

Advisory

States of Guernsey

A strategic vision for FinTech

July 2015



pwc

Foreword by Kevin Stewart



PwC, in association with Commerce and Employment (C&E), have released this strategy document to guide the future of the FinTech (or financial technology or sometimes referred to as Digital Finance) sector in Guernsey and to ensure that Guernsey is well positioned to take advantage of the opportunities in this sector.

The current digital age brings with it new challenges and opportunities for the finance sector.

C&E recognises the significant opportunities FinTech creates for Guernsey within and complementing the existing finance industry and its role in

maintaining and enhancing Guernsey's position as a key International Finance Centre.

C&E is keen to understand the opportunities for the island and going forward to ensure that Guernsey has an appropriate infrastructure which allows FinTech opportunities to enhance the island's economy.

The C&E Department, through the Finance Sector Policy Unit (FSPU) engaged leading advisory firm PwC to carry out this work on the sector and the island's infrastructure. The project involved various stages including analysis of the local and international environment within the FinTech sector to identify key market attributes and future direction. A number of local and off island industry experts and stakeholders were contacted and have assisted PwC.

I am delighted with the in-depth analysis which PwC undertook on behalf of the Department so that we can more fully understand the FinTech sector and opportunities for the island. This collaborative piece of work has highlighted that Guernsey is already doing much in this area and that if some key areas, as identified in this report, continue to be addressed then the island is well placed to take advantage of and be an important player for FinTech where new and established businesses can flourish.

Deputy Kevin Stewart
Minister
Commerce & Employment

Contents

	Foreword	2
	Executive Summary	4
1	Background	6
2	Guernsey’s key strengths	14
3	Guiding principles	16
4	Key strategic FinTech opportunities	17
5	Other FinTech opportunities	19
6	Other recommendations	20
	Appendices	24
1	Guiding principles - Indicators	25
2	Acknowledgements	28
3	Glossary	29
	Contacts	31

***To navigate this report on-screen
(in pdf format)***

From any page – click on the section title in the header navigation bar

From this Contents page – click on the title of the section or sub-section

From the contents listing on any section divider – click on the title of the sub-section

Executive summary

Guernsey has considerable strengths

1. FinTech is having a significant impact on the financial services market. Whilst some of this is a natural evolution of the industry, the current rate of change and hence the level of new opportunities is substantial.
 2. The global growth in FinTech has been rapid and the sector is predicted to continue this strong pattern of growth.
 3. The UK, driven largely by London, is one of the fastest-growing regions for FinTech investment in the world. Guernsey's close links with London, both as an international finance sector and geographically, mean that it is ideally placed to benefit from this FinTech growth.
- Rapid global growth in FinTech**
4. Guernsey has considerable strengths which make it attractive to the FinTech sector, including:
 - Established trust and credibility as an existing international finance sector.
 - Ability to be flexible and agile with laws and regulations – making it an ideal test bed.
 - No Capital Gains Tax and no VAT on capital expenditure.
 - Access to capital including public listed vehicles.
 - Data sovereignty.
 - Island wide cyber protection.
 - Progressive company and intellectual property legislation.
 - Lifestyle and community.
 5. Key strategic opportunities identified in the following areas:
 - Data and analytics.
 - Institutional Peer to Peer lending.
 - Payments – Treasury and foreign exchange.
 - Wealth management platforms.
 6. Whilst in general, FinTech is creating opportunities for the Island to expand the type of financial services or to access new markets, FinTech may also result in significant disruption of some existing financial services.
 7. Our existing laws, regulations and expertise means that the Island is already an attractive location for FinTech. The island has significant established activity across the range of FinTech sectors.
 8. We have made a number of recommendations to further enhance these opportunities and Guernsey needs to act quickly by:
 - Establishing the FinTech Business Development group responsible for progressing the actions in our findings.
 - Articulating the strategy and ensuring there is a clear message.
 - Moving rapidly into execution by targeting the quick wins.
 - Researching and designing the technical solutions.
- Guernsey already has significant established FinTech activity**

Basis for this report

This document has been prepared only for the States of Guernsey and solely for the purpose and on the terms agreed with the States of Guernsey in our contract dated 9 June 2015.

We are providing no opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us.

We accept no liability (including for negligence) to anyone else in connection with this document.

Scope and work performed

The States of Guernsey (SOG), C&E and FSPU recognised the significance of the FinTech sector and the potential opportunities that it could bring to Guernsey.

PwC were engaged by C&E to help them understand the breadth of the FinTech sector and to identify potential strategic opportunities for Guernsey where the Island has strengths to offer.

More than 70 representatives of local industry and the FinTech sector consulted with us during the project and these individuals have been acknowledged in the Appendix.

This public report is a summary of our key findings from our research.

More than **70**
representatives of
local industry and
the FinTech sector
consulted

The meaning of FinTech

"FinTech" can be defined as the combination of innovative financial services and the availability of capital through the use of new (digital) technologies, such as crowdfunding. – European Commission

Financial Technology or FinTech, is a general term used for any technology applied to financial services.

It encompasses many areas from technology used in existing financial services organisations, new consumer products, to new entrants competing with existing players.

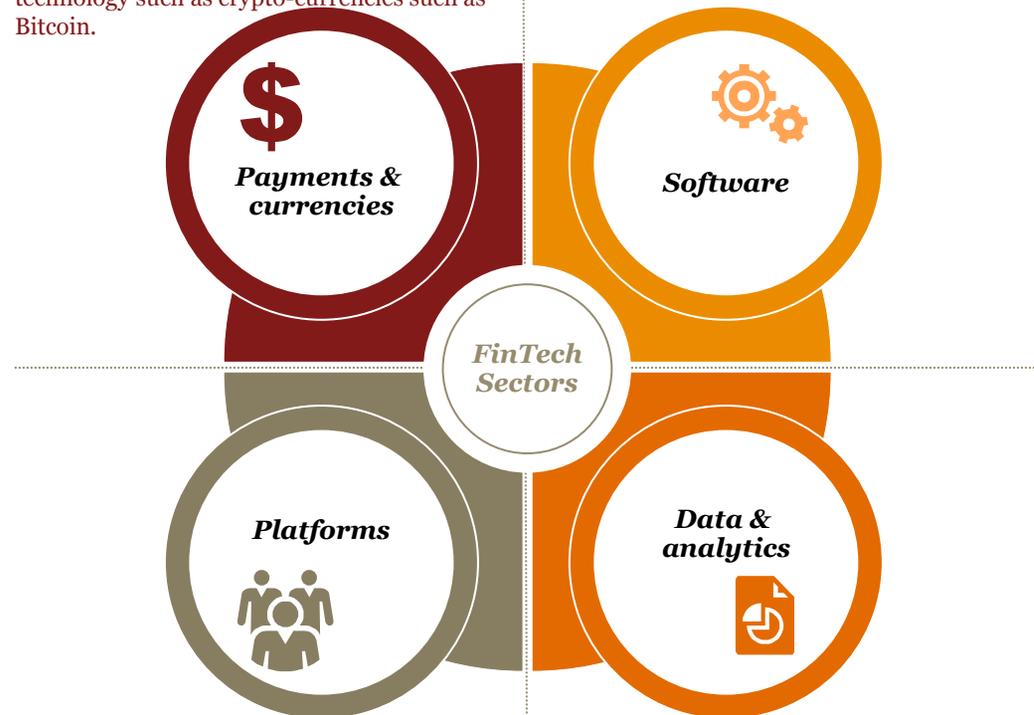
It also includes new models such as crypto-currencies and, more widely, relates to any innovation within the financial services sector where technology is the key enabler.

As a generic term, FinTech is applied both to methods and solutions used by traditional finance industries to streamline and modernise their processes, and to emerging technologies which seek to disrupt traditional industries.

innovate **streamline**
 enable
disrupt **modernise**

Technology used to make payments in new ways. These may be online payment systems such as PayPal, or mobile payments such as M-Pesa. This also includes emerging technology such as crypto-currencies such as Bitcoin.

New processes and programs designed to improve back and middle office processing for a variety of businesses, making them more efficient and effective.



Online systems designed to allow users to perform a variety of functions, such as peer-to-peer lending and comparing products through aggregators. Well known examples include Lending Club and Zopa.

Technology which gathers and/or analyses data to produce usable information to improve business and target customers more effectively. Includes the use of telematics, biometrics and compliance

We have segmented the FinTech market into three distinct areas according to their characteristics

Payments & Remittance

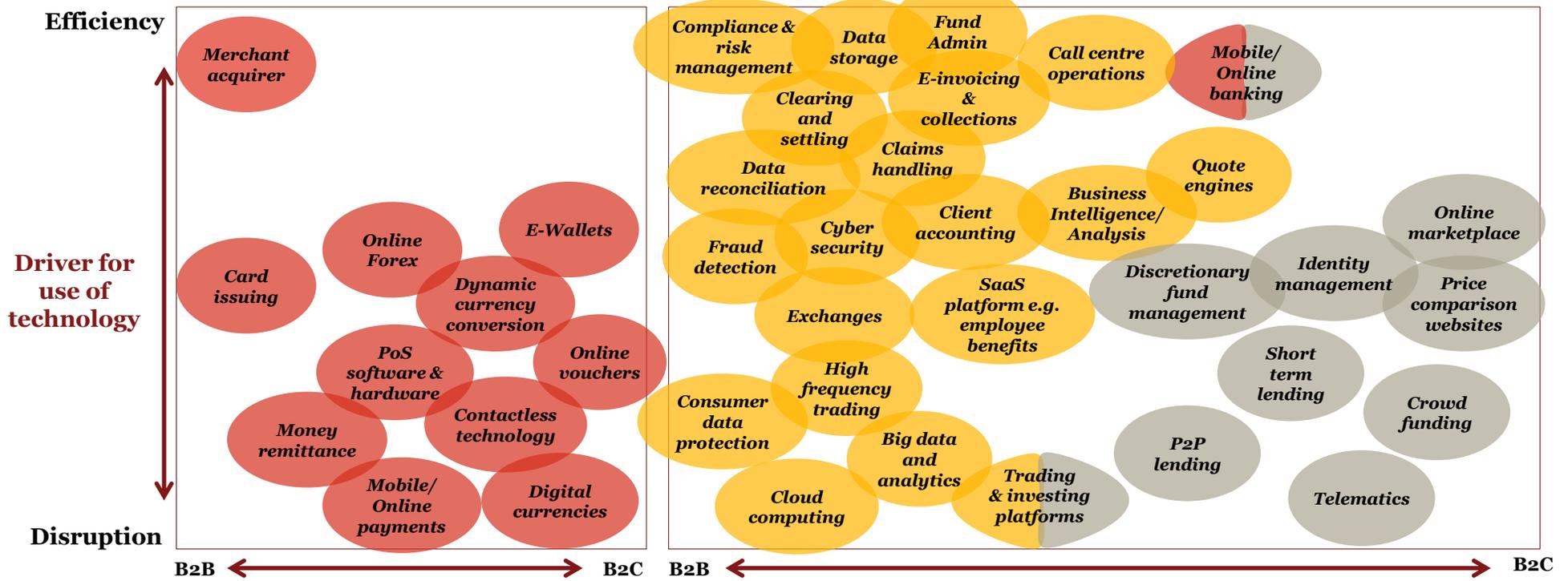
The use of technology to create new markets or methods of processing electronic payments

Business Process Improvement

The use of technology to improve the efficiency and effectiveness of existing financial services, including business processes, regulation, trading and data

Customer Engagement

The use of technology to deliver financial services to customers. This often involves streamlining or by-passing existing financial institutions



Source: PwC Analysis

Customer focus

Leading areas of global FinTech disruption

Whilst FinTech is having an impact across all areas of financial services, the leading areas of FinTech that we see having the most disruption on traditional financial services are as follows:



Crowdfunding

Peer-to-Peer (P2P) lending model, or market place lending model, creates new lending channels and threatens banks' existing consumer lending base.



Big data

Robo-Advisors, algorithms that automate and semi-automate financial guidance services, are reducing the need for traditional investment advisors.



Integration

Digital platform providers move beyond core strengths and move into all aspects of financial services from payments to asset management to own the entire customer experience.



Emerging technology

Blockchain technology and the use of distributed ledgers creates real-time, decentralized networks redefining trading, global payments transactions, and crowdfunding models.

Phenomenal growth of the Global FinTech market

The global FinTech sector has experienced exponential growth in a short period of time, and is expected to continue this strong pattern of growth over the coming years.

At present Silicon Valley remains the largest and most important hub of FinTech innovation in the world, attracting significant global talent. Europe however is the fastest growing region, with London being at the forefront of that growth.

Why is FinTech important?

FinTech is regarded by many governments as a key area of investment and growth, given the sector's potential to transform the finance industry which forms a vital part of many economies.

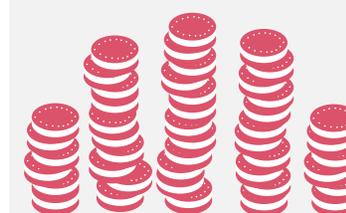
Key drivers of the FinTech market:

- High growth in e-commerce and significantly, mobile commerce.
- Growth in emerging economies (Africa and Asia) where consumers aren't tied to traditional banking models.
- New revenue models (e.g. pay per use, software as a service).
- Traditional banking industry cost reduction & focus on core business.
- Light touch regulatory requirements for many FinTech providers.
- Highly scalable online business models.
- Technology advances (e.g. cloud and virtualisation).

The global FinTech sector has grown from investment of under

US\$930m in 2008 to

over US\$2.97bn in 2013



Financing activity predicted to rise from

US\$3bn in

2013 to

US\$6-8bn by 2018

Source: Accenture and CB Insights report 'The Boom in Global FinTech Investment' 2014

UK FinTech sector

The UK, driven largely by London, is the fastest-growing region for FinTech investment in the world. Since 2008, investment in the sector has grown at a rate of 51% per annum, to a value of \$265 million in 2013. Revenues from the FinTech sector in the UK are currently estimated to be worth £20 billion per annum.¹

The UK’s growing strengths in FinTech are due to:

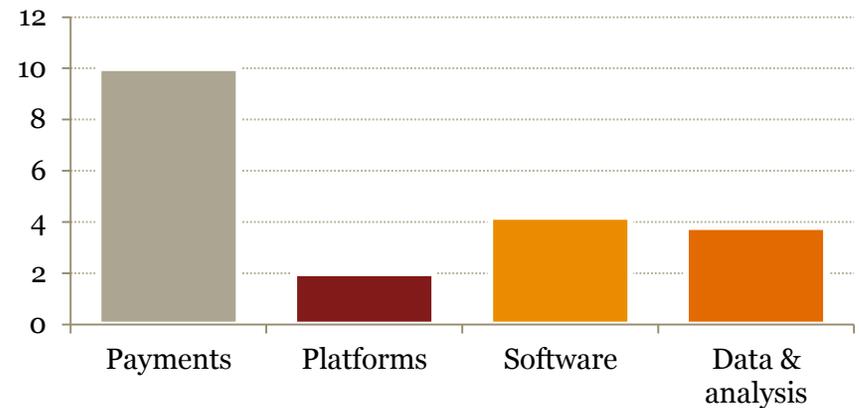
- The presence of a large and technologically sophisticated customer base.
- London’s position as a world-leading centre for financial services.
- Good availability of business capital.
- A supportive regulatory approach.
- Excellent financial services infrastructure.
- London’s position as a global trading hub.

Revenues from UK
FinTech are estimated to
be worth **£20bn**
per annum



Source: 1. UKTI report ‘FinTech; The UK’s Unique Environment for Growth.’ 2014
2. Nesta and PwC report ‘Understanding Alternative Finance 2014’
3. UKTI and EY report ‘Landscaping UK Fintech’

UK FinTech Sector Annual revenue £bn³



The UK is uniquely suited to the emergence of new FinTech products as the population is comfortable with technology and quick to adopt new ways of doing things. For example, the UK adopted peer-to-peer lending very quickly, with the UK alternative finance market growing rapidly, and more than doubling in size year on year from £267 million in 2012 to £666 million in 2013 to £1.74 billion in 2014.²

Guernsey’s close links with London, both as an international finance sector and geographically, mean that it is ideally placed to benefit from this FinTech growth.

Local financial and technology sectors

The four main pillars of the Island's finance industry are:

Banking

Investment funds

**Private wealth management, including
fiduciary services**

Insurance



These industries are well known and established and the benefits of using Guernsey are documented on the Guernsey Finance website www.guernseyfinance.com.

Listing services

Guernsey has developed significant experience and expertise for listing vehicles on capital markets, including:

Channel Islands Securities Exchange (CISE) – provides listing facilities for local and international trading companies and investment companies. These include specialist securities, including Eurobonds, structured debt, warrants and special purpose vehicles.

London Stock Exchange (LSE) - Guernsey is home to more non-UK entities listed on the LSE markets (Main Market, the Alternative Investment Market, the Specialist Fund Market or as “Trading Only”) than any other jurisdiction globally.

Local financial and technology sectors (continued)

Guernsey is fully equipped with the vital tools for growth.

eGambling

E-gaming has been a major success story for Alderney. The industry developed as a result of the creation of a world-leading regulatory regime. Guernsey has benefited from this industry as regulated eGambling companies are permitted to establish their servers and offices in Guernsey. This provides an excellent package of benefits covering regulatory, technical and fiscal areas.

Data Storage

Guernsey has extensive data storage, with high levels of security, resilience, capacity and a good choice of data centres and hosting providers. The data centres developed extensively to host the eGambling sector, which required high bandwidth and high specification facilities.

Digital Greenhouse

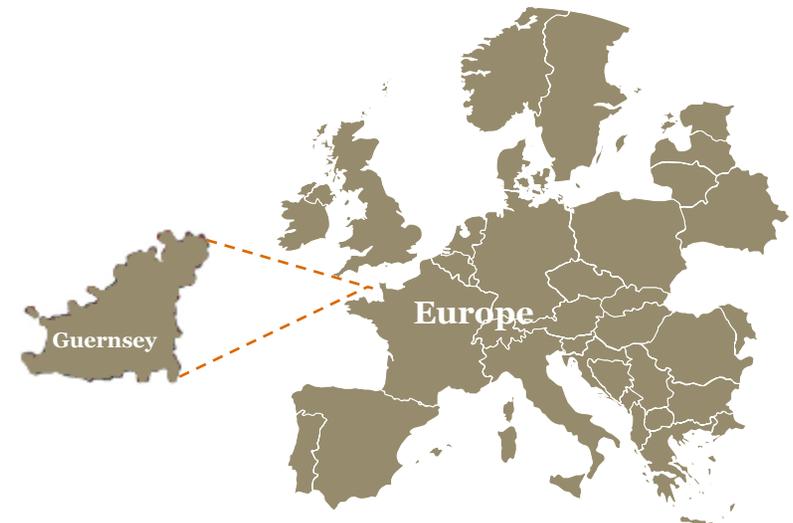
The Digital Greenhouse is an innovation hub set-up to encourage and nurture economic development and diversification in the digital sector.

www.digitalgreenhouse.org

Connectivity

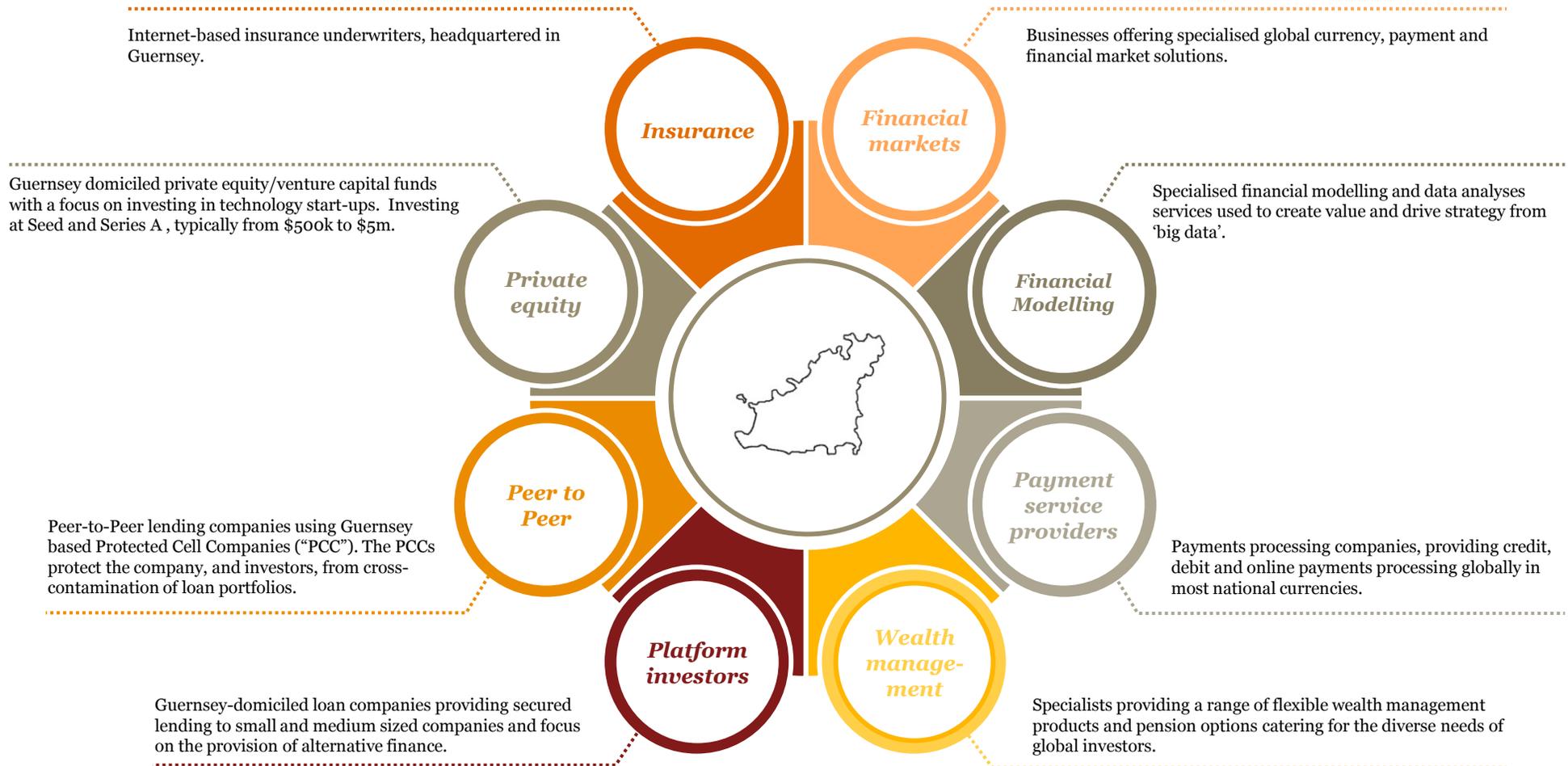
The Island is equipped with the vital infrastructure to allow access to global markets and customers. It is a resilient and highly secure data connectivity within the global network of subsea fibre cables. There are 6 fibre cables connecting Guernsey to the UK, France and onwards to the rest of the world.

The Island also has fast 4G mobile technology which has recently been implemented.



Locate Guernsey: www.locateguernsey.com

Existing Guernsey FinTech activity



Guernsey's key strengths related to the FinTech sector



Established trust and credibility as an existing international finance sector

Guernsey's finance industry has successfully grown over five decades. This has developed experience, infrastructure and accumulated intellectual capital which ensures the Island is a **leading international financial services centre with the highest reputation.**

Financial services business can be transacted with confidence in Guernsey as the Island has been scrutinised and endorsed by the International Monetary Fund and the Financial Action Task Force.



Ability to be flexible and agile with laws and regulations – ideal test bed

Legislative and fiscal independence allows the Island to respond quickly to the needs of business. The **GFSC promotes robust yet pragmatic regulation** and is renowned for being approachable, accessible and open to new ideas.

Guernsey is politically and economically stable – with a high grade AA+ credit rating from Standard & Poor's – and has strong links to the UK and wider Europe.

The Island is therefore an **ideal test bed for FinTech.**



No Capital Gains Tax and no VAT on capital expenditure

The **absence of Capital Gains Tax is a strong benefit** as most entrepreneurs look to exit their Startup in 3 to 5 years. This means that the investors and entrepreneurs can reinvest all their gains in new projects. As most FinTech businesses do not make any profit in early years, low taxes on earnings are not an incentive.

VAT savings can be achieved on capital and certain operating expenditure, such as marketing costs.

The absence of VAT on capital expenditure equates to savings on initial setup costs, such as the purchase of servers located on Island. Equipment and software costs for a FinTech business could be significant.



Access to capital

Guernsey has the breadth of financial structuring expertise to help maximise a project's revenue potential throughout its lifecycle. In particular, **Guernsey is a leader in private equity investment funds and listings.**

Listings are available through the CISE, as well as other exchanges.

Guernsey has carved out a prominent place for providing access to international stock exchanges, particularly on the LSE where more Guernsey companies have had successful initial public offerings of non-UK entities than from any other jurisdiction in the world.

Guernsey's key strengths related to the FinTech sector (continued)



Data sovereignty

Guernsey is a self-governing democracy, with legislative and fiscal independence from the UK and EU. It legislates for all of its internal affairs, including data protection.

The Island is recognised by the EU as having adequate data protection regulations. This enables businesses to freely move personal data between the EU and Guernsey.

Guernsey's interception of communications legislation is based on a judicial approval process unlike the UK which has received criticism for its ministerial based approval process.



Island wide cyber protection

Guernsey has a resilient and secure data connectivity within the global network of subsea fibre cables, with six fibre cables connecting Guernsey to the UK, France and onwards to the rest of the world.

As an island, there is the potential ability to 'ring-fence' systems thereby reducing certain cyber threats, such as distributed denials of service (DDoS) attacks.

Guernsey's telecom providers provide data filtering services which recognise when a DDoS attack is happening, then identifies and blocks the flow of malicious traffic while letting legitimate data through.



Progressive intellectual property legislation

The Island has developed leading intellectual property legislation which covers a number of areas that are particularly relevant to FinTech, these include:

- Brand protection, through trademarks and image rights.
- Copyright, including Digital Rights Management.
- Database Rights, protecting the value created when analysing data.
- Patent Re-registration, including 'business method' style patents.



Lifestyle and community

Guernsey is a vibrant yet relaxed place to live and work with high standards of health and education and a strong sense of community.

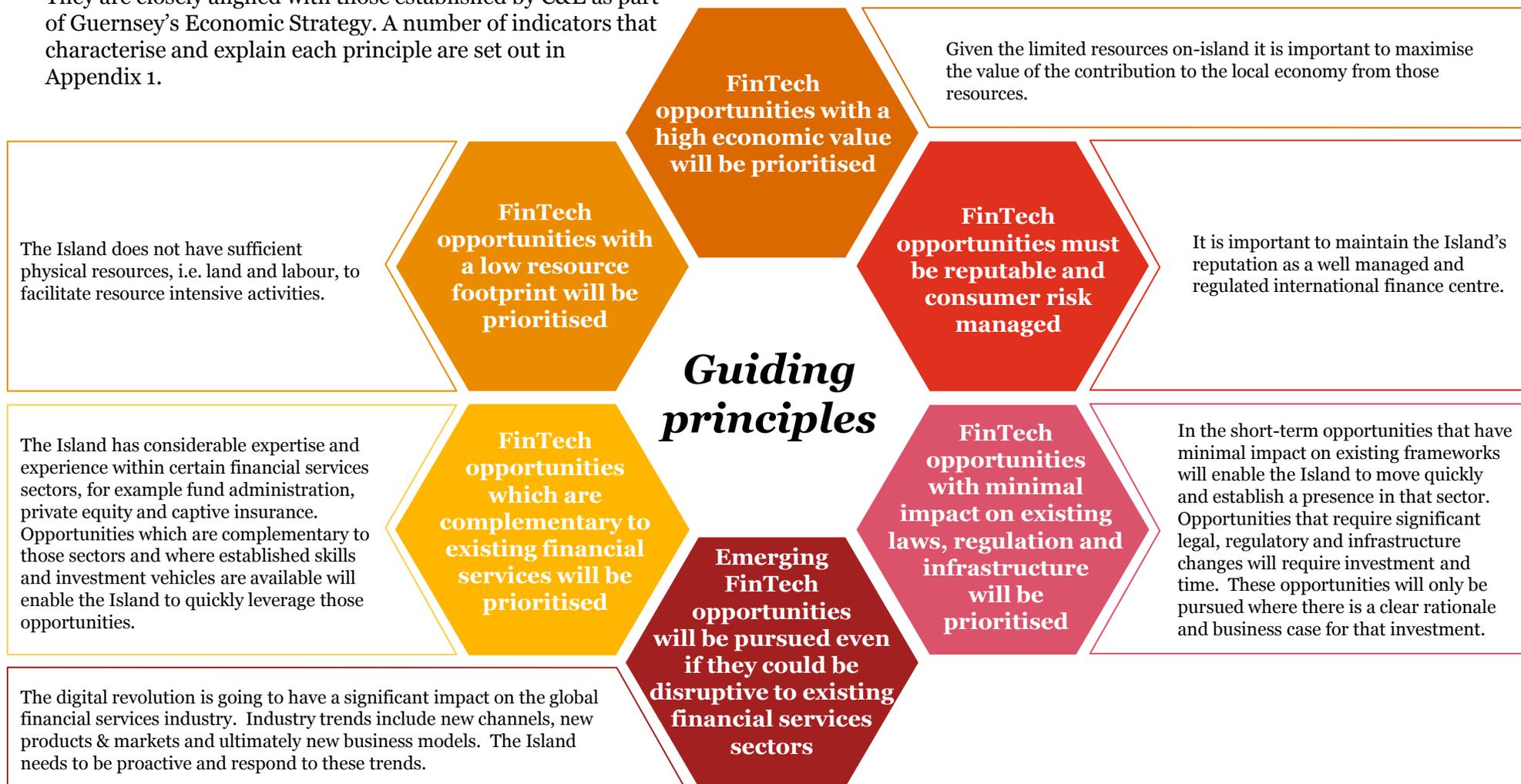
Guernsey has a broad-based financial services industry (including support services) and all of the Island's businesses and key institutions are in close proximity to each other which means more face-to-face interactions in a shorter amount of time.

The Island's location between Europe and the UK places it in a time zone between the US and the Far East. This makes Guernsey a **convenient place to carry out business with many different countries.**

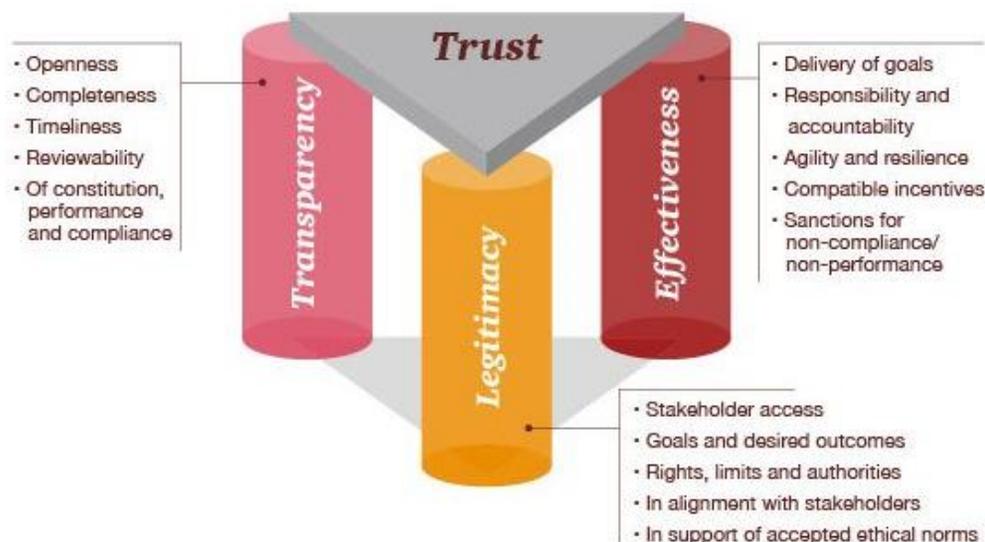
Guiding principles

The purpose of these non-prescriptive principles are to help focus business development effort on those areas of FinTech which are of greatest strategic value. They are not intended to prevent alternative opportunities from being pursued where economic value can be demonstrated.

They are closely aligned with those established by C&E as part of Guernsey’s Economic Strategy. A number of indicators that characterise and explain each principle are set out in Appendix 1.



Key strategic FinTech opportunities



There are four key strategic FinTech opportunities:

1. A trusted location for international data
2. Institutional Peer to Peer platforms
3. Payments – treasury functions
4. Wealth management platforms

An opt in regime within the data protection regulation should be implemented. This would include tracking data owner consent and compliance standards for data controllers.

1. A trusted location for international data

Trust in private and public institutions has been eroded by financial scandals, corruption and mismanagement of consumer data. In a digital age where people have access to information like never before, the need for trust in business and society is greater than ever.

Guernsey is responding to proposed changes in EU regulations to ensure that we maintain our ‘adequacy’ status which facilitates the free movement of data.

There is however a significant opportunity for the Island, if we establish top quartile data regulation which provides a strong level of data privacy for individuals and compliance standards for business.

This will benefit both (i) individuals who look to take greater control of their data and want privacy assurance, and (ii) businesses who want to demonstrate credibility through regulatory compliance. Businesses who comply with these regulatory standards will then receive less draconian treatment than that currently proposed under EU regulation.

The vision is to establish the Island as a ‘Trusted Location’ for data. In the same way that our Financial Services and eGambling sectors have grown based on the reputation for quality services and regulation.

The FinTech opportunity that this enables, is the creation of value and intellectual property by analysing ‘big data’. This is relevant to all areas of financial services, but significantly to the Insurance sector.

Data hosting will also facilitate growth in other local technology based industries.

Key strategic FinTech opportunities

2. Institutional Peer to Peer platforms

Peer to peer activity is a significant new business model that FinTech has enabled. The most dominant of which is peer to peer lending, which is bypassing traditional bank lending.

There are significant opportunities for the Island as this activity is complementary to our existing fund administration industry. Guernsey has innovative fund structures, such as cell companies, which are already being used to support these platforms.

The lending models adopted by platforms however varies significantly with many not performing any significant due diligence or monitoring. There is therefore a risk of reputational damage and it is important that clear guidelines are established to ensure only high quality platforms operate in the Island.

Guernsey should focus on institutional and business Peer to Peer platforms.

3. Payments – treasury functions

By volume and value, payments is the largest FinTech sector. New payment technology is being implemented, such as mobile and e-wallets.

The payments sector is crowded and dominated by major players operating at very low profit margins. It is therefore not an obvious opportunity for the Island. However there are some niche areas where the Island could attract business.

Guernsey should target corporate treasury functions and create a ‘walled garden’ for the operation of foreign exchange and payments.

In instances such as this, where pre-vetted institutions are operating together, then the use of digital currencies could be appropriate for FX and payment transactions within a ‘walled garden’ arrangement.

4. Wealth management platforms

FinTech is now enabling these platforms to develop and operate more efficiently and effectively, through the creation of online trading/portfolio platforms and close integration of front and back office systems.

The platform provides consumers with a feature rich and tailored experience, whilst allowing the business to keep operating costs and the amount of staff required to operate them low.

Wealth management platforms which provide online consumer portals to access investment funds and products should be targeted.

We believe that there is opportunity for growth in the provision of wealth management platforms, particularly relating to expats and international clients in the emerging economies.

Other FinTech opportunities

Digital currencies and the blockchain

Digital currencies, such as Bitcoin, have a number of benefits, such as low transaction costs. However the major drawback is that they can be owned anonymously. It is therefore very difficult to comply with international standards concerning anti-money laundering.

The cryptographic technology used by digital currencies and the registers which record each transaction, providing a means to authenticate each transaction, is however very exciting. This is because the same technology can be applied to create digital registers for any type of asset, such as a share register.

The key aspect therefore for the use of any such digital register is to first establish a means of identifying and verifying users.

An offshore blockchain should be created initially as a means of establishing an identity management system and to enable the wider use of digital registers.

Cloud Software

Guernsey's existing financial services sector is dominated by a few key software platforms, these are however commonly operated 'on premises' by local institutions.

Cloud based solutions providing 'software as a service' are generally more flexible and cost effective, but existing cloud solutions raise some concerns, particularly where businesses want to hold data on island.

Investor reporting is also a major opportunity for the Island to be at the forefront of technology, providing enhanced data services to investors.

Software vendors should be targeted to establish cloud based solutions where data sovereignty is maintained in the islands.

Use of technology for business improvement

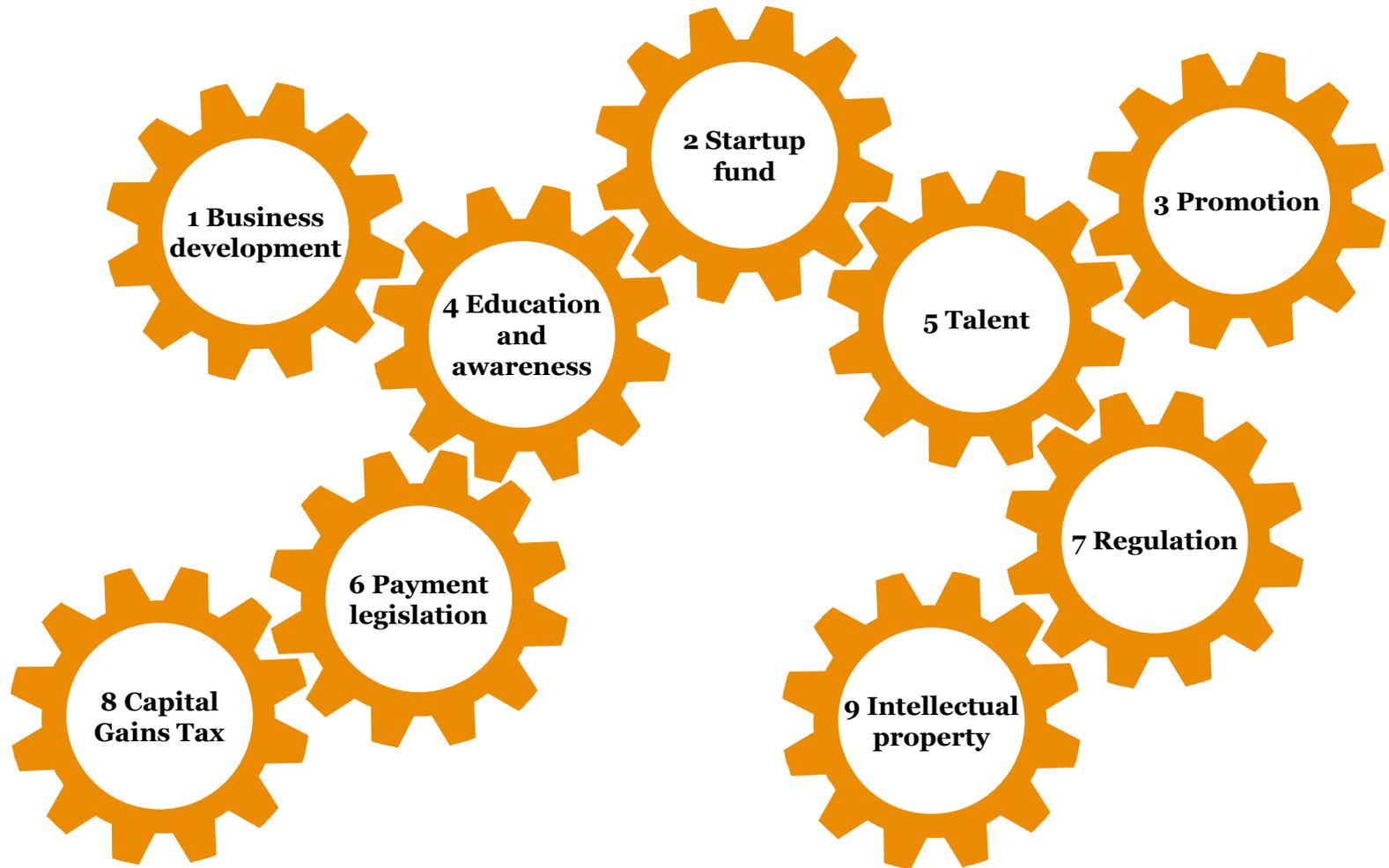
Many local financial institutions are experiencing issues with their back office operations where technology could be used to solve these issues, for example fraud detection and compliance.

Addressing these issues is important for the Island to ensure we maintain our reputation within the international financial services sector.

The local technology community and the financial services sector need to come together to develop and implement business improvement solutions.

We recommend that this initiative is taken forward by the Digital Greenhouse with input from the various financial sector bodies.

Other recommendations



Other recommendations (continued)

01

A commercially focussed business development group should be created which directly targets and manages potential opportunities

Guernsey currently has a number of development and promotional bodies however the activities of these bodies are not always coordinated. It is therefore not clear who is assisting with development of FinTech opportunities.

The group needs to:

- Articulate Guernsey's strategic vision for FinTech and ensure that the Island's strengths and benefits are communicated.
- Proactively identify target companies which are a strategic fit for the Island.
- Work with Locate Guernsey to make it easy for FinTech business to establish in the island.

03

Guernsey's strengths and benefits need to be clearly set out and promoted

Ease of setup for Startup businesses is also a crucial factor in choosing a location, both at the initial start up stage and then again as they look to expand internationally.

All government, regulatory and other bodies need to buy in to give a consistent message and clear direction to entrepreneurs, businesses and investors.

Quick wins (some of which are already in progress) include:

- Promotional material on the benefits of establishing FinTech businesses to be added to the Guernsey Finance website.
- Creation of case studies for publication through the Digital Greenhouse.
- Guidance to be published by the Guernsey Financial Services Commission on how common types of FinTech are regulated.
- Educational and awareness sessions run for business leaders and business development officers.

02

A Startup fund should be setup. An option could be Government funding matched by private investment which provides early stage capital to FinTech businesses

Currently the Island provides no financial incentives and has minimal setup funding aimed directly at attracting business to the Island or promoting innovation on-island. Other jurisdictions are commonly providing incentives for FinTech businesses.

Local investors could be incentivised to participate in a Startup fund through income tax relief on innovation investment.

Other recommendations (continued)

04

Local businesses and the future generation of talent needs to be encouraged through education and awareness

There are certain local financial services sectors, such as the fiduciary sector, which are less technology focussed. These sectors are at greater risk of disruption both from FinTech and from wider economic trends.

In addition many local businesses are being acquired by corporate groups from outside of the Island. As subsidiaries, these companies tend to follow the product and technology strategy set by group, therefore the amount of local innovation which is taking place is reduced.

This will require engagement by the public sector and industry bodies (e.g. Guernsey International Business Association), as well as individual organisations. It is a role that the Digital Greenhouse can help facilitate.

05

The inward movement of talent to the Island needs to be streamlined

The States of Guernsey has made progress with the way that new business and entrepreneurs, particularly high net worth individuals, are welcomed to the Island.

The creation of Locate Guernsey and the proactive involvement of the Housing Department has helped significantly. However improvements are still necessary as Guernsey is falling short compared to other territories.

06

Review the appropriateness of payments legislation

Guernsey has previously considered introducing specific payment service legislation. Feedback from industry is that this is not essential but existing laws and regulations, which were written with traditional banking payment mechanisms in mind (such as BACs and Swift payments) need to be reviewed to ensure they are appropriate for non-traditional payment services.

Alongside clarifying the existing law, a case study should be developed for payment providers, to demonstrate what services can be provided under the existing regulations.

Other recommendations (continued)

07

Revision of NRFSB rules and regulation of lending activity

The Guernsey Financial Services Commission (GFSC) is considering revising the Non-Regulated Financial Services Business (NRFSB) rules.

We also understand that the GFSC is considering introducing consumer credit regulation. There is however a potential need for commercial lending to be regulated in order to ensure, for example that peer to peer lending is managed and controlled appropriately.

We support both of these actions. Whilst the current regulations are sufficiently flexible to accommodate FinTech activity they lack clarity which creates uncertainty.

08

The absence of Capital Gains Tax needs to be promoted more widely as a benefit for entrepreneurs

Most FinTech businesses do not make any profit in early years, therefore Guernsey's 0% tax on corporate earnings is not always an incentive to start up businesses.

The absence of capital gains tax is however a benefit as most entrepreneurs look to exit in 3 to 5 years and reinvest gains in new projects.

09

Continue to assess and prioritise the outstanding initiatives for Intellectual Property

Guernsey has a progressive intellectual property regime in place, but the following outstanding initiatives may need to be progressed to ensure its effectiveness:

- Innovation Patent legislation, currently drafted subject to consultation;
- Extension of International Agreements to establish rights recognition; and
- Double taxation agreements to be negotiated.

Appendices

Appendices		24
1	Guiding principles - Indicators	25
2	Acknowledgements	28
3	Glossary	29



A strategic
vision for
FinTech

Guiding principles - Indicators

1. FinTech opportunities with a high economic value will be prioritised

Given the limited resources on-island it is important to maximise the value of the contribution to the local economy from those resources.

Positive indicators

Primary contribution:

- The opportunity creates employment in the Island, particularly in senior/specialist roles through establishment of a physical presence in the Island.
- The opportunity makes a valued total tax contribution to the Island, i.e. combination of payroll, social security and company (income) tax (if applicable).
- The opportunity involves a locally owned organisation and profits contribute to the local economy.

Secondary contribution:

- The opportunity provides secondary benefits to the Island by the employment of local service providers, e.g. data centres, IT, legal, accounting, consulting and financial services administration.
- The opportunity provides a recognised contribution to the Island economy through its activities.

Negative indicators

- The opportunity only creates a digital footprint in the Island and the local economic contribution from connectivity and data storage fees is low.
- The opportunity only creates employment for a small amount of unskilled labour.

2. FinTech opportunities with a low resource footprint will be prioritised

The Island does not have sufficient physical resources, i.e. land and labour, to facilitate resource intensive activities.

Positive indicators

- The opportunity can be established in existing or planned commercial premises.
- The opportunity will be managed/administered by a local service provider.
- The opportunity utilises existing or planned data centre capacity and infrastructure.

Negative indicators

- The opportunity requires the employment of a significant pool of low cost labour, e.g. a call centre.
- The opportunity involves significant production/handling of physical goods on-island.

Guiding principles – Indicators (continued)

3. FinTech opportunities must be reputable and consumer risk managed

It is important to maintain the Island's reputation as a well managed and regulated international finance centre.

Positive indicators

- The opportunity is consistent with the reputational indicators from the States of Guernsey and applied by the GFSC for financial services business.
- The opportunity is aimed at Professional/institutional investors, who accept the investment risk.

Note - a higher risk of business failure will be accepted provided the impact to consumers is limited/managed. Therefore the use of the Island as a test bed for emerging technology and new business models is encouraged.

Negative indicators

- Opportunities which arise from aggressive tax planning strategies.
- Opportunities where there are concerns over the legality of the planned activity.
- The opportunity involves technology which is associated with illicit practises, e.g. certain crypto-currencies, except where it can be clearly demonstrated the technology meets the requirements of anti-money laundering regulations.
- Opportunities which could result in significant losses in the consumer/retail market if the business were to fail.
- Opportunities which combine retail investors with illiquid or assets that are difficult to value.

4. FinTech opportunities with minimal impact on existing laws, regulation and infrastructure will be prioritised

In the short-term opportunities that have minimal impact on existing frameworks will enable the Island to move quickly and establish a presence in that sector.

Opportunities that require significant legal, regulatory and infrastructure changes will require investment and time. These opportunities will only be pursued where there is a clear rationale and business case for that investment.

Positive indicators

- Opportunities that can operate under existing legal and regulatory frameworks.
- Opportunities where it is agreed that there is no requirement for additional legislation or regulation.
- Opportunities which don't create exceptional demand on the Island's infrastructure.
- Opportunities which require minor or planned amendments to existing infrastructure or legal and regulatory frameworks.

Negative indicators

- Opportunities that require new or changes to existing legislation where a significant investment and lead time is required.
- Opportunities that require significant additional unplanned infrastructure, such as connectivity, power or data storage.

Guiding principles - Indicators (continued)

5. FinTech opportunities which are complementary to existing financial services will be prioritised

The Island has considerable expertise and experience within certain financial services sectors, for example fund administration, private equity and captive insurance. Opportunities which are complementary to those sectors and where established skills and investment vehicles are available will enable the Island to quickly leverage those opportunities.

Positive indicators

- Opportunities that use existing innovations within the financial services sector, such as PCC's and ICC's.
- Opportunities which are related to fund and fiduciary administration or captive insurance.
- Opportunities which target established capital models, such as private equity and listings on the CISE and LSE.
- Opportunities which enable business process improvements within the existing financial services sector.

Negative indicators

- Opportunities where there are no established skills or expertise on island to support and it is unlikely that they can easily be developed/attracted.

6. Emerging FinTech opportunities will be pursued even if they could be disruptive to existing financial services sectors

The digital revolution is going to have a significant impact on the global financial services industry. Industry trends include new channels, new products & markets and ultimately new business models. The Island needs to be proactive and respond to these trends.

Positive indicators

- Opportunities using innovative technology where a business model has been determined.
- Opportunities using innovative technology where the market has been identified.
- Opportunities using innovative technology to address known business issues and challenges, e.g. AML and compliance.

Negative indicators

- Emerging technology where a convincing business plan has not been presented or a marketable business application has not yet been identified.

Acknowledgements

During this engagement we consulted extensively with representatives in the financial services, technology, regulatory and professional service industries both on and off island.

We would like to thank everybody who took time to contribute their knowledge and opinions which helped us enormously to form our strategic views.

In total, more than 70* representatives of local industry and the FinTech sector consulted with us, including:

Nick Bachmann – Willis
 Justin Bellinger - SURE
 Nigel Brand – Sapphire Limited
 Gillian Browning - GFSC
 Victor Brownlees – States of Alderney
 Martyn Dorey – Dorey Limited
 Ian Drillot – JLT
 Paul Eaton – Artex Risk Limited
 Mark Elliot – Artex Risk Limited
 Nick England – VFX Plc
 Henry Freeman – Crowdshed Limited
 Robin Fuller - GIFA
 Hannah Hayward - Alderney eGaming Advisory Limited
 Jason Hindes – Alltter Financial Limited
 Mike Johns - Willis

Marc Lainé – C5 Alliance Group
 Mike Leonard – 1st Central Limited
 Fiona Le Poidevin - Channel Islands Securities Exchange
 Michael Mainelli – Zyen Limited
 Eric Martineau-Fortin – Whitestar Capital Limited
 Emma Martins – Data Protection Commission
 Charlie Mason – INSEAD Business School
 Geoff Miller – GLI Finance Limited
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 Colin Vaudin – SoG Chief Information Officer
 Andy Veron – Credit Suisse Limited
 Bruce Watterson – Dixcart Trust Limited
 Dominic Wheatley – Guernsey Finance
 Andre Wilsenach – Alderney Gaming Commission

* some of whom chose not to be listed.

Glossary

Term/Abbreviation	Definition
Alternative Finance	Alternative finance covers a variety of new financing models that have emerged outside of the traditional banking system, that connect fundraisers directly with funders often via online platforms or websites. Also referred to as Peer to Peer or Crowdfunding.
AML	Anti-Money Laundering. A term used to describe the legal and regulatory controls that require financial institutions and other regulated entities to prevent, detect, and report money laundering activities.
Back office software	Platforms and applications that don't interface with customers but enable businesses to operate and process transactions, such as accounting, human resources, share registration and payments.
Big Data	A broad term given to the large amount of data that is being generated by modern businesses and applications. These data sets are often so large or complex that traditional data processing applications are inadequate.
Bitcoin	The first and most widely known form of crypto-currency, Bitcoin is now accepted by several major retailers. Bitcoin has suffered reputational damage due to its volatility and use for illicit transactions.
Blockchain	The underlying process used to record and secure many crypto-currencies, most notably Bitcoin. A blockchain forms a digital record of transactions in a distributed ledger, preventing 'coins' from being spent multiple times.
Cloud computing	The practice of using a network of remote servers hosted on the Internet to store, manage, and process data, rather than a local server or a personal computer.
Crowdfunding	An example of Alternative Finance, relating to the raising of funds on an online platform. The standard types include donation, reward, lending and equity based funding.
Crypto-currency / Digital currency	A crypto-currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value.
Data centre	A facility used to house computer systems and associated components, such as communications and storage systems. The data centre may be managed by a third party service provider and provided to multiple customers.
DDoS	Distributed Denial of Service. A type of cyber attack which attempts to make an online server unavailable to users, usually by overwhelming it with network traffic from multiple sources.

Glossary

Term/Abbreviation	Definition
eGambling	The provision of gambling services through an online platform. eGambling services are regulated by The Alderney Gambling Control Commission.
FinTech	A general term used for any technology applied to financial services.
Front office software	Software that interacts with customers. It provides functionality necessary to take orders or service requests , including providing information and reporting to customers.
GFSC	Guernsey Financial Services Commission. The islands' financial services regulator.
Peer-to-peer (P2P)	An example of Alternative Finance. Primarily used in the context of lending based funding, but can also relates to raising funds through equity shares. Peer-to-peer lenders connect borrowers with private or business lenders.
Personal data wallet	A platform or software application which allows individuals to store their personal data online and securely restricts access to that data, other than to parties whom the individual has consented to share their data with.
Walled garden	A closed platform where the software system is restricted to specific users.

Contacts



Nick Vermeulen
Partner

PricewaterhouseCoopers CI LLP
Royal Bank Place, 1 Glategny Esplanade, St Peter Port, Guernsey, GY1 4ND
Telephone: 01481 752089
e-mail: nick.vermeulen@gg.pwc.com



Jon Lowe
Senior manager

PricewaterhouseCoopers CI LLP
Royal Bank Place, 1 Glategny Esplanade, St Peter Port, Guernsey, GY1 4ND
Telephone: 01481 752028
e-mail: jon.lowe@gg.pwc.com



Tony Corbin
Senior manager

PricewaterhouseCoopers CI LLP
Royal Bank Place, 1 Glategny Esplanade, St Peter Port, Guernsey, GY1 4ND
Telephone: 01481 752116
e-mail: tony.corbin@gg.pwc.com

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