

How Offshore Centres Fare in the Global Financial Centres Index 10

Z/Yen's six-monthly Global Financial Centres Index (GFCI) rates and ranks 75 financial centres drawing on instrumental factors and responses to an online questionnaire survey

■ by Mark Yeandle and Professor Michael Mainelli

The GFC Index

Z/Yen first published the six-monthly Global Financial Centres Index (GFCI) in March 2007 with the support of the City of London Corporation. The GFCI rates and ranks 75 financial centres drawing on instrumental factors and responses to an online questionnaire. 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 over 60,000 financial centre assessments from over 4,500 respondents have been used to produce the instrumental factor weightings.

Z/Yen published GFCI 10 in September 2011, with sponsorship from the Qatar Financial Centre. 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. Instrumental factors are grouped into five 'areas of competitiveness' – People, Business Environment, Infrastructure, Market Access and General Competitiveness.

A centre's performance in these areas is assessed from external measures, for example, evidence about a fair and just business environment is drawn from a corruption perception index and an opacity index. Factors change over time due to predictive

capacity and availability – 76 instrumental factors were used in GFCI 10. Assessments are provided from 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.

Global ratings

The GFCI 10 Top Ten is shown in Table 1 (overleaf). The 75 global financial centres are each assigned a profile on the basis of a set of rules for three measures or 'axes' (Table 2, overleaf):

- Connectivity – this represents how well known a centre is around the world and how connected is it 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.

The nine "Global Leaders" (in the top left of the table) have both broad and deep financial services activities and are connected with many other financial centres. Paris, Amsterdam and Dublin 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, Geneva, Dubai, Shanghai, Luxembourg and Beijing are



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Table 1 – GFCI 10 Top Ten

	GFCI10 RANK	GFCI 10 RATING	GFCI 9 RANK	GFCI 9 RATING	CHANGE IN RANK	CHANGE IN RATING
London	1	774	1	775		↓ 1
New York	2	773	2	769		↑ 4
Hong Kong	3	770	3	759		↑ 11
Singapore	4	735	4	722		↑ 13
Shanghai	5	724	5	694		↑ 30
Tokyo	6	695	5	694	↓ 1	↑ 1
Chicago	7	692	7	673		↑ 19
Zurich	8	686	8	665		↑ 21
San Francisco	9	681	13	655	↓ 4	↑ 26
Toronto	10	680	10	658		↑ 22

Table 2 – Global Financial Centres Profiles and Ratings

	BROAD & DEEP	RELATIVELY BROAD	RELATIVELY DEEP	EMERGING
GLOBAL	GLOBAL LEADERS Chicago Frankfurt Hong Kong London New York Singapore Tokyo Toronto Zurich	GLOBAL DIVERSIFIED Amsterdam Dublin Paris	GLOBAL SPECIALISTS Beijing Dubai Geneva Jersey Luxembourg	GLOBAL CONTENDERS Moscow
TRANSNATIONAL	ESTABLISHED TRANSNATIONAL Boston Edinburgh Kuala Lumpur Seoul Shanghai Sydney Vancouver Washington DC	TRANSNATIONAL DIVERSIFIED Brussels Copenhagen Glasgow Istanbul Madrid Montreal Munich	TRANSNATIONAL SPECIALISTS British Virgin Islands Cayman Islands Gibraltar Guernsey Bermuda Isle of Man Qatar Shenzhen	TRANSNATIONAL CONTENDERS Athens Bahrain Bangkok Mumbai
LOCAL	ESTABLISHED PLAYERS Johannesburg Melbourne Mexico City San Francisco Sao Paulo	LOCAL DIVERSIFIED Helsinki Lisbon Milan Osaka Oslo Stockholm Vienna Warsaw	LOCAL SPECIALISTS Buenos Aires Malta Manila Mauritius Monaco Rio de Janeiro Rome Taipei Wellington	EVOLVING CENTRES Bahamas Budapest Jakarta Prague Reykjavik Riyadh St Petersburg Tallinn

“Global Specialists” but do not have sufficiently broad ranges of financial services activities to be “Global Leaders”.

Hong Kong is now a statistically insignificant three points behind New York and four points behind London. These three centres control a large proportion of financial transactions (approximately 70% of equity trading) and are likely to remain powerful

financial centres for the foreseeable future (see Diagram 1 opposite).

We continue to believe that the relationships between London, New York and Hong Kong are mutually supportive. Whilst many industry professionals still see a great deal of competition, policymakers appear to recognise that working together on certain elements of regulatory

reform is likely to enhance the competitiveness of these centres.

Offshore?

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

Diagram 1 – Top Four GFCI Centres’ Ratings Over Time

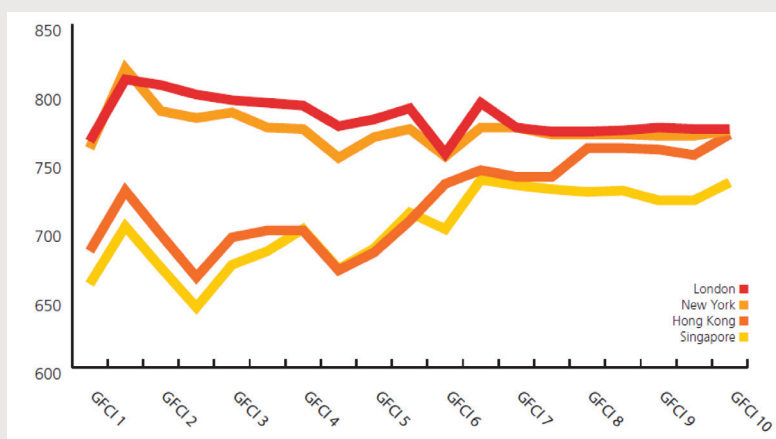
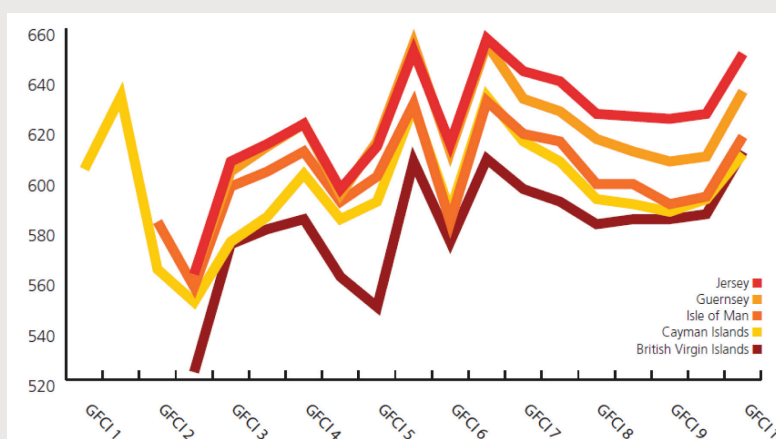


Diagram 2 – Top Five Offshore Centres Over Time



tax vehicles that attract non-resident business. Many have used their comparative advantage to create world-class expertise in international financial

services. These states or territories include the geographically “offshore” centres such as the Channel Islands, the Isle of Man, the British Virgin

Islands, Gibraltar, the Cayman Islands, Bermuda and the Bahamas.

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 the island states. 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, eg reinsurance in Bermuda.

Arguably, there are over 15 offshore centres in GFCI, heavily concentrated in the “Transnational Specialists” profile (in Table 2). These centres often specialise in wealth management, asset management, fund management and specialist insurance.

Perceptions of offshore financial centres during the financial crises were volatile and 2008 produced a slew of negative stories about offshore finance. The impact of these stories is shown in Diagram 2.

In GFCI 10 there is a definite upsurge in the perception of the leading financial offshore centres showing that offshore centres are recovering from the reputational damage (Table 3). This recovery in relative popularity has increased as more financial professionals come to appreciate the utility of the offshore centres. The change in ratings in

Table 3 – Top Ten Offshore Centres in GFCI 10

	GFCI10 RANK	GFCI 10 RATING	GFCI 9 RANK	GFCI 9 RATING	CHANGE IN RANK	CHANGE IN RATING
Jersey	21	650	23	624	↑ 2	↑ 26
Guernsey	31	635	27	607	↓ 4	↑ 28
Isle of Man	40	617	35	590	↓ 5	↑ 27
Bermuda	41	616	36	589	↓ 5	↑ 27
British Virgin Islands	45	611	40	584	↓ 5	↑ 27
Cayman Islands	46	610	38	587	↓ 8	↑ 23
Gibraltar	58	584	56	546	↓ 2	↑ 38
Mauritius	68	571	62	533	↓ 6	↑ 38
Malta	70	568	59	538	↓ 11	↑ 30
Bahamas	72	545	67	517	↓ 5	↑ 28

Diagram 3 – External Assessments of Jersey and Guernsey

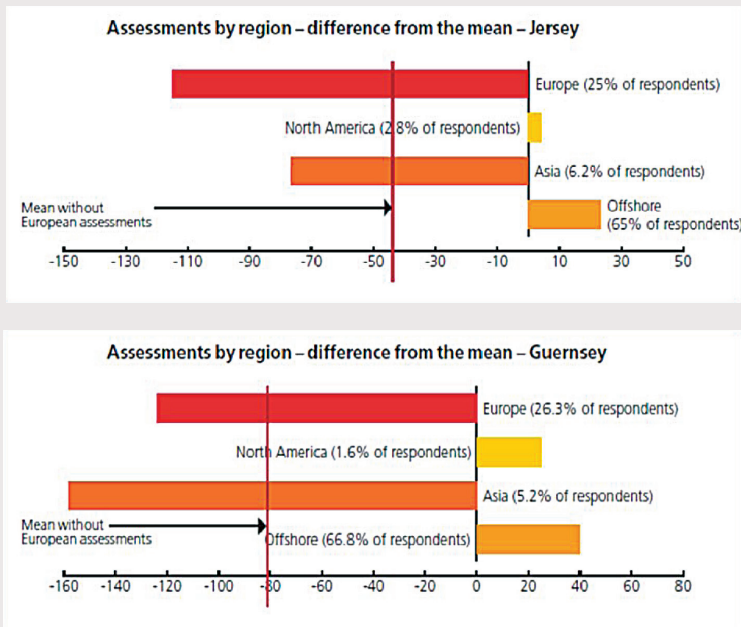


Table 3 demonstrates this increase in popularity:

Global popularity has risen but how do offshore centres see themselves? Top offshore centres achieve higher than average assessments from other offshore centres (Diagram 3, above), but inter-offshore trade is hardly a way to grow business.

“Long finance” strategies

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;
- Subsidising 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.

Conclusion

All parts of the financial services industry must support the promotion of the offshore centres. As Peter

Bubenger, managing partner of the Appleby Group, comments: “Lawyers can and must play a significant role in sharing information on the nature of the role played by offshore financial centres in the global economy.”

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 the Cayman Islands or the Channel Islands, 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:

- EU regulators are accused in some quarters of bullying the Channel Islands and international regulators are still focused on the activities of offshore centres – can these centres be over-regulated?
- What will be the impact of transaction taxes (if they are introduced) on the offshore centres?
- 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 eurozone crisis – will investors start a flight to safety and use offshore funds more and if so which centres will they choose?

GFCI 11 is due for publication in March 2012. Please make your views known by participating in the GFCI and rating the financial centres you are familiar with at:

www.globalfinancialcentres.net.

More information is available at www.zyen.com or by contacting mark_yeandle@zyen.com.