Gibraltar as an Overall International Finance Centre

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Z/Yen Group conducts considerable research into the competitiveness of financial centres. The output of this research is the Global Financial Centres Index (GFCI). The GFCI rates and ranks 77 financial centres in various categories, drawing on instrumental factors and financial centre assessments from an online questionnaire survey.

The GFCI Method

Instrumental factors: Many factors combine to make a financial centre competitive. These factors can be grouped into five over-arching 'areas of competitiveness': People, Business Environment, Infrastructure, Market Access and General Competitiveness. Evidence of a centre's performance in these areas is drawn from a range of external measures. For example, evidence about a fair and just business environment is drawn from a corruption perception index and an opacity index. 80 factors have been used in GFCI 11.

Financial centre assessments: GFCI uses responses to an ongoing online questionnaire completed by international financial services professionals. Respondents are asked to rate those centres with which they are familiar and to answer a number of questions relating to their perceptions of competitiveness. Overall, 26,853 financial centre assessments from 1,778 financial services professionals were used to compute GFCI 11, with older assessments discounted according to age.

What distinguishes the GFCI methodology is that, rather than being based on the research team weighting instrumental factors or just taking respondents' raw assessments, GFCI uses a statistical approach where the financial centre assessments have been used to produce the instrumental factor weightings.

The Global Financial Centres Index 2011

The top ten financial centres in GFCI 11 are:

Centre	GFCI 11 Rank	GFCI 11 Rating	GFCI 10 Rank	GFCI 10 Rating	CHANGES Rank	CHANGES Rating
London	1	781	1	774	–	▲ 7
New York	2	772	2	773	–	▼ -1
Hong Kong	3	754	3	770	–	▼ -16
Singapore	4	729	4	735	–	▼ -6
Tokyo	5	693	6	695	▲ 1	▼ -2
Zurich	6	689	8	686	▲ 2	▲ 3
Chicago	7	688	7	692	–	▼ -4
Shanghai	8	687	5	724	▼ -3	▼ -37
Seoul	9	686	11	679	▲ 2	▲ 7
Toronto	10	685	10	680	–	▲ 5

Global Financial Centres' Profiles and Ratings (GFCI, 2011)

With increased information over time, the GFCI profiles centres in terms of their links with other centres, as well as the extent and quality of the services that they offer. The 77 global financial centres are each assigned a profile on the basis of a set of rules for three measures or 'axes':

'Connectivity'

this represents how well known a centre is around the world and how connected it is to other financial centres;

'Diversity'

the breadth of industry sectors that flourish in a financial centre;

'Speciality'

the quality and depth of certain industry sectors in a centre.

	Broad & deep	Relatively broad	Relatively deep	Emerging
Global	Global leaders	Global diversified	Global specialists	Global contenders
	Chicago	Amstersam	Beijing	Luxembourg
	Frankfurt	Dublin		Moscow
	Hong Kong	Seoul		
	London	Shanghai		
	New York	Singapore		
	Paris			
	Tokyo			
	Toronto			
	Zurich			
Transnational	Established Transnational	Transnational Diversified	Transnational Specialists	Transnational Contenders
	Copenhagen	Boston	Athens	Bahain
	Geneva	Istanbul	Dubai	British Virgin Islands
	Madrid	Kuala Lumpur	Edinburgh	Cayman Islands
	Montreal	Washington DC	Glasgow	Gibraltar
	Munich		Mumbai	Guernsey
	Sydney		Qatar	Isle of Man
	Vancouver		Shenzhen	Jersey
Local	Established Players	Local Diversified	Local Specialists	Evolving Centres
	Brussels	Bangkok	Abu Dhabi	Buenos Aires
	Calgary	Warsaw	Bahamas	Jakarta
	Helsinki		Budapest	Johannesburg
	Lisbon		Hamilton	Manila
	Melbourne		Malta	Mauritius
	Mexico City		Monaco	Osaka
	Milan		Oslo	Taipei
	Prague		Reykjavik	Wellington
	Rome		Rio de Janeiro	
	San Francisco		Riyadh	
	Sao Paulo		St Petersburg	
	Stockholm		Tallinn	
	Vienna			

Global Financial Centres' Profiles and Ratings (GFCI, 2011)

The nine 'Global Leaders' (in the top left of the table above) have both broad and deep financial services activities and are connected with many other financial centres. Amsterdam, Dublin, Seoul, Shanghai and Singapore are 'Global Diversified' centres as they are equally well connected but do not exhibit sufficient depth in different activities to be considered 'Global Leaders'. Similarly, Beijing is a 'Global Specialist', it does not have a sufficiently broad range of financial services activities to be a 'Global Leader'.

Gibraltar

In the table above, Gibraltar, along with other offshore centres, is profiled as a 'Transnational Contender' – well known internationally but with insufficient depth and breadth of financial services to be a world leader.

Offshore? Onshore?

What is 'offshore'? Many of the world's smaller states or territories have sought to become successful financial centres by using their constitutional independence to develop legislation, regulation and tax vehicles that attract non-resident business. Many have used their comparative advantage to create world-class expertise in international financial services.

There are also a number of states that are relatively small, independent and although not geographically 'offshore', exhibit several of the key competitive advantages of island states. For example, Geneva, Zurich, Luxembourg and even places such as Hong Kong are viewed as 'offshore' centres by many who deal with them. Whatever the definition, the most enduring offshore centres offer ways of transacting essential but complex wholesale finance transactions.

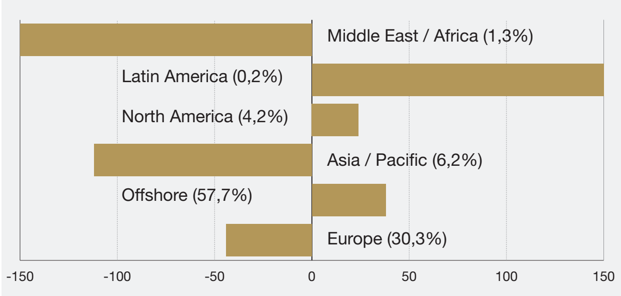
Arguably, there are about 15 financial centres that fall into GFCI's 'offshore' category, seven of which are within the 'Transnational Contenders' profile. These centres often specialise in wealth management, asset management, fund management and specialist insurance. The top ten of these in GFCI 11 are:

	GFCI 11 rank	GFCI 11 rating	GFCI 10 rank	GFCI 10 rating	Change in rank	Change in rating
Jersey	21	652	21	650	–	▲ 2
Guernsey	31	639	31	635	–	▲ 4
Cayman Islands	40	628	46	610	▲ 7	▲ 18
Hamliton	43	625	41	616	▼ -2	▲ 9
Isle of Man	44	624	40	617	▼ -4	▲ 7
British Virgin Islands	45	623	45	611	–	▲ 12
Monaco	60	593	59	583	▼ -1	▲ 10
Gibraltar	63	587	58	584	▼ -5	▲ 3
Mauritius	66	578	68	571	▲ 2	▲ 7
Malta	72	568	70	568	▼ -2	–
Bahamas	75	550	72	545	▼ -3	▲ 5

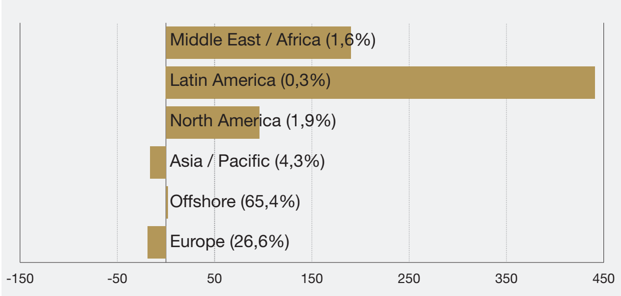
Offshore centres have suffered significant reputational damage in the past four years. In GFCI 10 several of these centres were beginning to recover and this trend has continued in GFCI 11. Gibraltar, along with Jersey, Guernsey, the Cayman Islands, the British Virgin Islands, the Isle of Man and Mauritius, has made gains in the ratings. This recovery in relative popularity has increased as more financial professionals come to appreciate the utility of the offshore centres.

Global popularity has risen but how do offshore centres see themselves? Top offshore centres achieve higher than average assessments from other offshore centres, but inter-offshore trade is hardly a way to grow business:

External Assessments of Jersey



External Assessments of Gibraltar



Top offshore centres have tried to attract long-term finance and regulatory simplicity, rather than competing solely on tax mitigation and secrecy. Clever offshore centres that enable longer-term financial planning with 'Long Finance' structures (structures that can endure for a generation or two) benefit from avoiding the capriciousness of larger nations' domestic agendas. A large nation can change tax rules at short notice. Well-regarded offshore centres have achieved a reputation for stability in their tax rules and remember that financial professionals hate surprises.

Z/Yen's offshore work indicates that the leading centres have identified several sub-strategies to support 'long finance' strategies:

- stronger promotion and showing that larger nations do have shortcomings with long-term planning and capricious regulatory change;
- tackling long-term skills shortages with better training of indigenous populations rather than relying on imported skills; improving power, transportation and communications infrastructure;
- subsidizing and hosting high profile conferences and events, simplifying visa and work permit processes;
- increasing service levels both for those entering the centre and long-term residents;

Offshore centres need to extend both breadth and depth, which in turn will move them towards a GFCI profile of 'Established Transnational'. Paradoxically, the best way to be an offshore centre may be to behave like a better onshore centre, promoting long-term finance and regulatory simplicity.

Attacks on the offshore centres will not disappear, particularly with the protests sweeping the world complaining about the perceived excesses of global finance. One of the offshore centres' persistent problems is the inability to promote the positive messages of their work to the general population. Knowledgeable and sophisticated clients are happy to continue using these centres but few ordinary people understand their value.

It is argued that financial flows through offshore centres increase the rate of GDP growth and employment in larger economies. However, the offshore world is linked to the state of the global markets, so transactional work will slow down as international markets slow. There are other challenges on the horizon too:

- international regulators are sometimes accused in some quarters of bullying the offshore centres and international regulators are still focused on the activities of offshore centres – can these centres be over-regulated?
- the World Bank is showing increased scrutiny of the use of corporate vehicles to conceal misuse of funds – will this impact on offshore business?
- the EU crisis – will investors start a flight to safety and use offshore funds more and if so which centres will they choose?

Gibraltar

Gibraltar is a British Overseas Territory and a self-governing and self-financing parliamentary democracy within the European Union. Gibraltar is a separate legal jurisdiction and its Parliament is solely responsible for the enactment of all domestic laws and for the transposition of European Union directives.

As a British Overseas Territory, Gibraltar matches UK standards in financial services regulation. Most of the banks established in Gibraltar are branches of major UK, European or US banks. Much of the banking activity in Gibraltar is directed to asset management for high-net-worth individuals, partially because Gibraltar has actively tried to attract such people with special tax regimes. Gibraltar's financial services sector contributes approximately 30% to the GDP of Gibraltar.

Gibraltar's financial services are showing growth in several different sectors - insurance, reinsurance, fund management and investment services. There is no stock exchange in Gibraltar and it has not been as widely used for corporate financial holding purposes as some other jurisdictions, so that corporate financial services are not as well developed as private services. The Gibraltar Financial Services Commission regulates investment business in Gibraltar and is organized by industry groups, with separate divisions for insurance, fiduciary services, banking and investment services.

What must Gibraltar do to become more competitive?

GFCI respondents are financial services professionals from all over the globe. They say that the most important areas of competitiveness are now (in order) personal and corporate tax levels, the stability and predictability of regulation, the quality and availability of staff and general economic conditions.

The GFCI questionnaire asks respondents to name the single regulatory change that would improve a financial centre's competitiveness. Although a large number of possible changes were named, the two mentioned most often were a reduction in personal taxation and increased predictability of the regulatory environment. The GFCI questionnaire also asks respondents how financial centres can best signal their long-term commitment to financial services. Again, stability of regulation and taxation are seen as the best signals although lack of corruption is also seen as crucial.

It is clear that Gibraltar performs well in many of the areas that financial professionals think are important. Tax rates are competitive, regulation is stable and of a good standard and infrastructure is as good as, or better than, most other centres in its category. What must Gibraltar do to boost its position in the GFCI?

In the GFCI model, one way to look at reputation is to examine the difference between the average assessment given to a centre and its overall rating (the average assessment adjusted to reflect the instrumental factors). If a centre has a higher average assessment than the GFCI 11 rating this indicates that respondents' perceptions of a centre are more favourable than the quantitative measures alone would suggest. This may be due to strong marketing or general awareness.

Similarly, a centre with a lower average assessment than the GFCI 11 rating indicates that respondents' perceptions of that centre are less favourable than the quantitative measures alone would suggest – a reputational disadvantage. The centres with the highest reputational advantage include Singapore (+34), Shanghai (+34) and Toronto (+27). The centres with the largest reputational disadvantages are Athens (-115) and Tallinn (-110).

Gibraltar has a reputational disadvantage of -54. Therefore, reputation is clearly a big issue for Gibraltar as it suffers from a stronger reputational disadvantage than other centres in its class. To be precise, Gibraltar's low reputational score does not necessarily mean that the quality of its services and infrastructure are any less than a center with similar ratings, but that it is perceived as such by respondents.

Policy makers in financial centres have to decide whether to prioritise the fundamental development of a centre's competitiveness or to bolster the reputation of the centre. This prioritization will change over time. Our research suggests that Gibraltar offers a stable regulatory environment, respectable infrastructure and a skilled professional base, but that currently Gibraltar needs to address the issue of reputation as a priority in order to be seen as a more competitive financial centre.