



Originally published in Global Assets Online, November 2009

Being brave...in a new world

By Julian Winser, Chief Executive Officer of Schroders in the Channel Islands

In this article Julian Winser, Chief Executive Officer of Schroders in the Channel Islands, takes us on a journey to see how the adaptability of Guernsey and Jersey has ensured that they remain attractive jurisdictions for international private banking despite the pressures of a changing world.

Ever since trade began between different jurisdictions there has been an opportunity for arbitrage. In the mists of time this arbitrage was over commodities. For example, as soon as the price differential for cotton was greater than the price of transport between North America (production) and England (end user) then there was room for arbitrage. Over time the commodity has changed, and the differentials have been redefined to include the costs of labour, supply and demand, and many other influential variables – governments, trade bodies, regulators, rulers etc. In every arena they are prevalent. More recently we have seen differing tax levels as the highlighted differentiators providing arbitrage opportunities. It is these, more than any other issues that have caused upset and comment from innumerable agencies.

While the focus of the comment has been across the onshore vs. offshore divide the differentials are just as prevalent across country, continent and trade-pact boundaries. There are innumerable examples, of which the private plane industry is one. UK owned private planes can be registered in the UK, US or the Isle of Man. The UK Government would like all UK private planes to be registered in the UK, but many go to the US. Why? Because the US is cheaper, less bureaucratic and more flexible. Why has the Isle of Man been so successful in such a short space of time? Because it is even cheaper, even less bureaucratic and even more flexible.

The response from the UK to this competition could theoretically fall at two extremes. They could make the UK offering compelling by offering a better, more flexible, less bureaucratic and cost effective solution or they could do everything within their power to force everyone to use the UK registry as it stands. Unsurprisingly it is generally the latter which has been taken as the easiest route to success by the big over the small.

In the case of the tax and transparency differentials the pressure has been applied through a variety of media from legislation to barrier-raising. In the specific case of the UK vis. a vis. the Channel Islands for instance, the agencies involved have been numerous and has included the UK Government itself, HMRC, Law Office and Treasury, and from an international perspective the IMF, OECD, and G20 to name but some.

The initial target has been transparency – this being the start point for any further pressure. Since the 1990's there have been numerous onshore legislative changes to ensure that tax residents declare their worldwide assets. While some jurisdictions had been fighting a rearguard action the events of 9-11 proved to be a turning point. Since 9-11 most financial legislation has been absolutely to the benefit of Governments and regulators, and any partial pretence that it was to be of value to the individual and the protection of their assets has disappeared. However, these changes have been adopted by nearly all financial centres both onshore and international (offshore). The overall state of play was very recently summed up by the publication of the G20 list of jurisdictions in their different 'colours' depending on how transparent each country and state is. The significant majority were coded 'white' – indicating full compliance at a high level of transparency. This white list, including both large onshore countries, including the UK, and small international (offshore) territories, including Guernsey and Jersey, was based on a range of important quantitative and qualitative measures.

Those who failed to make the white list, and were graded either grey or black, did so for two principle reasons. They were either behind the curve due mainly to their lack of resources, or they valued secrecy, rather than transparency, as a virtue or as a USP (unique selling point). The fact is, however, despite a number of mainly Far-Eastern countries playing catch-up, that for the majority of major financial jurisdictions, except Switzerland, both onshore and international (offshore), transparency is no longer an issue.

The change to the level of transparency has not just been at jurisdictional level. It has obviously included every bank, private bank, wealth manager, legal and accounting practice and trust business; each of which has had to adapt to the changing environment. Obviously the cost of dealing with increased regulation has accelerated, and particularly with regard to international private banking, has continued to rise, and it is likely that this trend will continue. However, what has really changed over the period, during which transparency has become *de facto*, is what has been offered to clients.

In the past many individuals tended to deal with their assets, legally, on a local basis wherever the assets were. Now there is a growing trend towards consolidation. International private banks, alongside legal and accounting firms, have had to incorporate a full range of international and multi-jurisdictional knowledge and skills to both survive and to grow. International clients, those who both live and or run businesses on an international basis now need advice that covers their whole

operating area; preferably from as few expert sources as is possible. There are several drivers for this. In many cases the most important is the need to be competitive in the case of international business. To make a business globally competitive the managers must ensure that the best use is made of all tax effective vehicles on offer. If they do not, the competition will take an entirely legal cost advantage. A second driver is convenience, with the ability to delegate to one source of expertise. Even something as simple, from a client's perspective, as moving financial assets around the world has now become complex regardless of whether the source is either onshore – or international (offshore). This also includes an in-depth understanding of all types of financial vehicle, and the ability to deal with them in all jurisdictions.

In terms of adaptability the Channel Islands of Guernsey and Jersey, have set a high standard. Both islands recognised the need for change to stay ahead of the global trend in transparency and have successfully continued to grow. They remain attractive to international clients because of this rather than the fact that the rate of income tax for residents is low relative to many of the larger 'onshore' countries.