

After OECD: A Bright Future for Jersey Banking

Source: John Boothman, Managing Director, Deutsche Bank Offshore, 17 July 2001

During the past three years, our financial services sector has come under closer scrutiny from outside Jersey than at any previous time in its history. An array of international bodies – OECD, FATF and FSF, not to mention the UK Government and the EU – have probed different aspects of the industry, looking for signs of laxity, instability and even wrongdoing. The outcome of these various health checks has been overwhelmingly positive: Jersey has been judged to be a reputable, secure and well-run offshore centre, and clients worldwide can continue to do business here with complete confidence. It would seem that we are strongly placed to capitalise on our past successes and to take the industry into the next stage of its development.

There is, however, one issue that at the time of writing has yet to be resolved – the OECD initiative on so-called “harmful tax competition”. Around this subject, confusion persists, partly because of the OECD’s failure to distinguish adequately between legal tax planning and tax evasion, and partly through ill-informed media comment. It has been suggested, for example, that if Jersey succumbs to pressure to release more information about the assets of overseas clients who are allegedly evading tax in their home jurisdictions, this will mean the end of our status as an offshore finance centre, since all the clients will move their business elsewhere.

Yet this seems an improbable scenario. Only a small minority of private clients are likely to be affected by such a change. Jersey has already moved well ahead of some other countries in making tax-related information more readily available (after due legal process) to investigating bodies with a genuine reason for their enquiries. Jersey banks do not condone tax fraud or even the less serious offence of tax evasion and clients who abuse the facilities they provide cannot assume that their confidentiality will be protected.

But this is not quite the same as saying that tax-related information should be freely available to inquisitive tax authorities without safeguards of any kind. This would clearly infringe the rights of honest people who understandably would not relish the details of their assets and income being laid bare. There is a special concern for clients living in politically unstable countries where the authorities might abuse such arrangements.

Although the situation is continuing to unfold, Jersey’s position seems both logical and tenable: that it will match the reforms introduced by OECD member countries themselves to increase the transparency of tax-related information. So long as there is a level playing field – and so long as legitimate users, especially those resident in unstable countries, are not unfairly disadvantaged – Jersey is prepared to make matching changes.

The second thrust of the OECD project – its objection to the so-called “ring-fencing” of tax regimes – seems less likely to necessitate fundamental changes, thanks to the recent intervention of the newly-elected US administration which has criticised the OECD’s attempt to dictate to offshore centres how they should write their tax laws. Again, Jersey’s insistence on a level playing field for any reforms makes eminent sense.

Where does this leave Jersey's banks? There is undoubtedly a need for change, but this falls far short of the state of crisis sometimes depicted in the media. Indeed, quite the reverse: many banks are reporting record results with a corresponding growth in business from clients worldwide. Yet year by year the composition of this business is changing, not simply because of pressure from bodies like the OECD but because of fundamental changes in market conditions.

There are three main trends. Firstly, all banks are paying a lot of attention to their risk management capabilities. It is not that Jersey banks have high risk profiles per se – quite the reverse. But there is a growing consciousness of the need for state of the art compliance and quality control, driven partly by increased regulation and partly by reputational factors.

One consequence of this more discriminating approach to new and existing business is a greater emphasis on corporate and institutional clients, while private clients must demonstrate high standards of probity and integrity to gain access to Jersey's banking facilities. There is plenty of excellent business waiting to be booked without compromising on client quality.

Secondly, continued pressure on resources has forced banks to think carefully about their costs and their service capabilities. In particular, Jersey banks are having to prioritise the business they take on to ensure it delivers an acceptable level of profitability; to raise productivity by increased investment in technology and better staff training; and to outsource to lower-cost locations some of the labour-intensive functions previously undertaken here.

Thirdly, the dramatic growth in web-based banking has forced a rethink of both product offerings and distribution channels. Electronic banking is not new, but the Internet does pose some important challenges, in relation to security, pricing and products. Bankers are having to become more creative in responding to and even anticipating these challenges.

There is no doubt that, going forward, Jersey will be seen as an inhospitable centre for individuals seeking simply to conceal assets and income from their domestic tax authorities. This is not a type of activity that is encouraged either by the authorities or the banks and Jersey's willingness, subject to safeguards, to share information about suspected tax offenders clearly signals the Island's determination to preserve its position as a reputable financial centre. Respectable private clients of Jersey banks, who have been properly advised on their tax affairs, have nothing to fear.

Overall, Jersey's banks seem very well placed to capitalise on the many new opportunities opening up in the offshore world. The traditional hallmarks of the industry – flexibility, innovation and effective quality control – will stand us in good stead during the years ahead.