Resurgent Jersey plugs into growth markets

FINANCIAL CENTRES

The island of Jersey has shaken off its image as an offshore centre and has now diversified both its banking industry and target markets

There are several key trends shaping the future of the island of Jersey – a UK Crown Dependency situated in the English Channel between Britain and France – and smaller international financial centres in general. These include the increasing power of emerging market countries to generate wealth that is looking for a safe home, a new generation of entrepreneurs creating and inheriting this wealth, a desire among these wealthy families to invest their funds into socially responsible, sustainable causes and an encroaching global, all-encompassing regulatory blanket, from which there is no escape for non-compliant territories.

Most new wealth being channelled through Jersey's hub of financial expertise, which employs 13,000 practitioners, is being created in Asia and to a lesser extent the Middle East, agree the island's practitioners. This tends to be entrepreneurial rather than inherited money, so the conversation about succession planning and putting the wealth to work to create a family legacy is a relatively new one.

The challenge of winning confidence of this new class of entrepreneurs is particularly strong in the growth market of China, where the island's 60-year-old financial services industry concentrates the lion's share of marketing efforts. It is vital for Jersey practitioners to be culturally sensitive to the needs of China's business community and to help introduce them to the island's regulated trusts offering, introduced in 1984, augmented also by the structure of common law foundations, say island financiers.

PARTICIPANTS

Amy Bryant, Deputy CEO, Jersey Finance

Mike Byrne, Chairman, Jersey Funds Association and Partner, PwC Channel Islands

Geoff Cook, Adviser to Jersey wealth firms and former CEO, Jersey Finance

Ian Crosby, President, Jersey Association of Trust Companies and Chairman, Stonehage Fleming Jersey

Jersey wealth firms agree their offering must be available in a face-to-face as well as digital format, the latter being facilitated by infrastructure and regulations to boost the fintech trend, encompassing blockchain technology adoption among other factors.

Together, these trends have spurred much local construction and movement of financial firms into new, custom-built offices. These are distinctly changing the face of St Helier's skyline and seascape, including the reclamation of land and development of a suite of modern buildings.

"We're seeing a lot of investment from banks into new buildings and new infrastructure in Jersey," says Amy Bryant, deputy CEO of Jersey Finance, the island's promotional body for the financial services industry.

"That's a really positive factor of what they're seeing around the competitiveness of Jersey as an IFC [international financial centre] in the future. It's showcasing that we've got a competitive platform, that we're relevant, that we're innovative. And I think that's really what's fuelling the demand."

Players looking to make the most of their business locations in the financial centres of their choice are also maximising efficiencies in turbulent economic times, against an uncertain political backdrop. This means banks are often consolidating locations from a number of premises into a single headquarters, choosing a more cost-effective modern building.

This low-level banking renaissance in Jersey follows a tough financial crisis for the island from 2008 onwards, when many firms downsized. Today's optimism comes from a broader view of the banking picture, looking much wider than purely booking assets, but including private wealth management, capital market transactions, fund domiciliation and structuring plus other growing segments of the financial ecosystem.

"One of the really important things is that when we're thinking about the market segments we serve and particularly Jersey, we are focused on high net worth individuals and there is lots of growth within that sector," adds Ms Bryant. "The geographies we are active in are important and Jersey has long pursued a strategy of geographic diversification and pursuing growth markets," including opportunities in Africa, the Middle East and Asia.

The key, she says, is bringing Jersey's experience of international structuring to clients in these new markets, helping support internationally mobile families with complex business interests, spanning multiple jurisdictions.

The strength of Jersey's heritage and experience in trusts is a vital ingredient of this push for a greater understanding of inter-generational transfer of wealth, according to Ian Crosby, president of the Jersey Association of Trust Companies (JATCo) and chairman of the Jersey operation of multi-family office firm Stonehage Fleming. Regulation plays a strong part in this.

"The regulator ensures that our family assets we look after are kept in a safe manner, that they're looked after by people that have expertise in the sector and they inspect and ensure our businesses in Jersey perform in the way they're required," says Mr Crosby. "So, whilst it comes with a lot of extra bureaucracy and burden, from our clients' perspective, rigorous regulation is actually very important for them."

Jersey's position at the top of the league table of trust provision comes in particular from the respect proffered to the jurisdiction from experts in the city of London, he says, suggesting there is "clear blue water" between the island and other financial centres offering fiduciary structuring.

Most of Jersey's leading fiduciary players are represented by JATCo, which works closely with Jersey's government and financial regulators to make sure standards are upheld and to oversee a marketing push into new, further-flung territories.

The families using these structures are

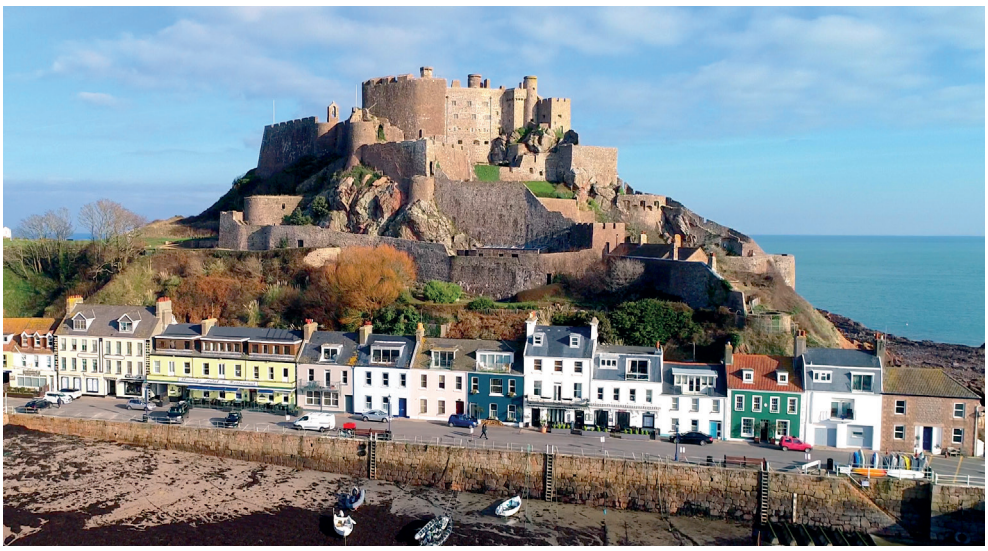
PUBLISHED IN ASSOCIATION WITH

Jersey Finance

JATCo
The Jersey Association of Trust Companies

JFA Jersey Funds Association

Jersey Bankers Association



also keen to diversify their investment portfolios away from low-yielding publicly quoted assets to alternative-based investment funds, in which Jersey has a growing position.

Alternative AuM globally is predicted to double from $10tn today to more than $21tn in 2025. Half of these are accounted for by private equity funds and a fast-growing chunk by infrastructure instruments, according to Mike Byrne, chairman of the Jersey Funds Association and a partner in PwC's Channel Islands practice.

This growth will be fuelled not only by investors' search for yield but also by institutional investors such as pension schemes and sovereign wealth funds increasing their allocations to alternatives. This segment is the key focus of Jersey's funds industry and the single most important area in which the industry hopes to attract more clients and assets to the island.

"Alternatives is what we do," says Mr Byrne. "We've got very little in funds here other than institutional alternative funds and that means that's our focus, it's where our expertise lies. You don't have competition [for staff and clients] between different strategies. It's all in the alternatives."

This means the industry has been able to concentrate on the alternative niche, allowing fund administrators to develop and invest in specialist systems to service private equity, real estate and infrastructure funds. Mr Byrne also expects more money to flow from wealthy families into funds managed according to environmental, social and governance (ESG) criteria. "Where often the first generation made their money without being clear on their ESG goals, as the wealth changes hands between generations, I think people are more so looking at how they can use their wealth as a source for good and a source for change."

Whereas cross-border banking may have struggled since the onset of the financial crisis in 2008, centres such as Jersey have benefited from an increased cross-border flow in foreign direct investments and money channelled into funds, especially those emphasising social impact and philanthropic investment, says Geoff Cook, who spent more than 10 years at the helm of Jersey Finance until February 2019. Jersey now administers £1.3tn ($1.7tn) in fund assets, following what Mr Cook calls "strong growth" over that time.

This period has however been characterised by a rising tide of post-crisis regulation, which centres such as Jersey have had to come to terms with, adopting a new set of international standards. The island must welcome this regime, he says, so that Jersey can be a "good neighbour to the international community and ensure that we meet or exceed the rules that are required for investing capital around the world."

Part of this regulatory challenge, complying with rules set down by international bodies including the G20 Financial Stability Board, the IMF and OECD, involves educating a new cohort of clients from developing countries about the importance of adhering to international standards.

While Jersey appears to have left behind its old image as a centre for harbouring ill-gotten gains – it has received a top rating from Moneyval, the Council of Europe's permanent monitoring body for assessing compliance and combating financial crime – the word also has to be spread to potential clients in the Middle East and Asia, where wealthy investors have traditionally been reluctant to share personal information with the authorities.

"The cultures of those regions tend to be quite private," says Mr Cook. "So it has been a new challenge to deal with for those communities. But we have been able to help with that because we are very experienced in international regulation."

Dealing with the consequences of Brexit is also proving a challenge for Jersey, which is not an EU member, but has always had its interests represented in Europe by the UK. The island's long-term diversification of business away from both the UK and from European markets should help mitigate any shortfalls, however. Jersey Finance has not only been concentrating on boosting business from Asia, the Middle East and Africa, but also entering the US, seen as a major growth market opportunity.

"We've seen very strong results coming back from that investment," says Mr Cook. "So we now generate more than 50 per cent of our new business from markets outside of Europe." PWM

Watch a video of this report online at pwmnet.com/videos