

SUN, SEA, SAND, AND SHANGHAI AMBITIONS

Guernsey's well-established rivalry with neighbour Jersey is slowly fading, and with its sights set firmly on the Asian market, the Channel Island is finally beginning to mature, believes Ruth Emery



Guernsey is growing up. Rather than indulging in the traditional knocking of Jersey and other offshore jurisdictions, the tiny island in the English Channel has more important things on its mind.

Of course, locals that enjoy the light banter of why Guernsey is supreme still exist, but most of them concede there isn't much in it when it comes to comparing it with its neighbour Jersey.

For now, it is much more focused on promoting its financial services industry in China, and how to continue its fund and banking growth, even though the knock-on effect of Britain's economic slowdown is imminent.

Guernsey became a trailblazer when it opened an office in Shanghai in March – Jersey and the Isle of Man do not currently have a permanent presence in China.

The office will provide a base for the island to showcase its expertise in financial services.

Peter Niven, chief executive of GuernseyFinance, the PR body for Guernsey's financial services, tells *HNW* that China is "an area that we see business flows coming through. We want to get the name well known and we're in it for the long-term".

The island also has its sights set on India and eastern Europe, but Niven says GuernseyFinance only has enough resource to look at one location at a time.

"Even if we get a very, very small slice of these massive markets we'll be happy. We're putting a lot of energy into it."

In addition to promoting its brand in the People's Republic, Guernsey is hoping that when the global economic turmoil finally lands on its shores it will be a gentle breeze rather than a full-blown tornado.

Niven says there is normally a lag between any economic slowdown in Britain and it reaching Guernsey.

"By the time the credit crunch fully hits us we will get a plateauing of

business as we're not immune. But there won't be much of a dip," he notes.

"There's still a lot of wealth being created worldwide that needs a home, so I hope the plateau won't last long."

FUND SURGE

Until that happens, Guernsey can look back on some consistently strong growth, especially in the funds sector.

Funds under management and administration grew by £3.4bn (1.7%) over Q2 this year to reach a total of £207.2bn.

For the year since June 30, 2007, values soared by £51.6bn, an impressive increase of 33.2%.

Guernsey is also growing up in the sense that it is evolving its investment offering.

The island used to be known for its trust and captive insurance businesses, with some deposit accounts and cash funds thrown in, but it has now spruced up its fund range.

Niven comments: "The whole funds sector has changed remarkably over the past four years. It used to mainly be money funds but now we've got fund-of-hedge funds, property, private equity and all the weird and wonderful assets like timber, wine and art."

According to Dave Piesing, director at Praxis Fiduciaries, it's thanks to the regulator, the Guernsey Financial Services Commission, that so many innovative funds have been attracted to Guernsey.

"We've attracted high quality funds and there are lots of accounting and legal businesses to support them. Our proximity to London has also helped our fund business," he adds.

Piesing says the high net worth (HNW) clientele in Guernsey is more demanding than ever before. "They're interested in absolute return, private equity and hedge funds. There's a growing trend away from the traditional sense of offshore deposit holdings," he observes.

Ian Swan, partner at law firm Babbe, is another well-known industry figure who is proud of Guernsey's advances.

"There has been expedient growth of fund launches and an astronomical rate of growth for private equity funds," he exclaims.

Jersey has always been the larger fund centre, but now Guernsey is catching up. Jersey is on a stagnant £246bn, no change from Q4 last year to Q1 this year, while Guernsey has quickly swelled to its £207bn.

Niven says one of the secrets is to "keep very close to London lawyers" as they typically influence their clients about where to domicile a fund.

NEW LAWS AND INITIATIVES

Guernsey is also proud of an initiative that it worked with Jersey on, rather than competed with.

The Channel Islands Stock Exchange launched in 1998 and now has more than 2,600 securities listed.

"The exchange has succeeded beyond everyone's expectations. It's a well-respected listing and Guernsey and Jersey have really benefited from it," says Piesing.

Charlie Roger, director of stockbroking at Collins Stewart Wealth Management, adds: "The Channel Islands Stock Exchange is a real feather in the cap. It's based in Guernsey and is recognised by Gordon Brown."

The two islands also work together closely on new laws – that is, they watch each other and learn from each other's laws.

Trust law is one example where Jersey had the lead with more up-to-date regulations for a while, but this year Guernsey unveiled even newer laws.

As Lisa Vizia of Investec Trust (Guernsey) puts it: "There's no point reinventing the wheel, so we take the benefit of experience from Jersey's new trust law."

The Trusts (Guernsey) Law 2007 became effective in March 2008.

It introduced non-charitable purpose trusts, which means trusts established without conferring benefit on any person are now valid. The other significant change is that it removed the 100-year time limit for Guernsey trusts.

Vizia gives a thumbs-up to the changes, as do most of her peers in the Guernsey business sphere.

Piesing says the new law "codifies a few grey areas" and that it's unlikely Guernsey and Jersey's trust laws will ever be far apart.

This year's UK Budget set out significant tax changes for UK non-doms. Given that many of Guernsey's clients are UK non-doms, the changes have affected Guernsey.

The most talked about change was that non-doms now have to pay £30,000 a year to keep their privileged tax status, once they have had it for seven years.

But there were also changes to offshore trusts.

The rules, which traditionally just applied to UK-domiciled beneficiaries of offshore trusts, were extended to apply to non-UK-domiciled beneficiaries with effect from April 2008.

This means non-doms will be liable to pay capital gains tax and their tax liability will increase by 10% each year up to a maximum of 28.8%.

Jim Gilligan, head of private wealth management, Channel Islands, at Kleinwort Benson, sums up: "The changes in April to offshore trusts for non-UK-domiciled people means the trusts are less advantageous. So that's hurt some of the firms here and in Jersey."

He says Guernsey is now looking at new markets like Asia and the Middle East, which partly explains the office in China.

Another development is foundations law, which will shortly apply to the wealth management sector.

Niven explains: "It's another tool in the toolbox, especially for people who don't like trusts."

Vizia says Guernsey is at the forefront with protected cells company legislation, which is specific to the Channel Island.

Intellectual property (IP) is another growth area in Guernsey.

Since opening an office responsible for IP administration and registration in 2006, the island saw a 100% increase in registrations of trademarks.

And there's a new Guernsey registry where, Gilligan says, "you can get a new Guernsey company turned round in a couple of hours".

MATURE INDUSTRIES

Of course, not all of Guernsey's industries and sectors are "booming" or "growth areas".

The banking sector has started to slow down: total deposits held with Guernsey banks fell by £1.4bn (1.1%) during the second quarter to reach £128.1bn at the end of June. Although year-on-year deposit levels did increase by £20bn (18.5%).

Captive insurance is not growing either – in 2004 there were £3.3bn premiums, 2005 saw £3.2bn, 2006 was £3.4bn and last year it dipped to £3bn.

Three captive insurers also appear to have left Guernsey in the first half of 2008 as the total number of insurers fell from 368 to 365.

Swan comments: "Guernsey is a leading captive insurance provider, but it's quite a mature market and it's not growing much."

Tourism is also rather sluggish.

The total number of visitors to Guernsey increased from 2006 (316,000) to 2007 (321,000). But those figures include people visiting friends and relatives and those on business, as well as tourists.

Business from cruise liners is on a definite upwards trend though – during the first half of 2008, 44 cruise liners visited Bailiwick waters, compared to 26 during the same period last year.

However, the general mood among business professionals in Guernsey is that something needs to be done to resuscitate the tourism industry.

“We need a focus group on developing tourism,” notes Shaun Lacey of private wealth management at Investec Bank (Channel Islands)

“They are trying to upgrade everything here to attract wealthy tourists for spa breaks and so on. There is talk of a Hilton here too.

“They need to lengthen the runway to allow bigger planes in. Jersey has EasyJet and BA, and we should too.”

Niven agrees that the air links could be improved: “We have direct flights to Paris, Geneva and Zurich now as well as to the UK. But we could always do with more. We lost the Heathrow link a while ago, which was frustrating as it was a good link to the Middle East and Asia.”

DIVERSIFY, DIVERSIFY, DIVERSIFY

It’s important for Guernsey to revive tourism, because the island has few other significant industries.

The notable large firms that don’t fit into the finance space are Specsavers and Healthspan, which grew up on the island and appear to have done well.

Guernsey also boasts two massive online betting and gaming groups, Sportingbet, which moved to Guernsey last year, and Virgin Games, which moved in September.

Critics on the island say the island’s economy should be more diversified.

Piesing says: “Even the most fervent supporters of finance here would say it’s not such a good thing to have all your eggs in one basket.

“The economy should have been well-diversified 10 years ago, but it’s increasingly difficult to diversify it now.”

However, Paul Hodgson, managing director of Butterfield Trust, counters: “Diversification for the sake of diversification would dilute the resources that finance relies on, such as roads and people. You would be doomed to failure if you engineer the diversification.”

Niven says it would be unrealistic for another industry to take finance’s place as a core industry, but adds that Guernsey is looking at other options, especially sectors which have a small footprint in terms of staff.

However, within finance Guernsey is pretty well diversified – it has banking, insurance, fiduciary and funds.

THE FINANCIAL CORE

As has already been mentioned, certain financial areas are evolving and growing nicely.

In fact, compared with other offshore jurisdictions, Guernsey scrubs up rather well in finance. It is ranked 19th in the Global Financial Centres Index. Previously it had been ranked 23rd – a joint position with Jersey under the banner of Channel Islands. Now Jersey ranks 16th.

However, Guernsey can still claim to be ahead of other competitor jurisdictions – Isle of Man is 21st, Dubai is 24th, Cayman Islands is 25th and Gibraltar is 26th.

Swan says being in the same time zone as the UK, speaking English and having a “friendlier and less bureaucratic regulator than the Financial Services Authority” helps the finance sector enormously.

Piesing adds: “The regulatory touch is about right. There’s a perception that the regulation was too heavy in the past but the balance is about right now. The regulator has continued to protect Guernsey’s name.”

Guernsey is also sales tax-free – something the Isle of Man and Jersey aren’t.

One downside for potential investors is that Guernsey has no compensation scheme for deposit accounts and no financial services ombudsman scheme.

But there is talk of offering a compensation scheme soon, and industry figures believe it is no real deterrent to HNW individuals’ (HNWIs’) money coming to the island.

Guernsey and Jersey have traditionally been very competitive, and who can blame them, given they are the sole financial powerhouses in the Channel.



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However, nowadays Guernsey practitioners struggle to answer, and even shy away from, the simple question: “How is Guernsey better than Jersey?”

Roger chuckles: “It’s not easy to say Jersey and the Isle of Man are rubbish and we’re brilliant. I would like to though!”

Niven admits the islands are very similar.

“Although I believe we have a larger array of offshore building societies and banks than any other British crown dependency,” he adds.

THE TRANQUIL LIFE

Nigel Cashin, business development manager at HSBC Private Bank, is confident in his response, although it doesn’t concern finance.

“Guernsey retains a lot of its quaintness and it’s not built up. Guernsey’s worked hard to keep it as a fishing port. I go to Jersey and think it could be Southampton,” he says.

Swan agrees. “Guernsey is prettier than Jersey. The Isle of Man has more space than Guernsey, it’s true, but then so does the Sahara!” he roars.

Swan says the lifestyle in Guernsey is a huge draw for families.

“You can work in a successful financial centre and live 20 minutes from the beach,” he notes.

According to Richard Saunders, senior manager in investment management at Butterfield Bank, more industry professionals such as hedge fund managers have been making the move to Guernsey over the past few years.

“It’s a good package for them: close to the UK; good quality of life; and good infrastructure,” he says.

The 24 square mile island has a lot on its plate – restarting its tourism trade, courting China, sustaining its fund boom, and welcoming more HNWIs to its shores.

It may take a while, but Guernsey’s appetite for expanding and evolving means the island should rise to the challenge. ■