going up, or they have to raise subordinated debt or other finance just to get over the line". She questioned whether motor underwriters, for example, might say 'I'm going to start doing property, marine, miscellaneous and a whole lot of other types of insurance, to give diversification and make capital go further'.

Morrissey, referring to captive insurers, declared: "People are saying 'we have always made money, we have always underwritten carefully and always looked after capital', and it is the S2 capital overlay on top that has caused a lot of concern amongst captives, including those in Ireland and Malta." He went on: "There is a lot of talk about how proportionality applies to captives and I see that as a corporate business there is no way I would set up a captive."

For Gibson, who founded CGICE in 2003, such are the demands of S2 that "I would think twice before starting from scratch again."

Instead, he felt it would be wiser to use other capital available and would look to become a Managing General Agent (MGA), going to firms with capital resources like Arch Re-owned, Watford Insurance Co (that set up in Gibraltar late last year), and working from commissions without becoming liable for any of the risks that S2 is designed to capture. "The MGA business would be worth twice as much as the insurer", he remarked.

As a result of S2, Feetham predicted the local insurance industry in the medium to long term, being made up of only two tiers; "very large players – very well-managed businesses with very good infrastructure, well-known insurance brands – and mid-sized owner-managed businesses such as CGICE."

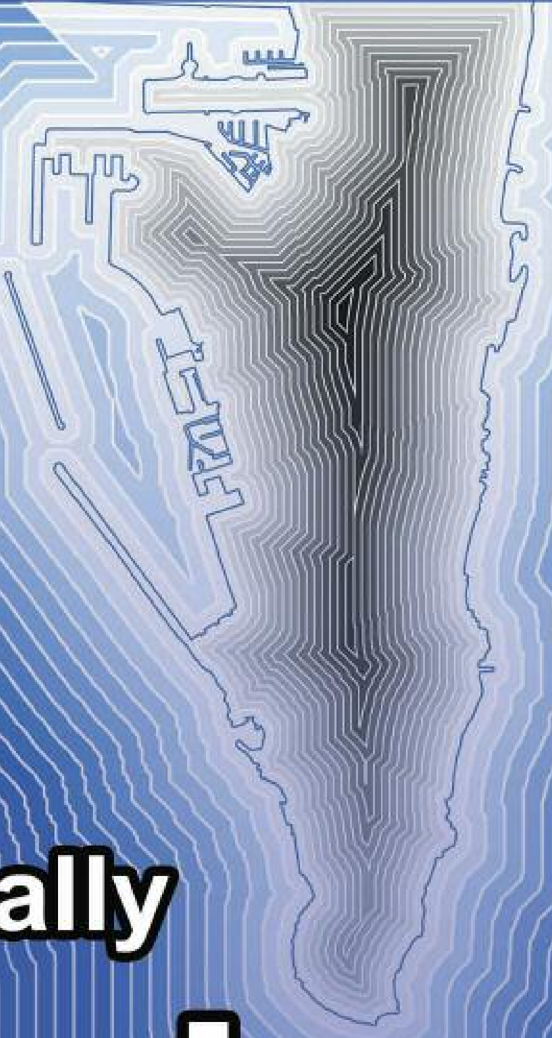
That would not be negative for the jurisdiction, Feetham said, "because around 90% of corporate tax paid in the insurance sector is probably from the larger players, and they are leading in innovation.

The expectation is that the owner-managed, mid-sized players in 10 years time will themselves become big players in their market. Of course, the challenge for the future is to ensure that we also keep the best companies in Gibraltar".

Solvency 2 Round Table

Insurance Sector Participants

Stephen Mumford & Dennis Burns – Advantage
Alain Dufraisse – Aon
Phil Hodgson – Argus
Danny Gibson – CGICE
Liz Quinn – Quest
Joe Perdoni & Laurence Thompson – FSC
Nigel Feetham – Hassans
Andrew Matthews - R&Q



Safer Banking

By Benjamin Moss, Chief Risk Officer, Turicum Private Bank

Safe banking has gained a new meaning since the financial and banking crisis of 2008, both in terms of how the customers view the industry but also how it has impacted the articulation of regulatory reform.

In light of the hefty reform agenda put in place at EU level, consequently affecting Gibraltar, consumers are legitimately entitled to question whether these changes directly serve them in providing a safer platform for their money and financial assets. Indeed, there is no doubt that via the regulatory reform agenda safety and stability has been achieved to an arguable extent across the industry, in an aim to provide a more resilient and stable financial system. However, to what extent do these changes affect the individual over the greater good?

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Domino effect metaphor

The main conceptual issue was that the crisis fundamentally changed the perspective on systemic risk, not only confirming existence of its catastrophic consequences but also its unpredictability. The contagious nature of systemic risk is traditionally portrayed by the domino effect metaphor. This depicts the idea that connected financial institutions fail as a consequence of the links between them, causing a knock-on effect of successive failing institutions. However, this metaphor does not seem to adequately reflect how systemic risk materialised during the recent crisis.

Although knock-on effects occurred, related events combined to create a simultaneous rather than successive breakdown of the system. The observation of this phenomenon flagged several areas that required reform notably in terms of transparency, regulatory intervention and interconnectedness within the industry. Radical intervention was therefore necessary both on the content of the regulations and on the supervisory framework to ensure stability and adequate oversight of the financial industry.

Structurally, regulatory models changed to ensure enhanced prudential oversight with greater powers awarded to the regulatory bodies found at EU level, ensuring greater harmonisation across Member States, but also greater transparency and oversight of cross border activity.

Due to the inability to pinpoint systemic risk as a single legislative topic, the mitigation of it has materialised in various legislative provisions. Significant progress has been made in a relative short timeframe by tackling issues that have concrete or apparent systemic risk features, there is however commonality to these measures in relation to the constant pursuit of more transparency. By removing opacity of financial instruments and financial institutions balance sheets, the access to information from a supervisory perspective is facilitated.

The reform agenda put in place at EU level does however lead with the overarching principle that systemic risk requires macro-prudential supervision and mechanisms.

Measures on capital requirements, market infrastructure and funds all assist in providing the EU with a more robust banking sector with increased safety measures to avoid bank failures or needing to be bailed out with public money. Other improved measures in terms of deposit guarantees and provision funding are reassuring to the extent they provide the consumer with some safety. Due to limits of guarantee mechanisms and time involved to create provisions at a national and EU level, high net worth individuals still need to exercise caution in selecting their financial institution.

Asset recovery

Educated decisions need to be made at this level more than ever as the crisis evidenced that size is not necessarily synonymous with safety and banks can fail. It also brought to light the fact that asset recovery can take a significant amount of time, recent cases have seen clients not access their assets held with failing institutions for a number of years. Despite this, the tools at the disposal of consumers are still limited when evaluating the health of a given institution, therefore reliance on regulatory authorities is still warranted.

Credit ratings used to be considered a useful tool in selecting both institution and investment, the crisis once again bringing to light serious shortcomings in this respect most notably in terms of securitised assets put at the disposal of the general public. Less reliance on behalf of regulators and more transparent processes have helped to improve the quality of credit ratings; it would however be short-sighted to rely solely on them. Financial data on banks are generally available in one format or another depending on the jurisdiction; however, their complexity and comprehensiveness tend to confuse more than clarify.

Macro issues

So far the ambitious post crisis reform agenda has been a success in that it has achieved to put in place concrete measures in a relatively short period of time. The measures however mainly focus on macro issues, consequently the individual consumer still needs to be aware and conscious of its own responsibility in making informed choices. Conversely, bankers should be ready to answer questions relating to their institution such as capital and liquidity ratios and ultimately its own asset quality.

www.turicum.com

Supporting the eGaming industry, from the Summit to the Cave

KPMG's international eGaming team will once again be gathering in Gibraltar for their annual Summit with operators, regulators, and service providers to the gaming sector. The event will take place on Thursday 21 April on the Sunborn and is once again being generously supported by local businesses and the Government of Gibraltar, who welcomed overseas delegates to a gala dinner in St Michael's Cave in 2015.

If you would like to know more about the April event, read the report from our most recent eGaming Summit in November 2015, or understand more about the services KPMG's experienced local eGaming team provides across the audit, tax and advisory sphere, please contact us at **eGaming@kpmg.gi** or **20048600**.

Playing games helps build hotel tourism drive

Having twice been instrumental in opening up competition in airline services to Gibraltar, Brian Callaghan one of the territory's leading tourist industry figures believes more can be done by government and industry to increase The Rock's appeal to holidaymakers and other visitors, finds Ray Spencer

More people know Gibraltar through chess - Brian Callaghan.

Although in his 76th year, UK Somerset-born Brian Callaghan is showing no signs of winding down his efforts to extend interest in Gibraltar; instead he runs a successful business that has already helped put Gibraltar on the worldwide map and has plans to expand the jurisdiction's hotel offering and introduce new event-led attractions.

Callaghan was one of the last National Service entrants in the Somerset and Cornwall Light Infantry, and as a subaltern had been posted to Gibraltar for a couple of years.

He was taken by the outdoor life environment. "I spent most of my time on the Upper Rock teaching people how to climb and when it was raining we used to go down the caves, but I was pretty bad at both of those things. I was just trying to teach people to have confidence in themselves," he says.

It was a chance party invitation that led him to meet Shirley - "a staggeringly beautiful woman, who like all good girls in those days gave me a long hard apprenticeship of 18 months or so here and when I returned to the UK after the forces - trying to persuade her to be a feature in my life - she led me quite a dance" - before he returned to Gibraltar to marry her 53 years ago.

He moved back to the UK with his new wife and joined Unilever at Marple Bridge, near Manchester as a meat buyer, having prior to the Army gained experience six years earlier as a butcher's boy before progressing into hotel meat supply and slaughterhouses.

But Shirley's father wanted his daughter back in Gibraltar. "It was a momentous decision for me in 1964 to return here and I'm hugely privileged to have lived in this community for so many years".

The Caleta Palace Hotel (as it was then known) was being built at Catalan Bay on The Rock's east side by his father-in-law, George Bassadone and Callaghan joined as assistant manager when just 24 years old – with no experience! "I felt a little unsure, but the hotel business really is no different from many others; it's just a managerial task in that you need to get things done and done well, and see to the detail."

Initially with 86 bedrooms, the hotel expanded in 1972 by a further 70+ rooms to meet rising demand.

Fewer hotel beds

But Callaghan, normally quiet, shy even, and totally unassuming, is suddenly moved to observe: "One of the failures of successive governments in Gibraltar since the frontier reopened [in 1985 after being closed by Spain's General Franco for nearly 16 years] has been in relation to tourism. Today, we have fewer hotel beds than we had 20 years ago!"

He has not given an interview on his personal and business interests for more than 40 years, although in 2013 Callaghan received the Order of the British Empire (OBE) from the Queen for services to tourism - and to chess.

That game has turned out to be something of a savior for the present-day Caleta Hotel and other local hotels in the difficult-to-fill and unprofitable January period.

Franco Ostuni, the Italian Caleta hotel manager for the past 15 years, was jointly instrumental in developing the chess festival after visiting the reputedly oldest such event in Hastings. Callaghan remarks: "We found it a very dull affair with nothing for partners and others involved and no women players. We thought we could do better by offering more for everyone involved; we also discriminate by having a female-only tournament with separate prizes and the ability for women to also compete in the general all-comers event."

The small Gibraltar International Chess Festival he started 13 years ago then attracted 60 players. Now, over a 10-day period ending in early February, the Festival attracts 450 participants staying at hotels locally, and some in Spain. "The Tradewise Gibraltar Chess Festival has been an extremely successful venture, thanks to local private sponsors and the government," Callaghan enthuses. "This time, we have people travelling to Gibraltar, paying for their own air fares and accommodation, from 57 countries."

The festival was voted in 2014 the 'best in the world' by the Association of Chess Professionals – votes for 2015 will be cast in March. The Financial Times has already crowned Gibraltar's Chess Festival "the most prestigious tournament in the world".

Callaghan doesn't think the chess festival - that adds some £700,000 direct income to Gibraltar - will get much larger, in part because of the territory's comparatively small size. "I think it is best that we have something that is prestigious – we are not in the numbers game", he maintains. "There are more people around the world who know of Gibraltar because of chess than for any other reason". That claim is being strengthened by this year's event being featured on Chinese national television and also on major Indian stations, a development that presents a challenging language and time zone opportunity for live TV coverage, he believes.

As Callaghan explains: "When you think of Monaco you think of the motorsport

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Playing games helps build hotel tourism drive

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grand prix, Cannes for the film festival, there's Rio's Carnival, the New Orleans Mardi Gras and, in my view, Gibraltar could similarly become known as a capital city of chess".

Now the Caleta is adding Gibraltar's first International Backgammon Tournament in late February with support from the European Association of Backgammon and the government. With some 200 entrants already booked, he believes this new event has the potential to be similarly successful to chess even though considerably fewer play backgammon, which presents "a small, but

A 'pairs blitz' at the Tradewise Chess Festival

probably more affluent total market", he notes, adding: "We are at the forefront of the tourist industry in Gibraltar; I think we develop, and have new ideas, that are put into practice against a very difficult background of there really being no growth in the [hotel] industry."

Competition hits trade

This year the Caleta Hotel's trade is anticipated 10-12% down to end-March, but Callaghan maintains that this was anticipated, "because of the sudden competitor, Sunborn" – a 189-bed floating hotel at Ocean Village that opened with a government special aid early in 2014.

"It hit us a bit. They came into the market as a 5-star hotel for which there is no market locally in any large number, and of course, they [Sunborn] are now marketing in our 4-star market," Callaghan says ruefully. "In the future? (Pause); to be honest, I'm not sure."

His strategy now is to diversify by progressing a £7-8m, seven storey, 3-star hotel development also on Gibraltar's east side at Devils Tower Road, to create a 120-bedroom Holiday Inn Express. "Since the closure here of the Queen's Hotel 18 months ago, we identified that there is a gap in the market for a budget offering," he says.

"The other hotels are, in the main, 4-star rated – the ratio between 4-star and 3-star is clearly wrong against any international survey - and Gibraltar clearly is lacking in budget hotel accommodation," Callaghan rationalises, so an agreement was signed with InterContinental Hotels Group to privately finance work to start on the Holiday Inn Express at end-February, with a 17 month build time.

Almost all hotel occupancy is 3-4 days duration - very few for 7 days – "making it very difficult to present a positive hotel feasibility study that would allow repayment of a large capital loan, given the occupancy experience", he points out.

Substantial outline development plans for Callaghan's Caleta Hotel were submitted in early 2014 and approved on appeal late last year. This involves building 50-70 luxury apartments, with prices at today's equivalent of £400,000, for high-demand single bedroom apartments, a revamp of the existing 4-star hotel but with 70 fewer rooms, and construction on part of the site of about 40 rooms as a separate 5-star hotel or aparthotel.

Detailed plans for the overall development continue to be prepared, but the project, expected to start there later in 2017, "cannot commence until hotel bed stock is increased on completion of the Holiday Inn Express", Callaghan explains.

In the meantime, the hotel will continue usual operation, renovation of a final floor of rooms having just been completed, while in the main building all the public areas – restaurants, conference and entertaining areas - shortly will have been upgraded.

With a total envisaged cost of £50m+ for the hotel redevelopment, Callaghan is candid: "We certainly can't fund it ourselves; we will need to get partners with the vision that we have, to join with us."

New airline

On the death of his father-in-law, the young Callaghan took a 50% stake in the Gibraltar arm of a tourist business, the UK-based Exchange Travel (ET) and in the 1970's, Callaghan persuaded ET to begin commercial flights to Gibraltar, initially with twice-weekly services.

"It was the first commercial operation to bring planes to Gibraltar that were not controlled by GB Airways or its associate, BA [British Airways]. We broke what effectively, was a controlling situation by the Gaggero family [owners of GB Airways until sold to easyJet in 2008], who undoubtedly did a particularly good job, but they were the only people flying here and it was really difficult for others to get in."

That ground-breaking initiative required Ministerial support and "subsequently Exchange Travel, became big operators – they bought more people than anyone else to Gibraltar at the time." Calllaghan had shares in ET's ground handling company and when in the early 1980's the company shed that activity, "I and my team ran it and we developed the business. It helped the hotel considerably, because we were in charge on the ground and we were able to see that we got our fair share of the tourist business coming into Gibraltar", Callaghan recalls. "We were the lead hotel with Exchange, but they gave business to every hotel in Gibraltar, as indeed did BA with The Rock and others."

But in the late 1980's there was a setback: "The ET business folded; we were back to having only GibAir / BA flying to Gibraltar, so we needed to find an alternative - another way for people, who wanted to stay at this hotel, to get here."

Over several months in 1996 Callaghan worked to convince Monarch Airlines to add scheduled flights to The Rock, and along with Joe Bossano, the then GSLP Chief Minister, they forged an agreement for two flights a week service, starting in 1997. [Weeks before that agreement was signed Bossano lost the General Election and the following GDP Chief Minister, Peter Caruana, made it one of his first acts.]

Incentives to fly

"The agreement not only provided permissions to land, but because we had to persuade an airline to fly here, they also received a financial incentive in the form of 'marketing assistance' in quite a large sum," Callaghan relates, but emphasises: "I wouldn't describe it as a subsidy, but certainly it was a huge step for Gibraltar, and I believe similar arrangements continue to this day with various airlines." This year, Monarch will fly 17 weekly services from four UK airports.

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A robust and resilient property market!

By Douglas Villalta,
CEO, Century21

While 2015 has been a very positive and nourishing year for the real estate market in Gibraltar, we expect 2016 to be even better, despite the cocktail of global uncertainty, with the main ingredients including China's economic woes, predicted higher interest rates, historically low oil prices and Britain's referendum on exiting the European Union and increasing tensions in the Middle East which predict a certain volatility likely to rip through financial markets in the first half of 2016.

Interest rates

All eyes are on the interest rates.

They have been so low for so long that just about everyone expects them to rise several times during 2016. We anticipate that any such increases will start off in small increments, so we will not experience a sudden impact on the housing market, but this possible increase could result in some buyers failing to qualify for a mortgage.

However, such is the resilience in the local property market and the constant demand for buying a home in Gibraltar, that the anticipated high number of buyers can offset the potential loss of those who won't be able to qualify for a mortgage as interest rates increase.

Attractive interest rates in 2015 made buying a very attractive option over renting, and Gibraltar saw a healthy number of investor clients tapping in on the buy-to-let market. Gibraltar anticipates more of the same trends in 2016 without too much upheaval in any segment of the market.

There is also the line of thought that a rise in interest rates may result in the selling season in 2016 kicking off at a much higher pace than predicted, in view that buyers will want to lock in as low an interest rate as possible.

> Blue Water is ideally positioned between Gibraltar's two most popular beaches on the east side and will undoubtedly be the development to invest in during 2016

Be that as it may, developers in Gibraltar wasted very little time switching their approach from sitting on the fence to embarking into new luxury residential developments which sold out within days of the official launch, as a result of the confidence factor and high demand in the local property market. This will bring new listings to market with the passage of time.

The median sales prices in Gibraltar are definitely on the upswing and we expect this to continue well into 2016 at a healthy pace.

Another important factor to take into consideration is that mortgages aren't as difficult to obtain for most buyers and therefore more homes are coming to market, as families are slowly but surely moving up the local property ladder, which is where interest rates step in.

New off-plan exclusive developments to watch out for in 2016

Blue Water is ideally positioned between Gibraltar's two most popular beaches on the east side and will undoubtedly be the development to invest in during 2016, as the end result will be an exclusive city within itself and adding a new and dynamic extension to the local property scene.

Boasting from the most unique and specialized super yacht marina in Europe directly on your door step which will accommodate super yachts in excess of 60 metres in length, Blue Water will also feature an exclusive 5 star hotel incorporating high end serviced apartments.

Furthermore, premium luxury buildings situated right on the water's edge will offer spectacular marina apartments, complimented with high end retail and commercial units and hundreds of car parking spaces making Blue Water a very special and prestigious address in Gibraltar.

Buena Vista Park Villas

Buena Vista Park Villas - Phase III

Buena Vista was developed for those discerning clients who wanted to acquire a bespoke detached home in Gibraltar, incorporating private gardens with swimming pools and unobstructed sea views.

Phase I sold out before completion and the impressive Stone Block in Phase II is already in advanced negotiations with an overseas investor client.

Phase III on the lower level, consists of very spacious bespoke detached and semi-detached villas and although a high number of properties have since been sold within this final phase, there is still the opportunity to acquire one of the remaining sea facing detached villas with private swimming pool or alternatively, one of the remaining semi-detached villas.

www.century21gibraltar.com

Century 21 GIBRALTAR

Playing games helps build hotel tourism drive
Continued from page 20

Given the changes, Callaghan believes his late father-in-law would be pleased at the way the hotel and its interests have developed, but neither of his two children, Tamara, who with a degree in hotel management is married and living with two children in Scotland, and Bruno, a leading figure in Gibraltar's insurance sector, are at present "not too keen to become involved".

However, as Callaghan reflects: "Well, they still may do that. I don't know; these are things in the future - nothing is written in stone." For now Callaghan, who also was a founding member of the Gibraltar Heritage Trust, and has a small three-villa holiday rental business in Marrakesh, is focusing on expanding tourism initiatives.

"Tourism is not considered by politicians as a pillar of the economy," he charges. "I think this is wrong since the vast majority of people, who vote in Gibraltar and who are not employed in the public sector, work in tourism or related activities, so an important part of the population have ambitions connected with tourism."

There's a need for infrastructure investment – "imagine what could be done if you could put £20m into the Upper Rock", he muses, and "politicians inevitably look at short term solutions to ease the problem and there needs to be a longer term view as to where we want to be in 8-10 years' time, because the lead-time for tourism infrastructure is 3 years.

Cable car

Warming to his subject, Callaghan insists: "You need to provide an environment where hotels will be built organically – when investors want to build hotels. You have to create the environment for entrepreneurs to come in and invest their own money and there's a need for infrastructural investment in general, so that when people visit Gibraltar they walk away with a feeling of 'wow, what a place that is, we must tell our friends about it'."

He would like to see a 30-year plan for a cable car for visitors from Casemates Square to the Northern Defences – "the finest historical fortification in Gibraltar".

However, he doesn't think it's a matter of simply chasing higher visitor numbers, "because Gibraltar is quite small and the more people you flood Gibraltar with - who, at the onset, seem to be good for the jurisdiction - in the longer term, we could end up with a Venice syndrome where there are so many tourists that some of the residents are having to leave"!

The Caleta Hotel at Catalan Bay

As more accommodation is developed, there will be differing requirements for types and standards of hotels and restaurants, he admits, yet Callaghan cautions: "What is clear is that we should be going for a product of excellence".

Gibrael - A new Bi-national Chamber of Commerce for Gibraltar

Gibrael
Gibraltar - Israel Chamber of Commerce

By: Eran Shay, Managing Director, Benefit Business Solutions and President of "Gibrael"- the Gibraltar-Israel Chamber of Commerce

Recently a new Chamber of Commerce has been established on the Rock, between Gibraltar and Israel, under the name "Gibrael". Gibrael is the brainchild of Eran Shay and Ayelet Mamo Shay, who moved to Gibraltar from Israel over 8 years ago and run a local business & strategic consultancy firm called Benefit Business Solutions, providing Business Accelerator services to companies from around the world.

"The idea to launch "Gibrael" came from the realisation that there are many potential synergies between Gibraltar and Israel. Over the last few years, both the Government of Gibraltar and local businesses are thirsty for innovative technologies and we thought Israel, who is renowned worldwide for being the "start-up nation" and a place from where many leading technologies have emerged, could best answer these needs", says Eran, who serves as President of Gibrael. For Israeli companies, Gibraltar can serve as an ideal testing ground for new technologies as well as the ultimate gateway into the bigger European markets. There are benefits for both countries, and Gibrael would act as a bridge connecting people and facilitating business from both sides.

Indeed, the objective of Gibrael is to promote, strengthen and encourage the bilateral trade relations between Gibraltar and Israel. The Chamber's activities focus on four main channels of assistance. First, Gibrael acts as the first port of call for Gibraltar businesses or individuals requiring information about doing business in Israel, and vice-versa for Israeli businesses enquiring about doing business in Gibraltar. Second, Gibrael acts as an "introducer", connecting relevant business people from both countries. Thirdly, Gibrael advertises and promotes relevant business opportunities, projects, seminars and exhibitions. Fourth, the Gibrael organises professional meetings, delegations, trade-missions and thematic seminars in areas related to the Gibraltar - Israel commercial relationship.

Gibrael liaises with the Government of Gibraltar, the Gibraltar Chamber of Commerce, Israeli Ministry of Economy, Israeli Embassy in London and with related institutions in Israel such as with the Israel Export Institute, the Manufacturers Association, and the Federation of Israeli

Chambers of Commerce.

Amongst the first initiatives of Gibrael, was a HiTech seminar held on the Rock in October, with visiting companies from Israel, who presented the audience at the John Mackintosh Hall with some of the biggest technologies that have come out of Israel as well as an insight into how equity crowd funding is used as a tool for investing in start-up companies. The Israeli companies were very much keen to learn how Gibraltar can be used as a platform from which to expand onto the bigger European markets.

Another important initiative on behalf of Gibrael has been the publication of a special magazine about Gibraltar, written mostly in Hebrew and aimed at the Jewish/Israeli business community world-wide. The magazine starts with a welcome message from the Chief Minister. It then gives some background about Gibraltar covering its history and geo-political position along with highlights of the economy and tax regime. It continues with a more in depth analysis of the different business sectors such as Finance, eBusiness, Shipping, Tourism and Real Estate, describing the unique characteristics and specific advantages that each sector offers to new incoming businesses. The magazine also highlights the quality of life in Gibraltar, describing the various leisure and recreation facilities available, nightlife, marinas, shopping, beaches and tourist attractions. It also talks about the culture and festivities (National Day, Queen's Birthday parade, 3 Kings etc.), the harmony between religions on the Rock along with an insight into the local Jewish community. This first of its kind publication is being distributed to Israeli Chambers of Commerce and Israeli Business Clubs in over 28 major financial centres around the world including Toronto, New York, Los Angeles, Sydney, Singapore, Capetown, Buenos Aires, London, Berlin and more. It will no doubt put Gibraltar on the map!

Gibrael is the second bi-national Chamber of Commerce to be established in Gibraltar after AmCham was founded a couple of years ago, between Gibraltar and the United States. Bi-national Chambers of Commerce are particularly vital for small business growth as they are a fairly low cost channel for small business owners to tap into a wide network of contacts and opportunities in new markets, without having to commit substantial resources. Such Chambers also act as useful lobbyists to their respective Governments to take any such actions and measures as may be required to remove any obstacles to businesses and create the correct environment that will facilitate interaction and trust amongst people from different countries so that economic and social prosperity can be attained, for the benefit of both countries.

gibraelchamber@gmail.com

Gibrael seminar at the John Mackintosh Hall

Being disruptive *Continued from page 10*

look at what the features of a regulatory framework for virtual currency should be and, through this enable the jurisdiction to be a benchmark, attracting high quality virtual currency business.

The aim is clear, to establish criteria for establishing a business in the jurisdiction, assisting those that meet them and acting as a barrier to entry for those that don't. It will not simply be a veneer of registration or one that simply focuses on AML criteria but one that provides a comprehensive approach.

So how might this framework look?

Firstly, there would be primary legislation establishing the requirement to be authorised, the scope of area to be covered and the powers and duties of the regulator.

Secondary legislation will then set out the process for licensing and the prudential and conduct of business requirements. These in turn are supported by Codes of Practice.

There is nothing in the framework that is unfamiliar to any financial entity currently within a regulated environment. However, a key decision that needs to be made is whether existing regulatory regimes can be adapted to include this area or a new regulator should be created. In doing so the costs of establishing a new regulator need to be considered as does whether the skill sets of the existing regulator can be adapted to meet the challenges of virtual currencies. Regulatory culture has also to be factored in; regulators can nurture new areas (as Gibraltar did with gaming) or kill them. Will the regulator be dynamic or inert? Will its existing workloads, prevent it from giving this area sufficient individual attention? These are fine, value judgements, but vital ones.

Any regulatory environment costs. If it is too expensive, or requires huge internal costs for the regulated entity, then the sector will never grow. It is therefore, almost inevitable that some costs will be met, in the early stages, from the public purse. Government therefore will need to decide is the long term value of the new business worth the short term costs, when set against other spending priorities and wishes.

Regarding scope, the focus should be on the key risk areas, therefore exchanges, wallet providers and transmitters. There also needs to be consideration of what virtual currencies should actually be within scope. Should it just be decentralised ones (e.g. Bitcoin) or also cover centralised ones which have a single administrating authority (i.e. a third party that controls the system such as Linden dollars). Should non-convertible virtual currencies also be covered?

Virtual currencies are not the only arena the international finance centres can make a valuable, constructive and significant contribution to. The development of P2P platforms, crowd funding and other areas of disintermediation also present opportunities. We sit on a tipping point in the evolution of financial services across the world. Let us make sure we are on the mammal rather than dinosaur side of it.

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"Conservative estimate" sees £2.4bn GDP by 2020

A slower rate of growth still means an economy one third greater and possibly more aided by renewable energy projects

Gibraltar's Gross Domestic Product (GDP) in the period 2011-15 exceeded expectations by growing from £1.1bn to reach £1.84bn, rather than the £1.65bn originally forecast.

A 'National Economic Plan' for the next four years to 2020 repeats in cash terms, rather than percentage terms, about the same GDP growth as achieved in the previous 4 years and is targeted to be £600m higher and to reach £2.4bn, a one third rise in the economy in 4 years.

If some of the anticipated inward investment materialises, "the figures will turn out to be, if anything, conservative", possibly by at least another £100m, declared Joe Bossano, minister for economic development and a former chief minister for eight years until 1988.

In the current 2015-16 financial year, the revenue estimate is £560m, £40m short of target, and for the next four years it will continue to grow at a lower rate to reach £710m by March 2020, £150m - or 27% - more than this year.

"We have always been committed in every election to above-average economic growth regardless of what is happening in the global economy", he stated, and he promised there would be no change to the 10% company tax or personal tax rates "in general", but incentives for inward investment both for businesses and individuals are being considered.

An envisaged 8-year inward investment programme follows two years' of discussions, and focuses on renewable energy projects that "would create new export industries for Gibraltar". [An undersea electricity supply cable to Morocco has been mooted.]

The feasibility of the first energy project will be decided early this year with a view to implementation in 2017 by which time the second, 2-stage project will have been evaluated and it is envisaged to complete by 2020.

Deposits in Gibraltar Savings Bank are forecast to rise by £500m to reach £1.6bn+ in four years, but profitability – from a portfolio of investments locally and abroad - will fall slightly from 9% to 8.75% (or £14m) retained in GSB reserves, which are anticipated to jump by 268% from the £19m expected in March to reach £70m in 2019-20.

Growth in PAYE received from the insurance sector in particular and the corporate tax increases from both the insurance and gaming sectors in 2014-15 "were greater than we had anticipated", Fabian Picardo, Gibraltar's Chief Minister said, and that gave a large boost to GDP. "The insurance sector is one of the great success stories of our 4 years – it is something we are very proud of; the growth has been exponential", he insisted.

What will a new insolvency regime mean for Gibraltar?

By Grant Jones, Simmons Gainsford (Gibraltar) LLP

Gibraltar's new insolvency regime reflects UK/EU-centricism and internationalism, having Worldwide a 3-level application.

Level 1 - the Commonwealth. Gibraltar, as a UK Insolvency Act 1986 (UKIA) 'designated territory', has it's insolvency proceedings automatically UK-recognised and elsewhere within the Commonwealth. Neither Cyprus nor Malta, Gibraltar's competing Commonwealth cousins have 'designated territory' status.

Level 2 - the EU. Gibraltar, under the 'EC Insolvency Regulation' has it's insolvency proceedings automatically EU-wide recognised.

Level 3 - 'the rest of the World'. Gibraltar, a UN Cross-Border Insolvency Model Law (Model Law) adopter, has it's insolvency proceedings automatically recognised amongst the 40 Model Law states, e.g. Japan, the US, etc. Not all EU states (i.e. Spain, Cyprus and Malta) are Model Law adopters.

The new regime introduces two UKIA-modelled concepts: regulated insolvency practitioners (IPs) and director disqualification. Gibraltar's competitors often lack a" "regulated IP cadre and an ability to prevent serial directorial defaulting. Quality improves, but regulatory costs increase. High-volume, low-margin, letter-box, multiple directorships become too risky. Contrariwise, major international Gibraltar-based holding feel comfortable.

Insolvency jurisdictions are pro-creditor (seeking immediate creditor returns) or pro-debtor (emphasising corporate rehabilitation). Like the UK, Gibraltar was traditionally pro-creditor, but the UK moved, via UKIA to a mildly pro-debtor stance. Gibraltar's UKIA-modelled new regime followed suit, introducing UKIA-copied Administration Orders (Admins) and Company Voluntary Arrangements (CVAs).

Admins are like the rehabilitative US Chapter 11, but less costly and without the directors remaining in company control, that function being taken by the Gibraltarian IP. A CVA is amazingly flexible. It's anything the creditors agree; a delayed payment, a write-down or a debt-equity swap, etc.

So is Gibraltar now a mildly pro-creditor UK clone? No. The UKIA mainly abandoned the very pro-creditor insolvency 'administrative receiverships' procedure, which gave secured creditors (i.e. banks) a privileged position. Gibraltar has substantially maintained 'administrative receiverships'. So Gibraltar has both a pro-creditor and a pro-debtor toolbox. Having pro-bank procedures, combined with an internationally recognised insolvency platform, should enhance Gibraltar's position as an international banking centre. Banks should feel very comfortable lending to Gibraltar companies, sitting within international groups. The new regime provides for a world class regime, that should only enhance Gibraltar's worldwide position.

www.sgllp.co.uk/locations/gibraltar.htm

Chief Minister discusses Brexit with Minister for Europe

The Chief Minister, the Hon Fabian Picardo QC MP met with the Minister for Europe, the Rt Hon David Lidington MP, in a private session at Lancaster House, St. James's, London in December to discuss issues of interest to Gibraltar. Mr Lidington, who had earlier addressed a gathering of British Overseas Territories leaders attending the Overseas Territories Joint Ministerial Council, warmly congratulated Mr Picardo on his landslide win at the November Gibraltar General Election.

The main issue discussed between the two ministers was the question of Brexit. Mr Picardo signalled HM Government of Gibraltar's support for Prime Minister, David Cameron's efforts to achieve continued EU membership on the basis of reforms. Mr Picardo told the minister that the necessary legislative work by the Gibraltar Parliament to ensure readiness for the referendum on EU membership was being carried out. He reassured Mr Lidington that Gibraltar would not be the source of any delays.

Step up in tax disclosure

Financial and professional service advisers were warned at a December seminar organised by PwC, auditors and accountants on the workings and effect of international exchange of information by 51 countries, including Gibraltar from this year, that they as well as their clients can be subject to criminal or civil proceedings if they fail to alert the UK's Inland Revenue (HMRC) to the existence of undeclared earnings.

More than 80 people attended the event at the Sunborn Hotel in Ocean Village. Nick Warrington, HMRC's senior policy adviser in the Centre for Offshore Evasion Strategy, said that one of the biggest problems was in making people realise that they had a problem, particularly internationally mobile individuals and those with complex financial affairs.

There was now no place for facilitators of off-shore tax evasion to hide, he said, and urged advisors to "do a thorough client health check" – on individuals and businesses - but he noted "your client experience may suffer as a result of chasing the information required".

Airlines update

The three major airlines serving Gibraltar have all made significant additions for 2016.

Monarch Airlines has announced four new flights from London Gatwick commencing on 1st May. Flights will operate on Mondays, Thursdays, Fridays and Sundays with a mix of early morning and afternoon departures.

British Airways will offer an additional two services to its already existing nine weekly flights from London Heathrow. The additional flights will commence on 1st May and will operate early morning on Mondays and Fridays.

easyJet has added a new route from Manchester which will commence on 3rd July. The new year round service will operate twice a week on Wednesdays and Sundays and will add to the current easyJet London Gatwick and Bristol services to Gibraltar.

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