

Corporate Stress in Paradise

Alleviating Offshore Risk

From Guernsey to the Cayman Islands, corporate service providers (CSPs) play a central role in structuring global investment, wealth planning and international business, and are as much a part of the scenery in offshore jurisdictions as their sandy beaches. There are however pressures that come with living in paradise, in an environment that is increasingly demanding, as the tides bring in greater regulation, transparency and accountability.

This Insight considers some of the key liability exposures facing CSPs and their directors and managers, the insurance challenges those exposures create, and how Professional & Financial Lines insurers such as Euclid are approaching this unique and evolving risk profile.



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The Exposure

As well as being businesses in their own right, CSPs are at the heart of establishing, structuring and administering new businesses and personal and family arrangements offshore. This gives rise to a unique and varied blend of potential liability exposures to be managed.

Regulatory scrutiny and personal accountability

A core function of CSPs is incorporating and maintaining companies, partnerships, trusts and other holding vehicles. The economic substance requirements, beneficial ownership, sanctions screening and AML obligations that accompany this (both at the point of incorporation and as part of ongoing monitoring and risk assessments) are now core operational requirements, rather than mere compliance formalities, and CSPs sit at the centre of these regimes.

The importance of getting all of this right is

critical and the oversight from regulators, from the GFSC to CIMA, and the consequences of enforcement action if the CSPs get them wrong, are heavy. Importantly, regulatory breaches increasingly carry personal consequences, with directors and senior managers exposed to investigation, licence action and, in some cases, personal sanctions.

Regulatory investigations can be intensive, stressful, resource-sapping and costly to defend, even when such enforcement outcomes stop short of fines or sanctions. Regulatory allegations or findings can also act as a trigger for expensive follow-on civil claims from clients or investors.

Financial crime and social engineering fraud

Inadequate onboarding, outdated risk assessments or poor escalation of red flags can also represent fraud risks in connection with the structures that CSPs set up and maintain, which can expose CSPs to regulatory action, civil and criminal claims. The other key fraud risk is financial fraud

against the CSPs or the businesses or personal or family trusts they administer, where CSPs maintain trust or escrow accounts and handle payment transfers.

Social engineering fraud has become particularly acute, with CSPs alleged to have facilitated or failed to prevent unauthorised payments through trust or corporate structures. Claims often allege negligence and can give rise to substantial civil liability alongside regulatory scrutiny. These risks are further elevated when CSPs are engaged with crypto and other digital asset structures.

Aged structures and legacy risk

Many CSPs administer structures that have existed for decades. Changes in family dynamics, tax regimes, political exposure or sanctions status can radically alter the risk profile of what were once low-risk arrangements. Claims frequently arise where historic assumptions are applied to modern risk environments, particularly where reviews have been infrequent or poorly documented.

Beneficiary disputes & vulnerable individuals

Disputes involving trusts, foundations and family vehicles represent a growing source of liability, particularly where vulnerable beneficiaries are involved. Allegations may include unequal treatment, failure to exercise discretion properly, insufficient oversight of advisers, or failure to protect beneficiaries from undue influence.

CSP-supplied directors or trustees often find themselves caught in the middle of these disputes with no clear pathway to resolution, elevating risk around personal exposure in addition to claims against the CSP entity.

Tax exposures and other advisory risks

While CSPs do not typically provide tax advice, claims often arise where structures are alleged to have been tax-inefficient, non-compliant or no longer appropriate following regulatory change. Courts and regulators increasingly look beyond formal disclaimers to assess what role the CSP played in practice, particularly where they were closely involved in structuring, implementation or ongoing administration.

More generally, a recurrent theme in claims is the gradual blurring of lines between administrative services and advisory activity. CSPs offering efficiency and 'hands-on' support can unintentionally stray into regulated territory; whether through structuring guidance or commentary on tax or investment strategy.

Nominee services and fiduciary risk

Nominee director and shareholder arrangements remain legitimate and widely used by CSPs, but carry heightened risk. Claims frequently focus on alleged shadow directorship, lack of independence, failure to identify or properly manage conflict or failure to exercise fiduciary duties properly.

Pressure from beneficial owners (whose interests are not always aligned), can quickly crystallise into personal pressure for nominee directors, particularly following insolvency or family disputes.

Crypto linked and digital asset ventures

Despite market volatility, crypto and other

digital asset linked ventures remain a feature of the offshore landscape. However, regulatory uncertainty, fraud risk, AML concerns and generally dealing with an asset class that is constantly and dynamically evolving, mean that claims can arise rapidly where projects fail or assets are misappropriated.

The Insurance Challenge

CSPs occupy a uniquely complex position from an insurance perspective. Their activities span professional and financial services, administrative functions, governance, compliance and regulatory engagement, which can give rise to personal exposures as well as at entity-level. As a result, claims and regulatory investigations and action rarely sit neatly within a single type of policy cover.

“Claims rarely arise from isolated administrative errors; they develop where professional services, governance and compliance pressures converge”

Professional indemnity exposure may arise from alleged negligence, scope creep or reliance on advice. Financial institutions policies (civil liability or crime) may be engaged following regulatory investigations, sanctions breaches or financial crime allegations or losses. D&O exposure frequently runs in parallel, particularly where nominee or professional directors are involved (as 'outside directors' provided by the CSP).

The most severe claims arise where multiple issues intersect; for example, weak AML controls combined with nominee services and blurred advisory boundaries, creating the potential for overlap and tension across policy lines and between entity and personal cover.

Insurance arrangements are frequently scrutinised following fraud or governance failure. For CSPs, PI insurance is non-negotiable, and modern regulatory and client

expectations effectively require crime and cyber cover as well (particularly where trust or escrow accounts are maintained by CSPs). D&O becomes essential where individuals act in fiduciary or nominee roles (regardless of any separate cover maintained by the "outside" entity).

The Euclid Perspective

From Euclid's perspective, CSP risk is best understood as a convergence risk rather than a single-line exposure. Claim trends show that losses rarely arise from isolated administrative errors; instead, they develop where professional services, governance and compliance pressures converge under regulatory scrutiny.

Euclid's underwriting focus for CSPs reflects this reality. Particular emphasis is placed on:

- clarity of professional and/or financial service scope, engagement documentation and evidenced decision making;
- the strength of AML, sanctions and fraud controls, including ongoing reviews;
- governance around nominee and director appointments, including aggregation risk;
- client offboarding process, ability to manage hostile exits and frozen assets;
- management of legacy and ageing structures; and
- firms' ability to evidence independence, challenge and escalation in practice.

As regulatory expectations rise, insurers and insureds share a common interest in proactive risk management. Early engagement between CSPs, legal advisers, brokers and insurers can help identify pressure points before they crystallise into claims and, critically, ensure that insurance programmes respond as intended.

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