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International Financial Centres – are they still relevant and viable today?

Are international financial centres (IFCs) and the structures they facilitate still relevant today, or are the global regulatory and occasional media assaults reducing their appeal, as well as providing a boost for onshore and mid-shore solutions? How do the top-tier offshore centres distinguish themselves? Will Asia's wealth management clients pay up for class-leading structures to take advantage and benefit from the leading offshore centres? Hubbis and co-host Jersey Finance invited twelve wealth management experts to a private discussion in Hong Kong on April 9 to debate these, and other topical matters.

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THE GENERAL AGREEMENT AROUND THE DISCUSSION table was that IFCs remain viable and valuable, provided the structures they house are correctly assembled and managed and if those are allied to optimal regulatory and compliance practices.

There was also a consensus that the motivation for High Net Worth (HNW) and ultra-HNW clients to go offshore is today mainly for privacy, estate planning and tax mitigation rather than for the drivers of secrecy and tax evasion that all-too-often motivated clients in decades past.

And the attendees agreed that the increase of new global regulations and the upgraded compliance requirements have simultaneously boosted the appeals of onshore and mid-shore options, especially as centres such as Singapore and Hong Kong have reacted to expand their offerings.

The dozen wealth professionals attending the roundtable discussion in Hong Kong's China Club represented a variety of global private and investment banks, law firms and independent advisory firms.

Co-host Jersey Finance was represented by Richard Nunn, Head of Business Development for the Channel Island IFC, who began the discussion with some professional and personal insights.

Jersey: solidity for the new world of wealth

"This is a very important period for our industry as global regulation has become far more intense and demanding," Nunn observed.

"With the demands to meet top international standards on the Common Reporting Standard (CRS) and Automatic Exchange of Information, reputational excellence for IFCs has become of paramount importance. Accordingly, IFCs around the globe are therefore working hard to positively differentiate themselves in terms of quality and range of structures, services and jurisdictional reputation."

Nunn explained that Jersey Finance's efforts to distinguish the centre's key attributes for the market have been paying off as Jersey rolls out its message around Asia.

"We have a long, and I believe well-deserved reputation in the private wealth sector," he said. "We have built a strong track record in the GCC region, and we are building out our reach in Asia. In China, where our links have historically been corporate, we are now seeing a rise in family

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Jersey Finance team (left to right): Richard Nunn (Head of Business Development), An Kelles (Business Development Director - Greater China), Joe Moynihan (Consultant)

wealth services and more funds work too. We have seen a strong rise in the flow of Chinese and GCC investment through Jersey into high value commercial real estate in the UK."

It was in 1994 that the first Chinese company registered in Jersey. Jersey Finance set up representation in Hong Kong in 2009 and opened representative offices in India in 2011.

Nunn highlighted Jersey's four key pillars of private wealth–funds, capital markets and banking–that support businesses, governments and investors who make investments across the globe as securely and efficiently as possible.

"The world does not stand still, and Jersey has been successful in adapting to the new regulatory frameworks as well as bringing new structures and products to market," he added. "For example, I can mention perhaps our recent fast-track private funds initiative. And in 2018 we rolled out our new charities offering designed to encourage our growth as a centre of philanthropic wealth management, a growth area globally."

Globalisation and diversification

The world of corporate and personal wealth has indeed been going through a period of intense globalisation. Cross-border lending and borrowing by banks rose from USD1 trillion in 1980 to USD26.3 trillion in 2017, according to research Jersey Finance conducted with Capital Economics.

Investors the world over are looking to vary their investments, both geographically and in terms of asset classes. These trends underscore a rising demand for services that ease efficient and secure cross-border investment, as well as robust private and family wealth structuring.

"There is a mounting need for first-class IFCs and expert practitioners to provide a full suite of cross-border, corporate, funds and wealth management services for Asian investors," Nunn explained. "For example, of the estimated GBP1.3 trillion (USD1.85 trillion) of wealth held in Jersey structures, around 40% originates from investors outside Europe, including Asia."

And there is still excellent growth potential for those who embrace change. The enormous, rapid growth in private wealth, especially in high-growth regions such as Asia, combined with the globalisation of corporate and private wealth, are producing an even greater need for the expertise and services provided by IFCs, as conduits for pooling investments efficiently and protecting individual and family wealth, as well as helping enable capital projects.

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The shifting sands of time

Global regulatory and compliance requirements now increasingly demand that Asian clients adopt more transparent–and less reputationally impaired–structures for tax mitigation, privacy, and wealth transition.

Historically that was indeed not always the case. From Asia's high growth, emerging 1990s and roughly through to the time of the global financial crisis (GFC), the 'tradition' in Asia was to cloak various assets and transactions.

The vehicles were often a myriad of British Virgin Islands (BVI) and other offshore entities that were cheap and easy to create and simple to manage, and usually far from an arms' length basis.

But the 'old' practices in Asia are largely gone in the new world of regulatory correctness, especially with data multiplication and the growing realisation that today's digital footprints are, essentially, indelible. There is, therefore, a powerful impetus towards wealth advisers encouraging far more open discussions with clients, especially as the wealth managers themselves are also subject to intense regulatory scrutiny for past, present and future actions.

There is also a belief that many of the younger generation, especially those inheriting the hard-earned wealth of their parents or grandparents, generally prefer a more straightforward life of compliance rather than live in fear of regulatory reprisals.

As they are more global than ever before, they also understand the need to comply worldwide. Moreover, they understand that the authorities in Asia no longer can, or no longer want to, ignore them to protect them from responsibility for their actions.

Don't drag your feet

The universe of Asian clients, actual or potential, who are getting to grips with the role of IFCs in this brave new world includes those who have structures in place–which they now might need to adapt or scrap–and those who have yet to create structures.

Assets can therefore no longer be dotted around in multiple jurisdictions, some of which might not be structurally, legally, or reputationally sound. A more holistic approach to individual and family wealth, including a perspective on wealth transition is required.

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In the former category, delaying is no longer a sensible option as a new reality is dawning. For the latter group, structuring in the most efficient, compliant and transparent ways are no longer luxuries; they are necessities.

A concentration of jurisdictions is ever more vital, both for actual and perceived compliance, as well as for ease of information flows.

"Accessibility is important for IFCs," noted one expert at the discussion. "In our view, IFCs

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that have representation in the Asia region–Singapore and Hong Kong primarily–enable wealth managers, services providers and the Asian clients to liaise with them easily."

Another expert agreed that having a local presence in Asia is now essential. "I would never, for example, work with a trustee which does not have an office locally, for problem-solving and for the client's ease of interface and confidence," he said. "It is surprising how many Asian clients we work with simply do not understand these offshore jurisdictions and sometimes have no clue where, for example, Jersey is, or whether the Caymans actually exist."

A local presence is very reassuring," he added. Another noted that the overall accessibility of the IFCs, for example, such as location, flight frequencies, language, travel time, visa restrictions, legal system and so forth, are all vital. Cost, of course, is always a factor. "Structures acquired cheaply," he cautioned, "are not necessarily safe and sound or immune from reputational blemish."

The song (does not) remain the same

While in the 'old days' of Asia the motivations to go offshore might not meet current compliance requirements, today the core drivers of the clientele are more acceptable for the wealth advisers and service providers. "Clients today are looking for asset protection first and foremost," noted one adviser at the discussion. "Accordingly, taking your trust to a well-run, regulatory sound jurisdiction–and as an adviser, I can cite Jersey here, for example–should be a priority. Having appropriate separation from trustees, physically and jurisdictionally, is also important."

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Another wealth manager reiterated the view that secrecy and evasion are not the key factors for Asian clients these days, especially for the large institutional investors.

"The bigger players especially are looking for a level playing field where they can handle investors putting money in from all over the globe. The Channel Islands, BVI, the Caymans and Bermuda offer what I would say are probably the best legal systems in the world for this, as there is an option to appeal to the Privy Council, therefore guaranteeing that English Common Law principles are applied."

He added that the driver for many is not tax mitigation, it is more today about simplification.

"A BVI/company, for example, can release profits with no immediate tax consequences," he explained, "but when funds are released to other jurisdictions, it is up to the entities or individuals in those markets to comply. The guarantee of common law and the tax neutrality are ultimately vital

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elements that add to the case for an offshore jurisdiction."

Tax is indeed a core issue, but even today not one that is necessarily always well managed by clients or advisers.

"It is vital to obtain the right advice based on the location of the clients, the structures they select and the location of the underlying assets," one expert advised.

Another expert added that unless the world somehow decides for a flat global tax rate–unlikely in the extreme–there will always be tax arbitrage opportunities. "So," he said, "it makes common sense that clients migrate to jurisdictions that offer the greatest neutrality to tax exposures."

Flight to quality as IFC reputations in the spotlight

The conversation turned to focus more directly on the negativity surrounding certain IFCs today. The media hubbub over data releases of supposedly confidential information from some offshore centres–first made infamous in the Panama Papers scandal–mean that certain structures and some offshore jurisdictions just do not work as well as before, either practically or in terms of reputation.

"Clients, especially those wanting to use offshore vehicles for transactions, need to think not only about their needs but they must consider structures that work for the other side," said one expert. "No matter how much money the client has, some jurisdictions simply do not work for genuine counterparties, or for regulators."

Accordingly, experts noted that they are seeing more and more Asian HNW clients take on different structures and migrating to IFCs that operate industry-leading standards and practices and that are specifically relevant and dedicated to wealth management.

One attendee noted that the Channel Islands are more devoted to private wealth than, for example, the Caymans, which have a very healthy capital markets facilitation industry. "There are wealth structures and trusts in the Caymans, but for the government, they are not a priority," he said.

"Meanwhile the BVI type structures have become less favoured due to the media furore. But locations such as Jersey are much more attractive for the ease of transactions, both buying and selling of real estate, for example. We have therefore seen a real heightened awareness of that, with enhanced transaction capability.

Another attendee noted that this reputational advantage extends

beyond HNW wealth. She said, for example, that when she is involved in structuring a joint-venture between a Chinese entity and a European joint venture partner, the latter will almost never transact through BVI or Cayman entities; their holding structure will always be in Jersey or a centre elsewhere with a similar top-quality reputation to Jersey's.

"Nowadays," added a leading wealth manager, "most clients out here in Asia would compare these offshore jurisdictions with Hong Kong and Singapore rather than compare between IFCs. The offshore centres are employed for distinct reasons, and, as a generalisation, most of our clients have at least a BVI company. But if a client wants, for example, to establish private equity or a mutual fund then they will go for the Cayman Islands. And if they want a family trust then generally they tend towards the Channel Islands."

The same banker explained that his firm focuses only on ultra-HNW clients, noting also that both Jersey and Guernsey have been "very popular" in terms of his firm's referrals to intermediaries and well supported by the legal community.

He then highlighted certain key characteristics of markets, concluding that most of his clients wanting to establish family trusts prefer the Jersey or Guernsey options, while Hong Kong and Singapore have viable mid-shore and onshore structures appealing to a wide variety of clients.

Mid-shore and onshore also reaping gains

Aside from migration to reputationally premium IFCs, a key trend today is the growth of mid-shore; Singapore and Hong Kong have been the biggest beneficiaries as more transparent, and compliant structures have gradually gained support.

The concept of mid-shore is sometimes awkward to explain precisely. One expert revealed his take on it.

"Wherever the client is from, Singapore or Hong Kong would be mid-shore unless the client is resident there, which would mean it is onshore. For those people that are resident, for example, in Hong Kong there are excellent onshore structures with the full range of high-quality settlors, trustees and so forth. The UK is also mid-shore as one of the top five places for a holding company jurisdiction, as well as Luxembourg, Ireland, Belgium, Holland. And the UK has one of the most attractive offshore 'non-domicile' regimes there is."

Mid-shore structures include the private trust company (PTC), not merely trusts. The

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PTC is increasingly popular in Singapore and Hong Kong for Asian families, according to some experts. It helps achieve some of the benefits of having a trust own the family wealth, but with more control–fiduciaries rather than trustees–and with some modest tax advantages.

China's HNWIs in the sights, but not fully in focus

The discussion next focused on Chinese clients, a prized goal for many in Asia's wealth industry, but a client source that is difficult to benefit from for all but the most 'connected' of Asia's advisers operating outside the mainland.

"Traditionally, the Chinese clients tend to follow what their close friends have done rather than any profound research into options," noted one wealth manager. "But that is ever so gradually changing, which is positive for the market as greater consideration is going into some of those decisions these days."

Another expert on the Chinese market said that their firm works with leading Chinese banks focusing on three jurisdictions, namely Hong Kong, the Caymans and BVI, although also recognising the quality of other trust jurisdictions, such as Channel Islands options, especially Jersey and Guernsey.

"There is more and more competition out there, so careful and considered marketing is vital to penetrate this region, or to maintain and then boost business for those already here."

Another perspective was added to the discussion as one attendee highlighted the younger mainland Chinese generations. "The generations in their 20s to early 40s a lot of them have grown up overseas, often already have a second or third passport. Family, succession, wealth transition, cultural differences and so forth are all elements to be put on the table with them."

One expert then highlighted the nuances of marketing to mainland Chinese clients. "Things need to be done in the Chinese way," he explained. "For example, a great presentation in a five-star hotel might not, in fact, be as good as communicating via WeChat, advertising in a local or national newspaper, and so forth. It is about packaging, educating the market and speaking to them in a way they can comprehend. We have learnt that lesson in our efforts there."

Turning the discussion to more personal connections, one attendee

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agreed with an earlier comment that language skills at wealth firms are vital to approach and win over mainland Chinese clients.

"If they trust you, they will listen to you. Just knowing the language and communicating with them in a business way gets the door to open, but afterwards, you need to have someone who can master the language to communicate with them frankly."

One attendee highlighted the role of Hong Kong as an entry point for non-Asian wealth. "We have been busy opening Hong Kong companies for many overseas clients that see this as a gateway into China," he explained. "Hong Kong is a very favourable jurisdiction for those clients simply because a lot of them have business transactions in China as well."

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Brexit and the Channel Islands

China has a long corporate connection to Jersey, dating back to 1994. The Channel Island IFC is now making gradual inroads into the Chinese wealth market. But an issue that must be addressed in many marketing meetings these days is how the prospect of Brexit is affecting the Channel Islands.

"From a jurisdictional perspective, nothing should change," reported one expert. "Jersey is already outside the UK and the EU. There will be an impact on the City of London, but the reality is jurisdictions like Jersey, Guernsey and the other Crown Dependencies are today far less reliant on Britain and the UK than perhaps 20 years ago. The market increasingly understands this independence from Brexit or other changes to the UK."

Moreover, one attendee noted that Jersey, for example, has for some time already been what the UK is going to become, in terms of

being a ‘third’ country from an EU regulatory perspective.

“For instance,” he explained, “going back a few years when the rules on alternative investment fund managers marketing into Europe changed, through a process of working with the various regulators we obtained approval to market our funds into Europe through a private placement. Therefore, I believe that Jersey is in rather a strong position from a European perspective and the traditional relationship it has with the UK does not change.”

Another expert expanded on this theme. He noted that the ability to market product into the EU is vital in the scheme of things while conceding that there is indeed much uncertainty surrounding Brexit.

“No doubt the relationship with the City of London and their relationship with the EU will change somewhat and will affect Channel Island centres,” he said, “but the private placement regime currently, and presumably future ‘passporting’, should stand them in good stead.”

Brexit will create tremendous opportunities, argued one attendee, who believes that the potential demise of London’s importance as the premier global financial centre is exaggerated. “So many global expats do not want to uproot from the UK, they are comfortable in so many senses in London, and so often their children are in education there anyway, so it is ideal. The UK and London will continue to fare well I believe.”

Another expert from an independent firm noted that the Channel Islands’ contribution to the UK economy is vital for the future, explaining that 5% of all of Britain’s FDI comes in via Jersey.

“Guernsey and Jersey are considerably more costly jurisdictions than the BVI, for example, but the quality of service and level of safety are worth paying up for,” he claimed. “Personally, I never understand the cost-sensitive mentality when someone might have hundreds of millions to consider. Why would they opt for a cheap rather than prime jurisdiction through which to hold, transact and transfer?”

Paying to play

This ‘can pay but won’t pay up’ mindset in Asia is changing gradually thanks to the arrival of the numerous regulatory issuances worldwide.

“I do believe that Asian HNW clients are now increasingly realising that they need to take the best advice and accepting that they need to pay for value-added services,” she said, “at least as long as you do not charge them the minute you pick up the telephone. They will listen to sensible, professional advice from their legal advisers, from wealth planners, from others, and will pay appropriate fees. Moreover, from what I have seen is the differential in costs between Jersey and other IFCs has narrowed notably in recent times.”

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Defining what premium is appropriate for buying into higher level regulatory jurisdictions and procedures–and therefore greater levels of reassurance for the client–is a question that is more difficult to answer.

"It is all about transparency," argued one attendee. "If a client can fully understand the fees charged by the wealth and service providers and by the underlying jurisdictions, if those costs are not hidden somewhere in small print, then decisions on structures and fees are easier to make."

Another expert added that as a generalisation there is higher price sensitivity in the HNW category (wealth of up to roughly USD30 million) while the ultra HNWIs (wealth of USD30 million and often far above) are more easily able to absorb the fees required to obtain the full suite of global wealth management, legal and accounting advice.

And another at the discussion concluded that transparency is essential. "Clients will pay as long as they see value from day one. It is essential to manage expectations, to explain from the outset, for example, that trust companies must comply and that it is indeed costly, but that cost is justified. Better to spend on that than litigators and barristers to solve a problem that might arise from non-compliance or other mistakes."

According to one expert, Chinese clients often find transparency a more difficult concept to fully appreciate as they lack the history of working in these markets and have fewer friends and acquaintances with such experience.

"They often struggle with this concept, for example, they often migrate to US structures–Delaware, Utah and so forth–because of fear of the Common Reporting Standard. But they should not be afraid of the CRS and would not be if they understood it properly," he said. "On the more positive side, Chinese customers are less picky on cost once one builds the relationship and confidence with them. If they understand all the features of the products and have a grasp of the relevant alternatives, then they tend not to have any issues over the pricing, that is their last, but still obviously important, consideration." Another expert added a further perspective on this topic. He said that it is essential to provide HNW and ultra-HNW wealth clients comprehensive advice to help them more clearly distinguish between different structures and jurisdictions.

"Cost becomes less relevant when the clients see the full picture of their wealth, their family wealth, wealth and estate transition and so forth," he said. "People are so much more mobile these days; they have assets, businesses, family members, homes all over the world. They are therefore more receptive to rational, logical conversations about complex structures and solutions. Once they see all this, they are less fixated on cost."

The conversation concluded with a reminder of the general view that the drive for quality and transparency is the critical differentiating factor amongst wealth managers who genuinely aim to succeed in this business, and with longevity. The 'old days' of quick fixes in wealth management, in structures and in jurisdictions have passed. Today, bespoke solutions, transparency, quality and reputational excellence are all of paramount importance. ■

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