

the end of 2019. LIBOR is due to be phased out by the end of 2021 and its replacement has already been identified by the Bank of England as SONIA (Sterling Overnight Interbank Average Rate).

The SONIA rate is a benchmark based on historic performance (backwards-looking) as opposed to LIBOR, which is a benchmark based on predicted costs of borrowing (forward-looking).

Mainly for operational reasons, banks and borrowers have not been keen to move to a backwards-looking rate, so SONIA hasn't started replacing LIBOR in loan documents yet.

To address this, the Bank of England established a working group to create a forward-looking reference rate using SONIA. A consultation period with industry concluded in October and we can expect to see the results of that consultation in 2019.

I expect that by the end of 2019, we'll have a working replacement.

TECHNOLOGY

**JASON CONNOLLY,
DIRECTOR,
NEXT GENERATION IT**



As we enter 2019, how would you assess the general health of the technology sector across the Channel Islands?

The health of our technology sector closely follows the fortunes of the local finance industry it supports. The islands are experiencing an extended period of strong growth, despite political uncertainty around Brexit and global protectionism.

If anything, challenges stem from a lack of resources, which constrains growth. Consequently, many organisations are seeking mergers and acquisitions to gain capabilities, increase efficiencies, exploit synergies and reduce costs. Happily, this results in more work for us in IT to integrate systems, applications and offices.

Innovation in technology has always been a strength of the Channel Islands and this has spawned a thriving fintech industry. Our experience and contacts within the established finance industry is being coupled with technical expertise to lead the way in fintech – a great example is the application of blockchain to drive investment in private equity funds.

In the next 12 months, what's the biggest challenge the technology sector will face? Technology is changing our lives beyond recognition, enabling people to connect to their systems from any device anywhere in

the world, allowing people to fill their spare time with work, improve productivity and in many cases spend more time at home with the family. Keeping up with an accelerating pace of change is becoming more and more challenging.

Adaptable businesses that invest in technology can bring their ideas to fruition fastest, disrupt markets and gain market share. However, technology change is expensive and traditional fixed capacity onsite IT systems cannot adapt rapidly or cost effectively. An accelerated uptake of cloud computing will give local businesses access to flexible IT infrastructure that grows and adapts with a business, driving digital transformation.

And where will the greatest opportunity lie? Experts predict we are entering the fourth industrial revolution, where unrelenting technological progress is blurring the traditional boundaries between physical, digital and biological realms. This means there are great opportunities for increases in efficiency and standards of living.

Previous industrial revolutions have automated repetitive manual tasks, but artificial intelligence (AI) is targeting knowledge workers, such as accountants, bookkeepers, administrators and legal advisers. With a constrained labour market, AI presents a great opportunity to augment our local resources to generate more value for the islands.

Is there one thing that will dominate the sector in 2019?

Information security challenges are increasing, with many local organisations succumbing to ransomware attacks in 2018. The frequency and complexity of attacks continue to increase exponentially, and cyber security is now firmly on the boardroom agenda. Businesses are rolling out stronger cyber controls and awareness training to combat the risks – for instance, security companies are employing AI in their products to fight back.

Interestingly, local business and the regulator are being proactive and view cyber security as a competitive advantage. Financial and data protection regulations are driving businesses to focus on security, procedures, auditing and monitoring.

Audits are now assessing businesses against stringent ISO, ISAE and PCI DSS standards. This will lead more businesses to consider hosted services in 2019, through which best practices in security and IT are baked into the service.

What other technology sector issues should be on our radars over the coming year?

Earlier this year, the General Data Protection Regulation occupied the attention of many local businesses, but



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then businesses were given an extended 12 months to prepare. The reprieve was welcome as most businesses have taken advantage of the extra time to get their house in order. Nevertheless, we expect that the pressure will build again in 2019 as the new May deadline looms.

CAPITAL MARKETS

**FIONA LE POIDEVIN, CEO,
THE INTERNATIONAL STOCK
EXCHANGE GROUP**

2018 was another year when we built on the successes of previous years to deliver further growth in the number of new listings on The International Stock Exchange (TISE). The largest proportion of new listings have been debt issuances, such as high-yield bonds, from issuers based all around the world, including Europe as well as increasingly the US and the Far East.



As such, we'll be continuing to monitor the global capital markets to understand how this might have an impact on our business. We've already seen interest rate rises and geopolitical events starting a slowdown of issuances in the debt capital markets, so the effect on the number of listings on TISE will have to be monitored closely. Either way, we'll aim to continue to increase our share of the market.

Of course, Brexit is also on the minds of many with UK-related business. Our business is global but there remains a significant proportion of debt issuances

that are financing acquisitions in the UK, and we are home to more than a quarter of all UK Real Estate Investment Trusts (REITs). This is an area where, following a hiatus around the Brexit referendum in 2016, there's been strong growth in the past few years, not least due to the currency fluctuations precipitating considerable inflows of international capital into the UK real estate sector via the REIT product.

In the post-Brexit referendum environment, we've benefited from being able to facilitate investment into UK property. As we approach the UK's withdrawal from the EU, there's been no discernible negative impact on TISE listings and, at the time of writing, it remains to be seen whether any of the fears about the markets materialise and therefore the effect for us in terms of new listings.

In fact, we continue to see potential opportunities in Brexit, including the listing of UK small and medium-sized enterprises (SMEs). The UK government views SMEs as the engine of the UK economy through Brexit, but those companies are finding financing more of a challenge than ever.

TISE offers the advantages of a stock exchange listing, including access to a new pool of capital, but with costs that are proportionate to SMEs.

In addition, being based in the British Crown Dependencies means that we offer the certainty and stability of already being outside the EU while still being part of the British family.

We've also had growth in the number of enquiries from Channel Islands trading groups, which have seen how TISE's proposition has benefited companies with the scale and ambition of businesses such as PraxisIFM. The door is very much open to local business owners who want to find out more about the process of listing and the potential benefits it can offer. I expect we will be having plenty more of these conversations during 2019.

I also expect that in 2019, both globally and locally, we will see increased prioritisation of environmental, ethical and impact investing. The focus on environmental sustainability in recent years has led to an established and growing sector of green finance.

As a result, in November last year, we launched a new market segment of the Exchange, TISE GREEN. This has been established to enable those seeking funding for environmentally beneficial initiatives to highlight their green credentials, while also providing easier access for investors looking to allocate to investments verified as meeting globally recognised standards in green finance.

During 2019, we will be monitoring this marketplace to ensure that, as it develops further, we will continue to be able to offer a product that's suitably comprehensive and robust. ■

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