

'FINSERVE' STARTS TO FLOW

Rosie Allsopp reports on progress being made in encouraging fintech businesses to launch locally



Fintech business is quietly taking off in Guernsey, according to one of the leading figures promoting the sector locally.

Lawyer Stephen Ozanne, senior associate at AO Hall, has been involved in linking enterprising UK businesses with local service providers and said he was pleased that companies were starting to take root locally, offering services such as foreign exchange trading and prime brokerage.

'We're primarily seeing new technology being applied in the financial services space, offering disintermediation on a web-based platform, offering trading activities direct to the customer and cutting out the middle man,' he said. 'These are international businesses with international clients based here in Guernsey.'

Mr Ozanne said that he expected peer-to-peer business to grow locally – he has spoken to a number of companies interested in establishing in the island. And he believes that there could be opportunities for payment service providers, electronic due diligence – an area under review from the financial services regulator – and the secure storage of so-called 'big data'.

But he said that the island might perhaps be better off branding itself as offering 'fin-serve' rather than 'fintech'.

'We need to get the message out about the things you can do in Guernsey and that we should focus on,' he said.

'Guernsey is not going to be a fintech hub, it's not going to rival London or Hong Kong, but what we do do is provide services to international financial services businesses, which is what we're doing today. To brand ourselves in that way makes sense and distinguishes ourselves for what we are doing.

'Guernsey also has the advantage of being a suitable jurisdiction to set up an operation, with innovation a characteristic and a pragmatic approach from the regulator. But there is no point marketing ourselves against London as a rival, we should be seeing the City of London look at us as an add-on.'

The island's financial services regulator is starting to see more approaches from businesses interested in pursuing fintech ideas.

Gillian Browning, director of fiduciary supervision policy and innovations division at the Guernsey Financial Services Commission, told a major fintech conference earlier this year that despite considerable talk about fintech, only seven 'innovative

approaches' had crossed her desk at the commission in the preceding year.

But she said now that figure had been overtaken already this year.

'The quality is variable and how many are actually applications and actual businesses is still probably in single digits, but we are seeing companies actually registering now.

'We're quite comfortable about where this is going. We wouldn't want to be deluged and while we are keen to support innovation, we don't want to lower standards. Guernsey doesn't want to be known as an easy jurisdiction with lowest standards.'

A handful of 'fintech' businesses have been licensed by the commission so far this year under the non-regulated financial services business or protection of investors laws.

The NRFSB law might be set for review shortly, but Ms Browning said that so far there had been no inquiry made which had not fitted within its scope.

Ms Browning, who came to the commission from the UK's Financial Conduct Authority last year, said that she had been keen to take the best of fintech regulation developed in the UK and adapt it for Guernsey. Many leading figures within the UK's fintech industry have praised the FCA for its approach towards the emerging sector, but the GFSC sees that, with a willingness to meet prospective licensees face-to-face at an early stage, it can be seen as equally, or more, attractive.

'The headline message is that we are open at the GFSC,' she said. 'We are nimble, we can react more quickly, for example we see NRFSB as something we can turn to our advantage as a jurisdiction, and working with the Commerce and Employment Department, it is a great opportunity to develop something forward-looking and bespoke.

'I am doing my best to plagiarise the best from the FCA, see what we can build on and leave behind anything that might not work. And a lot of what the FCA is doing we are already doing.'

The commission will continue to seek common standards with the FCA on some fintech activities to make transfer of business between the UK and the islands easier, she added.

Ms Browning added that a positive approach was being taken to innovation across the commission. 'The mindset we want to develop is that it is harder to say no rather than yes,' she said.



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**STEPHEN OZANNE,
AO HALL**

AT THE FINTECH TABLE

Businesses providing fintech and finserve solutions are taking off in the islands. Digihub spoke with principals from three 'fintech' businesses in the islands – Sandrine Reynaud from Freedom Asset Management, Jason Hinds of Alltter Financial, both based in Guernsey, and Dominique Carpentier, director of Jersey-based KYCme, to find out why the CI is a good place for the fintech sector to thrive

What is your core business?

Sandrine Reynaud: Freedom Asset Management employs 10 people, and is an asset manager specialising in international private client and family office investment management. We also provides pan-European institutional distribution to boutique fund managers looking to grow their businesses, either by bringing them inside Freedom Guernsey-based fund range, or operating in a pure third party distribution capacity.

Jason Hinds: Alltter Financial has 11 employees providing foreign exchange and financial services.

Dominique Carpentier: KYCme employs five people and is a web-based data vault designed to allow the secure storing and sharing of documentation between businesses and their clients in a format that helps them to meet their regulatory customer due diligence requirements with greater efficiency.

Why did you decide to base your business activity here?

SR: Having built another investment management business in Guernsey for their previous employer over the previous five years, the management team of Freedom was already familiar with the island's infrastructure and regulatory environment. The former business used structures in Luxembourg and Dublin, but we had an almost exclusively institutional client base. We became aware that we could achieve almost everything we needed from Guernsey structures, which had the twin advantages of being more cost-effective and faster to market than our previous structures.

Guernsey as a jurisdiction is well rec-

ognised by institutional investors and therefore we intend to base the vast majority of our product manufacturing in Guernsey. The strong lifestyle appeal should not be underestimated.

JH: The best staff available were mainly Guernsey-based and therefore most of our prospective clients were also here. There has also never been a non-banking service provider of this sort based in the Channel Islands.

DC: As both Channel Islands are international finance centres it makes sense to have a presence in each jurisdiction. While KYCme might have originally been developed in Jersey it was always the intention that it should be a Channel-Islands-based business with a global reach.

Both Bailiwicks have similar regulatory regimes and finance industries, so it was logical to have a presence in both islands. They have the same challenges with external attacks and perceptions in respect of their offshore status, despite being highly regarded for the quality of their legal and regulatory regimes.

How is your business going?

SR: Freedom's first fund Opus Global Cautious was launched in October 2014 and we are on track to have a business with \$100m. of assets under management by the end of the summer.

I am pleased with the results, but this is just the beginning and we are obviously pushing hard to continue the same growth. We are looking to on-board several UHN-WI and establish their family investment offices in Guernsey by the year end and we are looking at additional strategies that we can distribute within our PCC.

Importantly, we are in discussions to set up a fintech private equity fund in the second half of 2015. We see the convergence of the traditional finance sector and technology as a strong proposition for investors.

JH: It has gone well to date but we still have more work to do before we can launch all the services we intend to.

DC: KYCme has generated a lot of interest and was recently voted as the most innovative product by the readership of Wealth Adviser e-magazine in London. This award is fantastic news for us, especially given London's recognition as being one of the worlds' foremost fintech centres. We are also involved in a UK Cabinet Office program and in a transatlantic electronic identification program as a recognised supplier of electronic identity verification services.

Where is your client base?

SR: The vast majority of our business has always been off-island and we do not see that changing too much. Clients like us because we get on planes and see them regularly.

We would love to have more clients in Guernsey, but there is a huge amount of good competition for local clients – we tend to focus on markets where the competition is not so strong and where we have already built up a strong network of prospects and clients over the last 10 years.

JH: A combination, split about 90% in the Channel Islands and 10% rest of the world.

DC: KYCme's client base is international, but we are particularly focusing on the

Jersey and Guernsey markets at present, including local trust companies, accountancy firms and international legal practices.

How does the regulatory environment enhance the ability of companies to do business?

SR: We have found the GFSC very approachable and helpful when discussing new ideas or looking to add new funds.

Our clients are impressed at the speed of establishing new funds and the cost efficiency of Guernsey compared to other places such as Cayman, Luxembourg or Dublin. They also recognise the strong regulatory framework that is in place. For us it is critical that those positive experiences are replicated and that Guernsey is accepted as a third country by the EU, without over-regulation, otherwise we will lose some of those advantages.

JH: The regulatory environment is a relative concept when it comes to its appeal for businesses – it might be easier to operate a business like Alltter Financial in a different location with less regulation or obstacles to doing business, but it might then become more difficult to attract clients who might have genuine concerns about the safety of doing business in a less-regulated location. Luckily, the Channel Islands, in my view, is in that sweet spot or ‘Goldilocks’ scenario where the regulation is just right for all parties.

DC: A favourable regulatory environment is key to the success of our business as it is regulated financial services that stand to benefit most from KYCme’s technology efficiencies.

We welcome the recent pro-active positions taken by the GFSC and the JFSC in acknowledging the use of this technology as a differentiator in the market place. Their guidance on the use of electronic verification should clarify some of the uncertainty that the new technology can introduce and hopefully inspire confidence in its adoption. The right combination of technology and regulatory approach should offer Guernsey and Jersey businesses a leading edge in the international market place and provide their clients with the reassurance of regulatory best practice and technological efficiency.

What more can the Channel Islands do to make the islands an attractive prospect for fintech business?

SR: Fintech is a key opportunity for the Channel Islands and many other financial

and technology centres have recognised this as well, so competition will be tough. However, there is already experience of being at the forefront of egaming – this was a success because the regulatory regime was ahead of the ‘game’ and willing to take a risk. At the moment fintech enjoys relatively low regulation primarily oversight in many countries but if this were to change as businesses become of size, we will need an appropriate regulatory framework in place.

These businesses are generally quickly scalable internationally. The Channel Islands ought to be recognised by other jurisdictions as setting the standards, so it should be easy for a licensed broker platform to be authorised in other parts of the world for example.

The islands need to offer cost-effective solutions. Fintech is mostly about cutting out the middle man and helping the user save money. So we need to provide access to competitive and adequate data centres, skilled staff, facilities and connectivity.

The Channel Islands have already in place strong data protection laws and are well recognised jurisdictions. And we have London on our doorstep. We should seek to make more out of that connection.

JH: I have not looked into this project with enough detail yet to know if we are doing enough or not, to attract new business. However, aside from obvious things like incentives, it would be great if there was an easy, obvious and direct place to look so that there is one point of initial contact for any person or company anywhere in the World who is looking to find a fintech solution at the right price and receives assistance in setting up in Guernsey.

DC: The Channel Islands already have a lot on offer to fintech businesses already. The benefits need to be shouted about to the rest of the world. There are already some world-leading tech and fintech businesses in the Channel Islands that should be recognised and promoted as a kernel of talent to support and attract new fintech business.

Countries looking to encourage domestic entrepreneurial behaviour often do so with some form of fiscal incentive. It could be the spur necessary to create new local investment funds.

