OFFSHORE EVOLUTION: THE STEP PERSPECTIVE

Spence Johnson is a specialist provider of marketing intelligence supporting clients across the European investment business – in asset management, life & pensions and wealth management.

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The Society of Trust and Estate Practitioners (STEP) is a unique professional body providing members with a local, national and international learning and business network focusing on the responsible stewardship of assets today and across generations.

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**Summary**

The STEP Membership Perspective is a global survey of 563 members of the Society of Trust and Estate Practitioners conducted in October 2009.

It offers up two main conclusions:

1. **Policy implications**
   **Confidentiality worries**
   The survey is a ‘shot across the bows’ of policy makers. The results express as a lack of confidence that client confidentiality will be respected in the future. Although the findings in this survey appear to settle once and for all the question of secrecy in offshore banking, the issue which the G20 has failed to address is the degree to which national banking systems will offer privacy to client’s legitimate and wholly compliant banking affairs. This ‘compliant confidentiality’ is a critical feature of a properly functioning cross-border market for High-Net-Worth families.

2. **Business implications**
   **Advice in the private banking business**
   The survey also offers important indicators around the future of advice in the private banking business. Not only is there widespread disagreement with the prediction that Swiss private banking will thrive in the future, there is also a complete rejection of the proposition that professional advisors will prefer bank owned trust business to independently owned trust business. Given that tax and estate planning professionals are an important conduit of business for offshore trust offices, the implications for the industry are an increasing fragmentation, rather than consolidation, of the trust administration landscape.
Background and Project Description

Earlier in 2009 STEP identified a change in mood among cross-border wealth structuring professionals. They were worried about the alarming change of tone against International Financial Centres and the rapidly changing economic environment. What might happen next? What was the worst that could happen? What should the response be to each of these various possible outcomes?

STEP decided to collaborate with a professional research firm, Spence Johnson, to find out what was happening. It needed to advance its knowledge of the current practice of trusts and estates and understand what was driving the industry so it could better serve STEP members.

32 leading Trust and Estate Practitioners were interviewed between March and June 2009 about their predictions for the industry over the next 12-18 months. The result was the Report ‘Offshore Evolution - Transparency and Solutions in Cross Border Wealth Structuring’. That 50 page report detailed 20 predictions for the future of the Trust and Estate Practitioner industry.*

Subsequently in October 2009, STEP presented its wider global membership with a summary of these 20 predictions. The 563 members from across the world who volunteered to participate in this poll were asked to express their degree of agreement with each prediction. The regional breakdown of the respondents is shown in detail in Chart 2 (page 9).

Respondents were given five options for each prediction:

- Strongly Agree
- Agree
- Neither Agree nor Disagree
- Disagree
- Strongly disagree.

This document describes the findings of “Offshore Evolution - The STEP Perspective”

*To obtain copies of this report contact Spence Johnson on +44(0)20 7112 2131 or email: nils@spencejohnson.com
Only 45 per cent of respondents expressed agreement with the prediction that ‘Client confidentiality will be respected in the future’. The lack of confidence expressed in this survey on the issue of client confidentiality is a shot across the bow of policy makers. Only 45 per cent of respondents expressed agreement with the prediction that ‘Client confidentiality will be respected in the future’, with least agreement expressed among North American, Asian and European practitioners. Respondents are in effect saying to policy makers that they lack confidence that current national banking systems will offer sufficient privacy on their client’s legitimate and wholly compliant banking affairs. Since ‘compliant confidentiality’ of this kind is a critical feature of a properly functioning cross-border market for High-Net-Worth families, this finding is worrying.

- ‘Secrecy in offshore banking will die.’ Policy makers at the G20 can take some comfort from the survey findings which show 69 per cent of respondents agree with the prediction that ‘Secrecy in offshore banking will die’. Interestingly, Asian respondents were far less likely to agree with this prediction than their European counterparts.

- ‘The political pressure will stay on the International Finance Centres.’ In terms of governmental and regulatory policy, 90 per cent of STEP respondents across the globe expressed some measure of agreement that the political pressure we have seen in 2009 on the International Financial Centres will continue to remain high. This is particularly the case for Caribbean respondents who ranked this prediction the highest of all.

- ‘Tax competition will increase globally.’ There is a flip side to this continued political intervention however - an increase in tax competition between jurisdictions. 75 per cent of STEP respondents agreed that tax competition would increase globally.
Advice in the private banking business

• ‘Professional advisors will prefer bank owned trust businesses to independent trust businesses.’ Only 18 per cent agree with this prediction, and 58 per cent disagree. This amounts to a complete rejection of the assertion that professional advisors will prefer bank owned trust business to independently owned trust business. Respondents are saying that the current preference for independent versus bank owned advice and administration will continue. Given that tax and estate planning professionals are an important conduit of business for offshore trust offices, the implications for the industry are an increasing fragmentation, rather than consolidation, of the trust administration landscape.

• ‘Banks will continue to maintain trust operations in offshore trust offices.’ 64 per cent agree with this prediction, although few agree with it strongly. The lack of strength to this prediction is seemingly linked to the rejection, above, of the prediction that professional advisors will prefer bank owned versus trust owned trust businesses.

• ‘Swiss private banking will thrive in the future.’ Only 33 per cent of respondents expressed agreement that this would be the case. Another 31 per cent strongly disagreed, making this one of the most polarised issues in the poll.

• ‘Professional advisors, not bankers, will take the lead in providing advice to clients in the future.’ The theme of fragmentation, rather than consolidation, of the trust administration landscape also appears in the response to this prediction. 75 per cent agree with the prediction that professional advisors, not bankers, will take the lead in providing advice to clients in the future.

• ‘Clients will prefer independent legal advice over legal advice offered by banks.’ The majority of respondents to this survey are qualified legal professionals, so it is perhaps not surprising that 86 per cent of respondents agreed with this prediction.

This amounts to a complete rejection of the assertion that professional advisors will prefer bank owned trust business to independently owned trust business.
There was very broad agreement on the 20 predictions.

As can be seen in Chart 1, over three quarters of the respondents agreed with nine of the predictions:

- ‘Tax advice to high-net-worth families will be much more global rather than local’
- ‘Clients will prefer independent legal advice over legal advice offered by bank’
- ‘Stronger risk management processes will be adopted across the board’
- ‘The political pressure will stay on the International Finance Centres’
- ‘Clients will focus more on the reputation of trustees and the countries where they bank’
- ‘Professional advisors, not bankers, will take the lead in providing advice to clients in the future’
- ‘Practitioners will increasingly offer holistic solutions over stand-alone trust products’
- ‘Tax competition will increase globally’
- ‘IFCs will remain committed to the private client wealth structuring business’

There was most strong agreement expressed on five predictions, each of which was ‘strongly agreed’ with by over one third of the respondents.

- ‘Tax advice to high-net-worth families will be much more global rather than local’
- ‘Clients will prefer independent legal advice over legal advice offered by banks’
- ‘Stronger risk management processes will be adopted across the board’
- ‘The political pressure will stay on the International Finance Centres’
- ‘Clients will focus more on the reputation of trustees and the countries where they bank’

There was most strong disagreement with three predictions.
Three in ten expressed some degree of disagreement with:

- ‘Client confidentiality will be respected in the future’
- ‘Swiss private banking will thrive’
- ‘Professional advisors will prefer bank owned trust businesses to independent trust businesses’

Less than 10 per cent felt able to express strong agreement with any of these three predictions.
Findings in Detail

Regional Findings

There was some difference in view between the regions who participated in the poll. This can be seen in Chart 2, which shows the responses ranked by country according to strength of agreement.

- The Caribbean agrees more strongly than other regions with the prediction that ‘The political pressure will stay on the International Finance Centres.’ Unlike other regions the Caribbean does not offer high levels of agreement on the prediction that: ‘Clients will prefer independent legal advice over legal advice offered by banks.’

- The region that includes all of Continental Europe, Middle East, Africa, Indian Ocean (EUMAFINOR) places a higher degree of agreement than other regions on the prediction that: ‘Stronger risk management processes will be adopted across the board.’

- Respondents from Canada and the US are less likely than other regions to disagree with the prediction that: ‘Banks will continue to maintain trust operations in offshore trust offices.’ They are, however, more likely to disagree with the prediction that, ‘Asset management will be increasingly separated from trusts in the future.’

- In this they are similar to respondents from the Channel Islands where ‘Asset management will be increasingly separated from trusts in the future’ is a prediction that is not disagreed with as much as in other regions. In this region there is a more strongly held agreement with the prediction that ‘Tax advice to high-net-worth families will be much more global rather than local’, than in other regions.

- English and Welsh respondents reveal that they are slightly less likely than other regions to agree that: ‘The political pressure will stay on the International Finance Centres.’

- Respondents from Scotland, Ireland, Isle of Man (Celtic) tend to agree less than other regions with the prediction that: ‘Professional advisors, not bankers, will take the lead in providing advice to clients in the future.’

The Caribbean agrees more strongly than other regions with the prediction that ‘The political pressure will stay on the International Finance Centres’
Chart 1: Ranking of predictions according to strength of agreement

- “Tax advice to high net worth families will be much more global rather than local.”
- “Clients will prefer independent legal advice over legal advice offered by banks”
- “Stronger risk management processes will be adopted across the board”
- “The political pressure will stay on the International Finance Centres”
- “Clients will focus more on the reputation of trustees and the countries where they bank”
- “Professional advisers, not bankers, will take the lead in providing advice to clients in the future”
- “Practitioners will increasingly offer holistic solutions over stand-alone trust products”
- “Tax competition will increase globally”
- “Secrecy in offshore banking will die”
- “IFCs will remain committed to the private client wealth structuring business”
- “More robust referral practices for sourcing custodial and investment services will be adopted”
- “The multi-family office model will flourish”
- “Asset management will be increasingly separated from trusts in the future”
- “Offering trustee services purely as an asset gathering device will decline”
- “Clients, including settlers and beneficiaries, will try to get more involved in their offshore structures”
- “Client confidentiality will be respected in the future”
- “Trusts will be priced to be profitable on a standalone basis”
- “Banks will continue to maintain trust operations in offshore trust offices”
- “Swiss private banking will thrive”
- “Professional advisers will prefer bank owned trust businesses to independent trust businesses”
Chart 2: Regional breakdown of respondents

- 9.45% Asia and Australia
- 9.45% Canada and US
- 8.91% Caribbean
- 1.6% Central and South America
- 22.99% Channel Islands
- 20.14% Continental Europe, Middle East, Africa, Indian Ocean (EUMAFINOR)
- 16.4% England and Wales
- 5.88% Scotland, Ireland, Isle of Man (Celtic)
- 5.17% Other
Recognise risk

Reduce your business risks

Risk and compliance technology plays a key role in recognising the signs of financial irregularities and ensuring due diligence within your business processes to meet the requirements of international regulatory authorities.

Increase Transparency

Touchstone (C.I.) Limited develops and implements business software solutions exclusively for fiduciary organisations. The recent launch of our Scrutiny & Transaction Monitoring and Workflow Solutions will help automate business processes, reduce risk, and allow for greater transparency and understanding of individuals, organisations, as well as scrutiny of their underlying transactions.

Contact us today for a demonstration.

Why Touchstone?

"Of the 2000 plus add on solutions developed by Microsoft Dynamics NAV partners worldwide, Touchstone’s use of the product is one of the most advanced implementations of intellectual property I have seen. At a time when offshore jurisdictions are under increasing pressure from regulatory authorities to adhere to the highest levels of risk monitoring, this technology will significantly enhance wealth managers’ abilities around the world to monitor and report financial irregularities."

Steve Farr, Product Solutions Marketing Manager, Microsoft UK