

Expanding range of expertise wins clients

Financial services

The sector continues to focus on attracting business from abroad, writes **Brian Groom**

Having come through the global crisis in better shape than many financial centres, the Isle of Man has its sights on the next challenge: winning its share of the increasing wealth and corporate business in emerging markets, particularly in Asia and the Middle East.

Financial services make up 38 per cent of gross domestic product and employ a quarter of the working population. The sector's share of GDP is down from 45 per cent a few years ago, but that is because other industries have expanded. There are still healthy growth prospects, as long as it continues to innovate.

"It's not just economically important to the Isle of Man, it creates great job opportunities for people who perhaps would have had to leave the island 30 or 40 years ago," says Anne Craine, treasury minister. "There is a spin-off, as skills that the sector develops can go across into other parts of the economy as well."

The main pillars are banking, insurance, the fiduciary sector (trust and corporate service providers) and investment fund management and administration, plus a growing niche in pensions administration.

The island has been far from immune from the financial crisis, but it is turning the corner.

Bank deposits, down from £57bn in 2008, have stabilised at £50bn. The life assurance sector's premium income leapt by nearly half last year to £3.5bn, not far below the 2006 peak of £3.6bn. At £38bn, the investment sector's funds under management are below

their 2008 peak of \$57bn, but on an upward trend.

Now the government, along with the industry, is devising a three- to five-year marketing strategy, made easier by the fact finance is now grouped with other industries in a single Department of Economic Development.

"In the past, we have gone in and out of markets and perhaps not had a clear long-term plan for development of them," says Steven Bevers, head of financial services at the department.

One strand is a country-by-country analysis, recognising that markets such as China, India and the Middle East have differing needs. Another is an emphasis on "solutions rather than products" – an effort to harness the island's diversity by offering a wider range of services.

For individuals, this can include advising on succession planning and managing aircraft and yachts; for companies, it can be anything from setting up an international holding company to collecting royalties or running pension schemes.

The island's banking sector has come through the collapse of Kaupthing Singer & Friedlander (Isle of Man), the local branch of the failed Icelandic bank, in 2008, without any wider loss of confidence. It has been painful for depositors, but the Manx government acted quickly by paying out up to £50,000 per customer, later leved from banks under the depositors' compensation scheme.

Bank earnings have been held back by low interest rates. But, says John Coyle, chief executive of Standard Bank on the island and president of the Isle of Man Bankers' Association: "My sense is that we are well positioned for the expected upswing in interest rates over time. I think we will start to see earnings recovering, but that's probably for 2012."

Some banks are growing. Barclays Wealth, which runs a global operations hub from the territory,



Anne Craine: believes the skills the financial sector develops spill into other parts of the economy

saw deposits rise 10 per cent last year. "Revenues and profits are growing," says Simon Scott, managing director on the island, who attributes the rise to a flight to strong brands coupled with offering the right investment products. Barclays, which employs 800 on the island – a quadrupling over 15 years – has created nearly 50 jobs in the past year.

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The life assurance sector, which includes names such as Zurich, Axa and Friends Provident, has been a big strength in recent years and is ahead of the game in terms of expanding into emerging markets. Companies already have a big market selling products to expatriate workers in places such as Dubai, Abu Dhabi, Singapore and Hong Kong.

The island also has a stable captive insurance sector, with 65bn of funds under management and

£1.2bn premium income, which insures risks for parents such as National Grid, Centrica and Cathay Pacific.

It has been squeezed by an eight-year soft market for commercial insurance, but, says Gwynor Brough, managing director of Aon (Isle of Man) and chairperson of the Isle of Man Captive Association, the number of new captives is up by 4 per cent last year. Captives are branching out from property-related business into areas such as trade credit, employee benefits and, potentially, pensions.

Banking employs about 3,000 and insurance 2,300, while the fiduciary sector appears bigger than previously thought: a survey by the Association of Corporate Service Providers puts employment at about 1,900. The island's 200 licensed trust and corporate service providers handle business from family trusts to vehicles for owning yachts and aircraft.

There was a lean period, but Phillip Dearnan, managing director of PKF and chairman of the Association of Corporate Service Providers, says: "I don't think there was a reduction in activity at all. I think there was a reduction in the pace of increase."

The fund management and administration industry, which employs up to 1,000, expanded rapidly before the crisis and is still seen as a growth prospect. The industry and the government recently completed a strategic review.

"We will continue to attract early-stage and mid-sized fund managers and start-ups and will continue to attract hedge fund administrator groups into the island," says Brian Donegan of the Department of Economic Development. The strategy involves promotions in the City of London, stressing the island's relatively low costs and skills base.

Another bright prospect is pensions, boosted not only by the UK's cap on tax-free contributions but more widely by the island's expertise in international pensions for individuals and multinational companies. "It is a sector that has the ability to grow significantly," says Stuart Clifford, of Baker Tilly and chairman of the newly formed Association of Pension Scheme Providers.

The island will be promoting its "three Cs": capability, capacity and cost. It has space for growth, lower costs than some competitors and ever-expanding expertise.