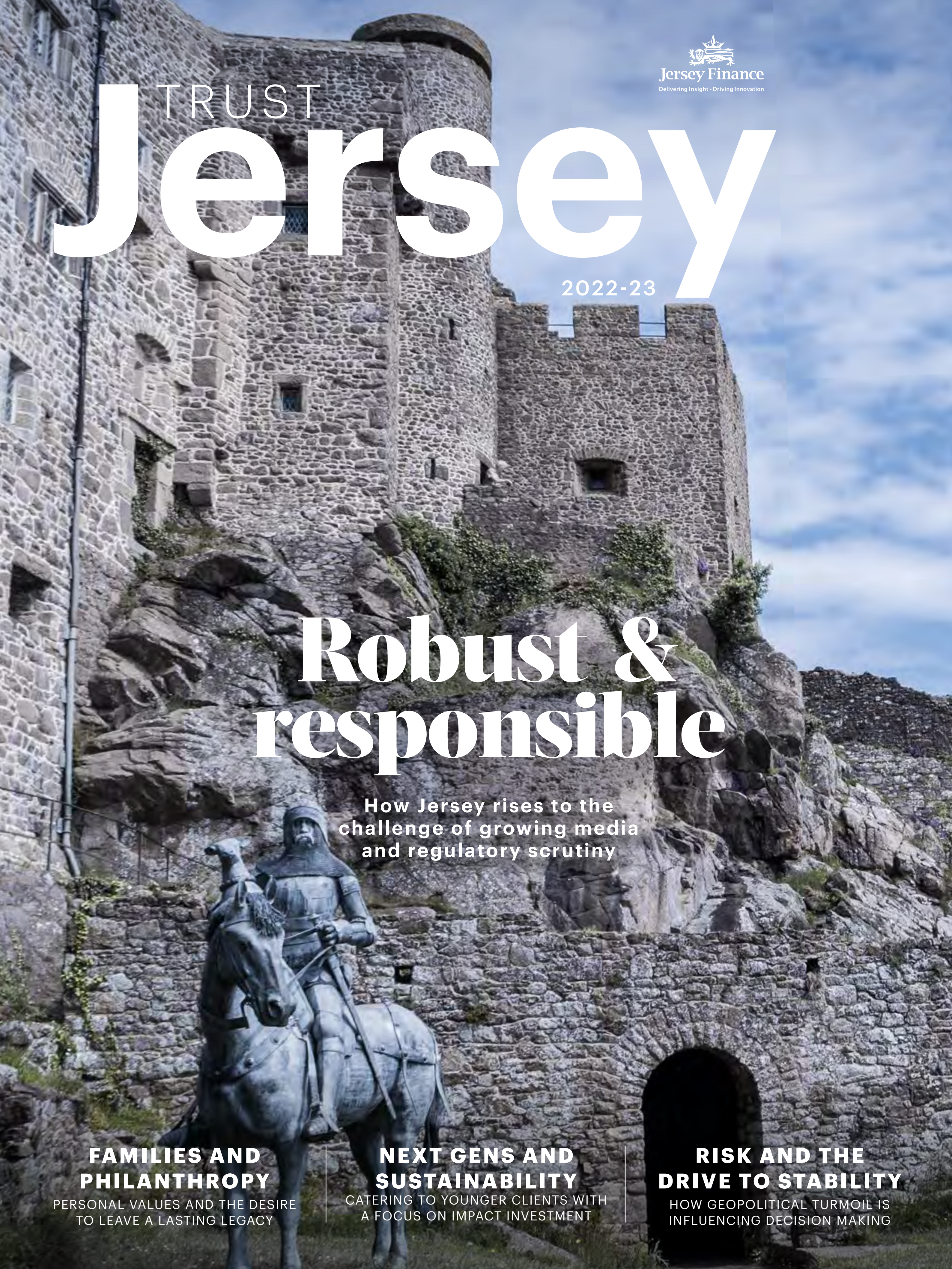

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2022-23

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How Jersey rises to the challenge of growing media and regulatory scrutiny

FAMILIES AND PHILANTHROPY

PERSONAL VALUES AND THE DESIRE TO LEAVE A LASTING LEGACY

NEXT GENS AND SUSTAINABILITY

CATERING TO YOUNGER CLIENTS WITH A FOCUS ON IMPACT INVESTMENT

RISK AND THE DRIVE TO STABILITY

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At the forefront of an evolving landscape

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PUBLISHED BY THINK
20 Mortimer Street, London W1T 3JW
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Welcome to the Jersey supplement to the *STEP Journal*, now in its fifth year.

Since celebrating our 60th anniversary as an international finance centre (IFC) last year, we have taken the opportunity to reflect on the numerous changes and challenges we have faced and the various ways in which Jersey has risen to the occasion and made the most of new opportunities.

I have been incredibly proud to witness the efficacy with which Jersey has responded to the demands of the ever-evolving global landscape, leveraging the expertise and experience of the island's industry to bring about positive change.

This year's supplement is once again launched alongside our annual Private Wealth Conference in London, and many of the themes in those presentations and sessions resonate with the topics included below.

Priorities, politics and technologies

Jersey has adapted swiftly in order to tackle and overcome a number of new challenges and pressures in recent years. We have continued to employ an agile, client-focused approach and have maintained our high standards of integrity through diligence, transparency and robust regulatory practices.

Our lead feature explores the importance of building trust and maintaining reputation in the private client world, and particularly among IFCs, during this period of increased international focus on transparency and responsibility.

Over the past few years, the fallout of major global events, including the COVID-19 pandemic, climate change and conflict in Europe, has given renewed impetus to the desire among families to enter the philanthropic space, create a long-term legacy and address social inequalities. Our article about the evolution of philanthropy shares the insights of panellists from a session that I had the pleasure of moderating at this year's STEP Global Congress.

We also examine the evolving needs of next-gen investors, including their increasing attention on investment approaches that prioritise environmental, social and governance values; explore the accelerating pace of digitalisation and new developments in this space, including the mounting sophistication of cybersecurity; and review the growing concern around political risk and how it has served to highlight the value of stability provided by leading jurisdictions such as Jersey.

Rising to the occasion

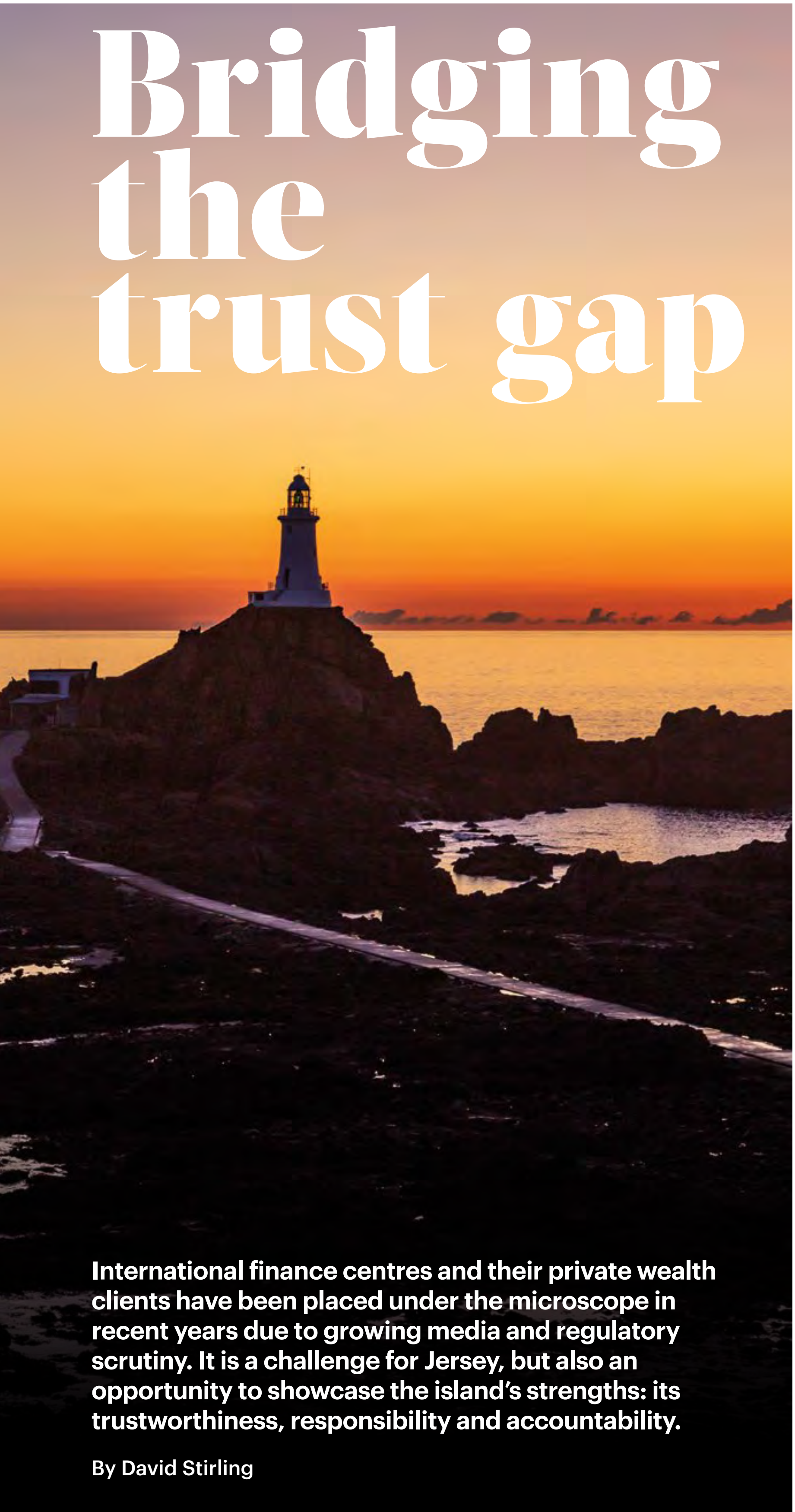
As we all continue to respond to unprecedented challenges on a global scale, the expertise, infrastructure, quality standards and specialist skills found in Jersey's IFC provide a solid foundation from which we can adapt and evolve into the future.

Acting responsibly and with integrity remains at the core of what we do as an award-winning IFC. Jersey is proud to be a future-focused jurisdiction, and as such will maintain a focus on emerging opportunities, ensuring that we are providing the highest-quality service and are holding our position at the cutting edge of innovation and development.

Thank you to STEP and to all of our contributors for helping us create this insightful and interesting supplement. We hope you enjoy it. ✖

Joe Moynihan is CEO at Jersey Finance

Bridging the trust gap



International finance centres and their private wealth clients have been placed under the microscope in recent years due to growing media and regulatory scrutiny. It is a challenge for Jersey, but also an opportunity to showcase the island's strengths: its trustworthiness, responsibility and accountability.

By David Stirling

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Trust in governments, businesses and other major institutions is continuing to falter as the world faces up to greater economic, social and environmental uncertainty.

According to the *Edelman Trust Barometer 2022*, which gathered the views of over 36,000 people around the world, concerns over fake news are at an all-time high, and governments and institutions are increasingly being blamed for failing to solve societal problems, as well as the pandemic and climate change. There is a wider trust gap between high and low earners and hopes of economic advancement have hit a record low. Over half (52 per cent) of people surveyed think capitalism is doing more harm than good.

It is a mood that has battered international finance centres like Jersey and the private wealth sector for a number of years. A lack of trust in the use of offshore centres has grown since the Panama Papers leak in 2016, which raised concerns over tax avoidance, corruption, sanctions dodging and money laundering.

As such, there have been regulatory and legal crackdowns around transparency; enhanced money laundering checks; discussions around global minimum corporate tax rates of 15 per cent; and, following the Russian invasion of Ukraine, the new *Economic Crime (Transparency and Enforcement) Act 2022* (the Act) in the UK, meaning offshore centres holding UK property must disclose their beneficial owners. The Act brought in a register of overseas entities, ensuring that owners of UK property cannot hide behind opaque corporate structures registered overseas.

In addition, the UK is set to follow the EU's lead and prohibit trust and company service providers from providing administration services to trusts and similar structures connected with Russian nationals. This measure could also be implemented in the Crown Dependencies.

Market perception

'There is a growing level of wealth inequality in the UK and there are concerns about the role of the private wealth world and to what extent we perpetuate the problem,' says Clare Stirzaker, Partner at Boodle Hatfield. 'There is a perception that we help wealthy people avoid tax and hide their wealth away.

Clare Stirzaker, Partner, Boodle Hatfield

It is a stereotype, but it is why there is such a focus on transparency and taxation measures.'

The Edelman report states that restoring trust is key to societal stability and solving many of the problems it outlines across media and government. But it is also key to tackling those issues faced by offshore centres and the private wealth sector.

'Offshore centres are continually answering the question of how to gain the trust of private wealth clients to attract them to place their assets and holding structures within their jurisdictions,' says Alexander Erskine, Partner at Taylor Wessing. 'If clients believe that a jurisdiction has negative associations then they will stay away. The current period of uncertainty creates opportunities as well as challenges for offshore centres, which for some time now have had to consider how best to market their services as the tax playing field is gradually being levelled.'

To tackle this, offshore centres like Jersey must fall back on their standard response to such challenges by bolstering their regulatory environment.

'By having sensible regulations in place, they provide reassurance to private clients that their assets will be dealt with properly by regulated people,' Erskine says. 'Anecdotally, the market perception of Jersey continues to be a good one. It is seen as a jurisdiction of good regulations and good operators. Indeed, I deal with clients and contacts in Asia and more of them are looking at Jersey as a holding jurisdiction for their wealth. They see an appealing standard of regulation and operators operating in the right manner.'

That is partly down to Jersey's existing reputation as an attractive destination for global private wealth. A recent report from Cebr looking at Jersey's contribution to global value chains found that, on average, every year between 2017 and 2020 the island intermediated GBP1.4 trillion of capital, supporting GBP170.3 billion of global economic output. Its funds sector annually supported GBP225.9 billion of capital and its trusts and asset-holding vehicles held GBP1.14 trillion.

Corruption and transparency

In the Cebr report, Jersey's trust legislation was hailed as key to its success among private clients, given its benefits, which include deferring and avoiding certain taxes, such as capital gains tax. The political and economic stability in Jersey has also been seen as an added advantage.

But Jersey is also benefitting from responding proactively and openly to current challenges and bolstering its trustworthiness. As an example, it has backed the OECD's proposals for a global minimum corporate tax rate. This will sit alongside its domestic tax regime, which will still be able to charge a corporate tax rate of 0 per cent, with financial services businesses taxed at 10 per cent.

On the issue of corruption, Jersey has recently introduced a new offence of failing to prevent money laundering. If a business is connected to certain persons who are engaged in money laundering, the business is itself at risk of committing a criminal offence.

Regarding transparency, last year Jersey introduced a new register of beneficial owners and significant persons. These are people who directly or indirectly beneficially own or control entities such as companies, foundations and limited liability partnerships. Information is collected and maintained on a new central register by the Jersey Financial Services Commission. Details of beneficial owners are not made public, but details of significant persons are.

'There is a balance to strike over transparency and Jersey seems to have got it broadly right,' says Erskine. 'You need to ensure that the right information is made available to the right people so, if there is an investigation, it is accessible, but you also have to consider whether making that information available to everyone could prejudice the safety of the individual whose information is at stake. Among the factors private wealth clients carefully look at are transparency rules.'

Olga Kucherenko, Partner at Acorn Capital Advisers, puts the Channel Islands 'number one on my list' when advising clients who want to set up new offshore holding structures.

'We say that it is best to go to a reputable jurisdiction with transparency, economic stability and a strong regulatory framework,' she explains. 'Although the regulatory compliance in Jersey may look burdensome in comparison with some other offshore centres for our clients, we tell them that it can work to their advantage. More robust governance means that the risks of making the structure inadvertently resident in the UK by virtue of central management and control are mitigated. The structure is more easily recognised by UK tax authorities.'

She adds that having an offshore structure in Jersey is also reputationally advantageous. 'Many of our clients like to co-invest with other family offices. It helps if you are set up in Jersey,' she says.

Family values

Indeed, family offices need to trust each other, not just the regulators, operators, advisors and courts of offshore jurisdictions. Taz Sherwani, Director of the single-family office for the Wates family, says families looking to co-invest alongside other family offices need to know that they are dealing with a reputable party.

'A lot of families like to discuss with other family offices what they are doing in terms of investments,' he says. 'They are increasingly happy to share knowledge and opinions on newer themes, such as impact investing, cryptocurrency and where and how to place money in these asset classes. Trustworthiness is key.'

He adds that the growth in the number of family offices in the past »

'ANECDOTALLY, THE MARKET PERCEPTION OF JERSEY CONTINUES TO BE A GOOD ONE. IT IS SEEN AS A JURISDICTION OF GOOD REGULATIONS AND GOOD OPERATORS'

Alexander Erskine, Partner, Taylor Wessing

decade has also attracted more talent, with regulatory and accountability expertise from areas such as banking and financial services.

However, given the nature of family offices, this openness can often be hard to unlock. 'A lot of family offices, due to their own need for discretion, or to keep a low profile, have quite opaque ownership structures,' Sherwani says. 'Although they are quite legitimate, you can't get to the bottom of them, and it is unclear which family is behind it or [difficult] to identify onshore or offshore vehicles. We call ourselves the Wates Family Office so people can make the connection in terms of who we are.'

Part of this transparency involves highlighting and marketing family values, including the belief that business done well can be a force for good.

'The Wates family is very keen to give back to society and as such has a large philanthropic arm and foundation,' Sherwani explains. 'Through the Wates Corporate Governance Principles developed by a coalition established by the Financial Reporting Council and chaired by Sir James Wates, we have a very straightforward approach to our business, reporting and tax affairs. Any businesses working with us also have to meet these principles, which are on par with what you would expect from a FTSE 100 business. We also work very closely with our legal, tax and financial advisors to meet all our regulatory requirements. There needs to be a real cultural and values alignment, which means doing things the right way and being morally and legally accountable.'

Taz Sherwani, **Director, single-family office for the Wates family**

Another key part of trustworthiness, Sherwani adds, is communicating well with the family and advisors. 'The Wates family is fourth generation. It is important to talk with the next generation regularly to understand them and their needs and to discuss headwinds on the horizon. You need to be closely engaged with all the family and make sure there are no surprises,' he says.

Kucherenko believes the 'next-generation angle' can be challenging for all offshore jurisdictions: 'You need to be able to properly cater for the needs of the new-generation wealth owners and the growing complexity of their wealth. The issue we face sometimes is that assumptions are made and there is a lack of proactivity. For example, there is an idea that the next generation want to invest in crypto and impact projects. Some do, but many are way more risk-averse than their parents and their goal is wealth preservation.

'YOU NEED TO BE ABLE TO PROPERLY CATER FOR THE NEEDS OF THE NEW-GENERATION WEALTH OWNERS AND THE GROWING COMPLEXITY OF THEIR WEALTH'

Olga Kucherenko, Partner, Acorn Capital Advisers

'So, it is important to understand how the new generation defines the purpose of wealth, build consensus around it within the family and review their structures and investment strategy in light of the redefined purpose to make sure they are appropriate.

'Trustworthiness is being able to deal with the next generation through an expert, robust process, keeping an open mind about their motives and needs and doing all this in a way that reinforces alignment between generations. Unfortunately, what is common sense is not always common practice. This is something I as an advisor would like to see more of in all offshore centres, including Jersey.'

Accountable and responsible

Succession is, however, a strength of the island thanks to its trust legislation and the absence of inheritance tax. Trusts can now run forever, rather than the previous time limit of 100 years.

'There is a misconception that the general public and the media hold that people use offshore jurisdictions to avoid tax,' says Kucherenko. 'Of course, the tax side does matter, but it is more about asset protection and, certainly over the past five or ten years, about succession planning. During the pandemic many of the older generation recognised their own mortality and that to preserve their wealth they needed to look at a reputable jurisdiction with succession expertise.'

Sherwani believes more regulatory challenges lie ahead for the private wealth sector and family offices.

'I can see a greater requirement around transparency and stricter governance,' he says. 'I understand from sources in the Big Four accountancy firms that the [UK] government is looking to increase its knowledge of and familiarity with the private wealth/family office arena. They need to recoup the money which has gone into supporting the economy during the pandemic and that could mean more scrutiny on the sector. Family offices must ensure they stay on top of their procedures, governance and accountability.'

Kucherenko also urges private clients to be prepared and trust in reputable jurisdictions. 'Nobody wants to appear in the next round of Panama Papers or get on the public radar for all the wrong reasons,' she says. 'Our clients do so much good with their wealth via philanthropy and impact investing. You won't achieve your mission if you are not accountable and responsible.'

Stirzaker is seeing more private wealth clients analysing their tax profile and the economic contribution they make to society, as well as becoming more comfortable talking publicly about how they structure and manage their wealth.

'They are constantly assessing why they are setting up family structures and not necessarily automatically moving offshore because of the negative public perceptions of doing so,' she explains. 'When they look at jurisdictions, they are taking more time to find those with a credible reputation and good regulatory and transparency measures in place. Jersey is one of the most well-regarded offshore centres in that respect. It is incredibly important to the private wealth sector.'

David Stirling is a freelance business journalist

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Three experts consider how families are looking to make a positive social impact and leave a lasting legacy

A growing number of ultra-high-net-worth families are now looking to create a lasting legacy that reflects the personal values of their family. The increasing focus on philanthropic objectives, now becoming very much a part of mainstream thinking, emerged forcefully during STEP Global Congress in London in July, where Jersey Finance's CEO, Joe Moynihan, moderated a panel session.

The same specialists who sat on that panel – Penny Chapman, Partner at BDB Pitmans; Suzanne Reisman, Principal at Law Offices of Suzanne M Reisman; and Russell Waite, Founder and Group Director of Affinity Private Wealth – were invited to regroup virtually for a further discussion of the themes explored at STEP Global Congress. An edited extract of their conversation is below.

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Why are sustainable and philanthropic considerations increasing in importance within the private wealth sector?

Russell Waite (RW): A growing social conscience is seeing more families wanting to use their wealth as a force for good. In response to this, the private wealth sector has adapted by upskilling across this space and developing its offering to help clients plan and structure their giving. Extending this further, to us sustainability means making economic prosperity long-lasting, more socially inclusive and less dependent on the exploitation of finite resources and the natural environment.

The provision of advice and ongoing services to assist clients to align their values with their wealth must now form part of the proposition offered by practitioners operating in our sector. This is being driven by the societal demands described, as well as the legislative landscape, which is seeking to assist the mobilisation of capital in this direction.

Suzanne Reisman (SR): Social media has created a more interconnected global community, allowing people around the world to join in a common cause in nanoseconds.

At the same time, the private wealth industry has evolved: more advisors are comfortable discussing these issues, jurisdictions have updated their legal regimes and financial institutions have developed products focused on these issues.

What are the key characteristics required to attract the next generation of client? What are they actively seeking?

Penny Chapman (PC): The next generation tend to be very cause-driven and much more inclined only to be philanthropic where the cause has a direct resonance with them. They are much more likely to be single-focused in their giving. They often want to be actively engaged with the cause that they are supporting financially.

RW: Clients are increasingly wanting to partner with providers who are authentic – in other words, firms with a set of values that they share and which also demonstrably 'walk the talk'. Individuals motivated by philanthropy have a clear purpose for their wealth and expect to establish a relationship with advisors who are equally purposeful in how they run their businesses and deliver their services.

SR: Expertise and an understanding of the client's goals, or the ability to help them define their goals, are key. Some clients appreciate it when their advisors share their passion for a certain area of interest.

How do trustees adapt? What do they need to consider when dealing with these changing aspirations?

PC: Trustees do need to manage their beneficiaries' expectations as they are constrained by their constitution, the law and their fiduciary duties. Within the UK, trustees of a charitable foundation are also constrained by their regulatory responsibilities. The law is also gradually adapting and playing catch-up in the field of environmental, social and governance (ESG) investing. Prior to 2022 in the UK, there was a limit on the extent to which charity trustees could invest on a purely ethical basis.

In 2022, two Sainsbury family charities that are focused on tackling climate change wanted to adopt investment policies in line with the 2016 Paris Agreement. The proposed investment policy would exclude over half of publicly traded companies, lowering returns by approximately one per cent. The matter went to court for clarification as to the trustees' investment duties. In the case of *Butler-Sloss and Others* v *The Charity Commission and the Attorney General*, the Judge set out ten principles governing the law, which broadly speaking give charity trustees greater freedom to invest ethically.

RW: Trustees have to be suitably experienced in the context of the fast-evolving ecosystem of philanthropy, impact investing and sustainable finance. Operating from a jurisdiction with a legislative environment that clearly defines the duties and responsibilities of the counterparties involved in philanthropy is equally important, as is the regulatory infrastructure in place to oversee this. Notwithstanding these very important factors, successful trustees in this space also have a set of soft skills that enable them to expertly understand the family dynamics underpinning the wish to gift capital to good causes.

Do sustainable and philanthropic policies affect clients' behaviours or their decision making when choosing a jurisdiction to house their philanthropic structure?

SR: The tax deductibility of contributions may weigh in favour of choosing a particular jurisdiction. If that is not determinative and an entity that qualifies as a regulated philanthropic vehicle is sought, the strength of the regimes in various jurisdictions is compared. Otherwise the expertise of the local advisory community, the courts, transparency, reputation and the political stability of the jurisdiction are always important considerations.

PC: Yes they do. Younger philanthropists, in particular, talk a lot about 'authenticity' and, therefore, when looking for professional advisors and jurisdictions, they are looking for an advisory package that is aligned to their values. Next-generation clients are very alive to 'greenwashing' and to advisors and jurisdictions that may simply be sending out the right PR messages to attract business.

Looking ahead, what are the biggest hurdles or issues facing international finance centres (IFCs) with regard to philanthropic practices?

SR: There is always competition for talent. There are several areas of expertise that are relevant. These include legal, investment and trust/foundation/corporate administration expertise as it relates to charities, philanthropy, sustainability and various types of investing (e.g., ESG impact investing). Every organisation offering these services should develop in-house expertise or partner with an organisation that has the required area of expertise.

The rarer expertise relates to the execution of projects. If a project involves something other than investing in listed entities, a different type of expertise is needed. For example, specialist knowledge may be needed relating to which organisations to work with; whether to make a grant, loan or investment in a not-for-profit or social enterprise; or how to design a programme. Jurisdictions that cultivate individuals who are knowledgeable about best practices regarding the execution of philanthropic projects and new developments in the area will be well positioned going forward.

RW: IFCs must create an environment enabling sustainable finance, of which philanthropy is a critical component, to grow and meet the demands of the expanding cohort of clients wanting to use their capital to make a positive social and/or environmental impact. This requires foresight in terms of legislation and regulation, as well as suitable ambition and collaboration among practitioners to deliver the innovative solutions required.

PC: Clients are increasingly tendering for professional services and a key component of the tender process is to examine the advisor's credentials on issues of sustainability, the environment, equality, diversity and inclusion policies, etc. As with choosing a jurisdiction, knowledgeable clients are wanting evidence of a potential advisor's commitments in these areas.

Speaking to clients, it is important that advisors are themselves knowledgeable and evidence a personal commitment to the global causes with which their clients wish to engage. ✕

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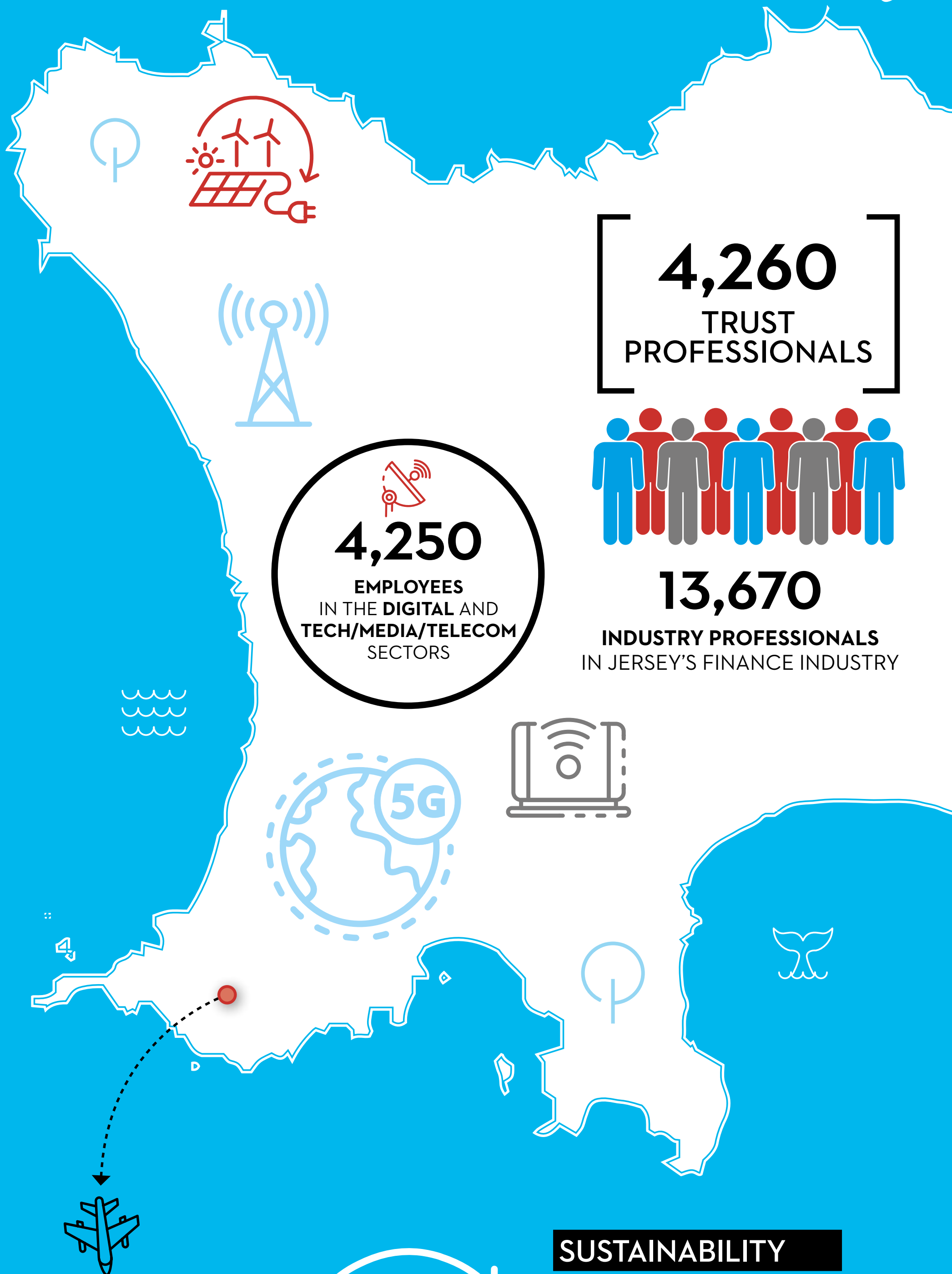

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SOURCES AND FURTHER READING

The following publications are available to download for free online at **www.jerseyfinance.je**:

- *Jersey's Contribution to Global Value Chains* (Jersey Finance/Cebr, 2021)
- *Jersey for Good: A sustainable future* (Jersey Finance/ Equilibrium Futures, 2021)
- *Jersey: The clear choice for family offices* (Jersey Finance, 2019)

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Fit for purpose

The next generation are looking to jurisdictions that can cater to their needs around sustainability and impact investment

Considering the widespread disruption to the global landscape over the past few years, it is no surprise that the preferences and needs of investors have shifted. With mounting global pressures and new challenges impacting the investment arena, it is crucial that advisors are cognizant of, and can cater successfully to, clients' evolving needs.

Add into the mix the differing requirements of new generations of investors and the situation becomes even more nuanced.

Sophistication and migration

The increasing complexity of client requirements is in some respects a consequence of the uncertainty of the past few years, coupled with rapid developments in areas such as digitalisation and sustainability.

Tony Hind, Director, Family Office Services at Crestbridge, comments that: 'Undoubtedly, the needs of wealthy global families are becoming increasingly sophisticated in terms of geographical diversification, family dynamics, digital adoption and their approach to more specialist, niche and emerging investment opportunities.'

Also picking up on the issue of family dynamics, Robert Cattle, Director, Client Services at Equiom, adds that: 'There seems to be a real desire to either begin to bring the next generation into family businesses or indeed enable them to step into the shoes of the elder generation, who, historically, would handle all communication with their trustee.'

Robert Cattle, Director, Client Services, Equiom

Chris Cameron, Director, Family Office Services at Crestbridge, identifies a more geographical trend among families, noting that an increasing number are migrating to, or increasing their foothold in, the US. He cites the mobility of family members as a major factor contributing to this trend, such as cases where the children or beneficiaries of global families are based in the US. Cameron adds that, particularly among families in Latin America, the US is 'seen as a stable location for investing and pursuing business opportunities. Those families all need robust cross-border structures, and we're seeing that manifest itself through Jersey with a growing amount of internationally dynamic family activity with a US touch point.'

Chris Cameron, Director, Family Office Services, Crestbridge

‘IT IS A PERIOD OF INTENSE CHANGE AND THERE IS REAL POTENTIAL FOR FAMILIES TO BE OVERWHELMED. THE PANDEMIC IS PART OF THAT. IT HAS SHONE A LIGHT ON LEGACY PLANNING IN PARTICULAR …’

Tony Hind, Director, Family Office Services at Crestbridge

Global recovery

In addition to these generational and geographical shifts, the impact of the COVID-19 pandemic is still being felt across different jurisdictions and among families. Cattle notes that: ‘The pandemic forced clients to stop and think about the direction of travel for their wealth, their businesses and, indeed, the human race. COVID-19 has changed the way we all think about how we interact and do business.’

Josephine Howe, Partner in the private wealth team at Ogier, Jersey, adds that the increased focus among families on succession planning can be seen as a result of the pandemic, and that this has ‘in many cases … resulted in the next generation being brought to the table’.

And the pandemic is far from the only factor causing upheaval, Hind says: ‘It is a period of intense change and there is real potential for families to be overwhelmed. The pandemic is part of that. It has shone a light on legacy planning in particular, and also on being resilient in the face of disruption. But it is wider than just the pandemic. There is also heightened sensitivity to political tensions, geopolitical instability, inflationary pressures and greater public scrutiny.’

This has prompted proactivity from a number of families, who have taken the opportunity to review structures and documents, revisit family values and ensure they are fit for purpose for the future. Cameron comments that: ‘Ultimately what families want is certainty and this new environment actually provides a really good opportunity for a leading jurisdiction like Jersey to demonstrate its stability, evidence why it should be part of a family’s long-term plans and show how it can help them future-proof their strategies.’

Principles and priorities

Against this backdrop, the intergenerational transfer of wealth is adding another dimension to the evolution of clients’ investment needs. With the migration of decision making to the next generation and the acceleration of environmental, social and governance (ESG) investing in general, it seems clear that even greater emphasis will be placed on sustainability, purpose and impact as ‘next-gen’ investors control more capital.

Cattle has seen this play out through clients raising questions about ESG values and, in particular, ‘how their structures can contribute in a positive way to rebalancing wealth generation against net-zero aspirations’. Using commercial real estate held within structures as an example, he underlines that ‘sustainability is high on the agenda, more so than for previous generations, especially with new builds, where local government will definitely show an interest in certain areas’, such as energy rates and contributions towards local infrastructure.

Howe notes similar developments regarding ESG while also highlighting that this trend is not unique to younger investors: ‘Views around ESG, impact investing and social responsibility have … given next-gen family members a real voice and a sense of purpose. However, this sense of responsibility is not just limited to the next generation and we are seeing stakeholders of all ages engaging with discussions as to how the investment of private wealth can be positively “impactful” from an environmental and/or social perspective.’

The ‘elevated focus on purpose-driven investment among millennials and Generation Z’ is also identified by Hind, who agrees that ‘for ultra-high-net-worth families and family offices, ESG investment is not necessarily a new concept’, but suggests that events such as the COP26 climate change conference and the recent findings of the Intergovernmental Panel on Climate Change have ‘certainly heightened the desire to focus on investments capable of making a meaningful difference to the current pace of environmental damage’.

Another trend, ‘co-investment’, is becoming increasingly popular thanks to the potential it brings to maximise the likelihood of making a meaningful difference. Cameron notes a rise in collaborative efforts between families, who are ‘increasingly joining forces to invest directly into opportunities capable of enacting such a change’. As well as bringing together complementary expertise, experience and knowledge, pooling resources can ‘enable access to higher-value deals and restricted markets or achieve diversification that might otherwise have been out of reach’. However, Cameron stresses that ‘to realise the benefits of co-investment … families must put the right frameworks and structures in place, and this is where Jersey’s expertise and experience can really help’.

Regarding the influence of younger generations on current trends, Howe also notes an increase in trustees actively investing in ‘non-traditional assets including cryptocurrencies and other developing asset classes, such as investment in funds and companies involved in cannabis-derived products’. She explains that ‘this investment activity is often being driven by the next generation’s interest in such asset classes and the technology solutions supporting them’.

It is safe to say that advisors will increasingly be looked to for expertise, reliability and proficiency as global markets continue to respond to current events, new trends emerge and the next generation of investors step into the spotlight. ✖

‘VIEWS AROUND ESG, IMPACT INVESTING AND SOCIAL RESPONSIBILITY HAVE … GIVEN NEXT-GEN FAMILY MEMBERS A REAL VOICE AND A SENSE OF PURPOSE’

Josephine Howe, Partner, Ogier

Wealth management 2.0

Private client advisors are adapting to the digital revolution

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Over the past few years, digital adoption has been the talk of the private client world. It is an oft-quoted figure that the pandemic accelerated digital adoption among businesses by around four years (McKinsey, 2020), but digital change has been a characteristic of the private client space for some time. Nevertheless, approaches to technology continue to differ.

In some respects, technology is seen as a panacea – the route to a highly connected world and a platform for delivering solutions more efficiently. However, the pace of digital adoption has raised operational, infrastructure and skills issues for private client advisors and family offices, while opening up families and individuals to cybersecurity vulnerabilities.

As the private client world looks to fulfil its post-COVID ambitions, what role is there for digital technologies? And how are international finance centres (IFCs) supporting private clients digitally in response to the shifting landscape?

Digital revolution

We are in the midst of a new digital revolution. While, 30 years ago, the first digital revolution was all about the digitisation of information through the creation of the internet, today we are looking at the digitisation of assets, whereby anything that has a value can be digitised, commoditised and transacted. That has the potential to infiltrate every aspect of the private client space.

'Technologies such as artificial intelligence (AI) and distributed ledger technology are presenting transformational opportunities,' says Amy Bryant, Deputy CEO at Jersey Finance.

Regarding trust structuring, for instance, the aspirations of the next generation are driving change, as they seek the use of new technologies to manage their wealth. In a Jersey Finance-supported study by Hubbis, 87 per cent of wealth advisors in Asia said that digital technologies from banks and wealth advisors would be important or crucial in attracting next-gen clients.

Bryony Cove, Partner, Farrer & Co

Bryony Cove, Partner at Farrer & Co, agrees, pointing to how client adoption of digital technology was hastened by the pandemic, in particular the use of online communication channels: 'We are seeing everyone from cradle to grave using online meetings, banking and professional services portals, email and messaging services, and mobile tech such as phone apps on a regular if not daily basis. The younger next gen also assume they will be welcomed into discussions about succession to wealth – there is no reason not to include them even if they are away at university or studying, travelling or working abroad.'

To connect with the next gen, private client advisors are turning to technology to increase productivity, deliver cost efficiencies, create product diversification and bolster risk management, and »

'JERSEY SERVICE PROVIDERS ARE ADOPTING REGTECH TO STAY AHEAD OF THE CURVE REGARDING COMPLIANCE AND REPORTING REQUIREMENTS'

Amy Bryant, Deputy CEO, Jersey Finance

this is being embraced by private clients, as Ali Hollingshead, Partner at Farrer & Co, explains: 'Wealth planning is brimming with the benefits of technology – from Zoom calls to crypto-investments, from standard banking apps to bespoke wealth reporting platforms. Many of our clients are not just adopting digitalisation, they're driving it.'

Technology is also impacting the regulatory sphere. The adoption of 'regtech' is pivotal in ensuring that financial flows can be transferred robustly and securely across borders, in line with due-diligence and regulatory requirements. With 257 regulatory updates published globally every day on average, the importance of regtech solutions in the financial services landscape is already clear.

Bryant adds: 'Jersey service providers are adopting regtech to stay ahead of the curve regarding compliance and reporting requirements. In particular, AI is supporting financial service providers in leading jurisdictions in meeting compliance needs, while simultaneously driving down process costs.'

Regarding approaches to investment, we are likely to see a rise of hybrid models of technology-enabled analytics and portfolio management, with digital tools offering more granular investment opportunities.

Tom Rudkin, Partner, Farrer & Co

Accompanying this is an accelerated drive towards the digitisation of assets, which has the potential to transform how private investors conceptualise investment. EY predicts that digital real estate will become just as important as physical assets over the next decade, while the evolution of the 'metaverse' is opening up virtual worlds – fashion houses, art galleries, entertainment spaces – with complementary investor opportunities. The World Economic Forum estimates that the global value of digital assets in circulation will reach USD24 trillion by 2027.

Challenges and risks

Alongside the opportunities for private clients and their advisors, though, are a number of challenges. A mass movement towards digital platforms is accompanied by a spike in cybersecurity risk, and investors and their advisors need to ensure that they are fully integrating cyber-risk mitigation into their wealth and succession planning, as Tom Rudkin, Partner at Farrer & Co, highlights: 'There are massive discrepancies in preparedness. An attitude of "it will never happen to me" is still pretty pervasive. Preparation and risk mitigation are invariably significantly less time-consuming, stressful and expensive than having to react to a crisis.'

'GREATER DIGITALISATION AND MOBILITY CAN BRING CHALLENGES FOR FAMILY BUSINESSES, BUT FAR MORE EVIDENT ARE THE BENEFITS'

Ali Hollingshead, Partner, Farrer & Co

The greater mobility of families and use of digital solutions within family businesses also pose complex questions regarding global tax. The OECD's proposals to introduce a new global corporate tax framework in 2023 were partly shaped by global efforts to address the tax challenges of digitisation.

For that reason, it is important that private client and family office advisors are aware of any potential tax consequences relating to family business structuring where there are digital drivers behind structuring decisions.

'Greater digitalisation and mobility can bring challenges for family businesses, but far more evident are the benefits,' says Hollingshead. 'Bespoke wealth management platforms help high-net-worth clients to keep on top of complex and high-value assets, for example crypto, art, yachts and properties. These platforms help their advisors and family offices to be informed, so that they can ensure clients are tax compliant in all their relevant jurisdictions.'

Specialist IFCs that are immersed in the private client space and fully committed to digital innovation have a crucial role to play in enabling families and private clients to address these challenges. Jersey, for instance, has worked to address the complexities brought about by moves to change the global corporate tax framework and has been at the forefront of responding to cybersecurity risk.

There is undoubtedly also an opportunity for IFCs with specialist digital know-how to provide robust outsourced expert support, enabling family offices to focus on what they do best in-house. IFCs are often hotbeds for digital innovation, offering sandbox environments and incentives encouraging fintech development.

Jersey's aspiration is to be the easiest IFC to do business with remotely in a digital world, with ambitions to accelerate growth in its finance industry by being at the forefront of digital technologies. It is delivering this through collaboration between the finance industry, Digital Jersey, government and the Jersey Financial Services Commission to develop policy and a common fintech framework.

With this in mind, earlier in 2022, Jersey Finance refreshed its fintech strategy to focus on enhancing the client experience and delivering efficiencies by applying tech to bolster compliance and risk, improve productivity and enhance interaction within financial ecosystems.

Looking forward

There is no doubt that the acceleration of digital adoption will continue, and private clients and families will be looking increasingly to their partners – including advisors and the jurisdictions they use – for support. One area offering particular scope for fintech development is sustainable finance. Reputable IFCs that can support the fintech industry will be able to empower their sustainable propositions significantly and, in turn, provide the driving force for innovation in financial technology.

Bryant says: 'Fintech plays a substantial role in the growth of sustainable finance while sustainable finance is accelerating innovation in fintech. We certainly see a symbiotic relationship between the fintech and environmental, social and governance (ESG) sectors and a clear role for IFCs like Jersey to play in the growth of both.'

For smart IFCs that are agile, nimble and committed to fintech innovation, there is a real opportunity to add value and support private clients and families as they move rapidly into the digital age. ✖

The new disruptors

Why risk and uncertainty are propelling a drive toward stability

It is perhaps no surprise that, with such great geopolitical turmoil, market volatility and uncertainty confronting wealthy investors, the lure of a stable location should have become so powerful.

The unexpected is tending to become the normal. The COVID-19 pandemic has been followed by a war in Europe, world economies are being impacted by supply chain problems and inflation is hitting levels not seen for a generation. This disruption, further fuelled by urgent action on climate change and a focus on how to address environmental, social and governance (ESG) concerns, has generated considerable uncertainty for private clients about how and where they should administer their wealth. With geopolitical and economic disruption on this scale, the need to find stability and predictability has been heightened.

Evidence supports this. When Asian high-net-worth clients were surveyed recently, 45 per cent indicated that political and economic stability is of paramount importance to them.[1] Furthermore, at a time when investors internationally are shifting toward more responsible investing, with sustainability higher on the agenda, strong, stable locations, with robust governance and an appreciation of clients' evolving investment goals, have the advantage.

'Political, social and economic stability remains at the forefront of decision making for our clients,' says Aynsley Vaughan, Global Head of Private Wealth and Family Office at TMF Group. 'Geopolitical tension between China and the US and the Russian invasion of Ukraine have increased the climate of uncertainty.'

She expects that, while the world faces a period of geopolitical uncertainty, we will see a movement of people and assets to more stable environments.

The stability factor

An international finance centre's (IFC's) credentials have become an increasingly influential factor, and those jurisdictions where stability has always been a prominent characteristic have the platform that many are seeking. According to Vaughan, we are seeing high-net-worth individuals (HNWIs) and family offices 'taking a deep dive' into their jurisdiction of choice.

'Tax is no longer the driving force behind decisions; instead, political, social and economic stability is front and centre,' she says. 'Advisors are broadening their role because it is no longer just a technical or regulatory reason for a family to choose a jurisdiction.'

Joe Moynihan, CEO at Jersey Finance, has been at the heart of the evolving environment for IFCs. 'The past decade has witnessed regulatory change like never before, and that has been a massive challenge for some jurisdictions,' he says. 'At the same time, geopolitical events have created instability in certain regions, prompting investors and managers to look

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elsewhere for partner jurisdictions that can offer stability and certainty.'

Vaughan adds: 'Many IFCs have global representatives, which is invaluable in terms of building trusted relationships with the private client community and also reputational awareness. There is always more work to be done, but those IFCs that create an active community of advisors, banks, investment managers and service providers will continue to attract clients looking for long-term stability.'

TMF hosted a series of well-received webinars focusing on the jurisdictions in which the firm is represented.

'In my view, there are still outdated opinions about IFCs, so sharing insight from a regulatory perspective, and also demonstrating expertise with case studies, is always high on our agenda,' Vaughan says. 'There are a number of IFCs where the government has gone to great lengths to establish the location as a leading wealth management centre, with sound regulation and the strong rule of law, thus giving investors, including HNWIs and family offices, confidence not only in where they invest but also how and why their data is held.'

'THERE IS ALWAYS MORE WORK TO BE DONE, BUT THOSE IFCs THAT CREATE AN ACTIVE COMMUNITY OF ADVISORS, BANKS, INVESTMENT MANAGERS AND SERVICE PROVIDERS WILL CONTINUE TO ATTRACT CLIENTS LOOKING FOR LONG-TERM STABILITY'

Aynsley Vaughan, Global Head of Private Wealth and Family Office, TMF Group

The transparency dilemma

Investors also face increasing pressure in the global drive towards transparency, which brings with it further issues and challenges for both the client and their advisors. With increasing regulation to stamp out money laundering and financial crime, and to limit tax avoidance, demands to share personal information with the authorities have been brought into sharper focus. Obligations to do so are mounting, and IFCs must balance these requirements with clients' desire to maintain privacy in their financial affairs.

While there is no doubt that tax regimes have become tougher, with governments seeking to generate more revenue by clamping down on tax leakage in response to the pandemic and its crushing impact on domestic economies, the associated regulation and the drive for greater transparency over the long term are generating the greater demands on HNWIs.

From Jersey Finance's perspective, the global financial crisis of 2007–2008 was the trigger for a perpetuation of uncertainty in markets that has resulted in a raft of global regulatory initiatives that have shaken up global financial markets – from reporting mechanisms like the US *Foreign Account Tax Compliance Act* and the OECD's Common Reporting Standard to regulation like the EU Alternative Investment Fund Managers Directive and the OECD's Base Erosion and Profit Shifting (BEPS) initiative. While delivering innovation and diversification in the aftermath of the crisis was vital, it was also important for leading IFCs such as Jersey to safeguard the stable platform they had carefully nurtured.

'We too have observed an increasing global drive towards transparency affecting the perceived complexity of some locations,' says Vaughan. 'While TMF Group's Global Business Complexity Index 2022 recorded changes at a corporate governance level, in a recent paper – *Private Wealth and Family Offices: Navigating global complexity in an ever-changing environment* – I noted similar trends being witnessed at an individual level among our private wealth and family office clients.'

She adds that while transparency for investors is a global trend, for some, maintaining a level of privacy is equally important. Meanwhile, for the jurisdictions themselves, it is all about getting the balance right.

'The balance required is a well-regulated jurisdiction that will do its utmost to protect clients' privacy while also providing a platform for high-quality professional services and regulatory compliance,' says Moynihan. 'Through all these substantial developments in regulation, Jersey has been unwavering in its commitment to maintaining the highest standards and we consistently observe that families find reassurance in that.'

Higher standards

Jersey Finance recently commissioned a report on private wealth, and one of the observations flagged by Moynihan was the ongoing drive for regulatory standards that all must abide by to remain in the mainstream.[2]

'We're going to continue to see a push on regulation and the quality of regulation enforced by the international regulators and also some of this will be politically driven in terms of standards,' he wrote. 'What was acceptable ten years ago is no longer acceptable today, and we just have to cope with that. But in many ways, that is no change for Jersey providers; we've been coping with that for 20 years.'

Vaughan's conclusions on this are clear: 'The next generation of private wealth clients are increasingly focused on more responsible management of their wealth. The developments in this arena are moving at pace, and IFCs that are at the forefront of this seismic shift will be clear winners.' ✖

'THROUGH ALL THESE SUBSTANTIAL DEVELOPMENTS IN REGULATION, JERSEY HAS BEEN UNWAVERING IN ITS COMMITMENT TO MAINTAINING THE HIGHEST STANDARDS AND WE CONSISTENTLY OBSERVE THAT FAMILIES FIND REASSURANCE IN THAT'

Joe Moynihan, CEO, Jersey Finance

1 Hubbis in association with Jersey Finance, *Choosing the Jurisdiction For Your Family Office – Getting it Right*
2 Gibson Strategy, *Jersey Private Wealth Report 2021/22*

The backbone of our economy

Jersey's Chief Minister on why the financial services industry remains a top priority for government

I am delighted to write this afterword as Jersey's newly elected Chief Minister. STEP's work has been vital in supporting the activity of previous Jersey governments and I have no doubt that we will continue to work together as we further develop our private wealth sector and professional services industry more broadly.

In Jersey's election this year, the public were clear that they wanted change. I and the new Council of Ministers are committed to delivering this. There were, however, notable exceptions. Ian Gorst was re-elected with a significant margin. This recognises his experience and expertise, and I am delighted that Ian will continue as the Minister with responsibility for financial services. He brings the confidence of the industry and a track record of delivery. I trust that you will join me in congratulating him and supporting him in this role.

While the need to diversify our economy is clear, the financial services industry remains the tried and trusted backbone of our economy. We will continue to invest government resources to assist the industry and ensure that it continues to meet the needs of new generations and international standards.

Part of this investment is continuing to deliver Jersey's *Financial Services Policy Framework*, which was launched in December 2021. The new government stands behind this framework and its vision to enable the digital transformation of the industry, our compliance with global standards and our efforts to become a leading centre for sustainable finance.

I am passionate about our sustainable finance offering, with our private wealth sector, our largest and world-leading sector, playing a central role. We have signed up to the Paris Agreement, declared a climate emergency and are committed to the transition to net zero. As a sector that serves international investors seeking long-term capital allocation, we must continue to develop this offering to serve the expectations of new generations, as well as traditional investors. We must play a leading role in what is increasingly becoming the new normal.

'WE WILL CONTINUE TO INVEST GOVERNMENT RESOURCES TO ASSIST THE INDUSTRY AND ENSURE THAT IT CONTINUES TO MEET THE NEEDS OF NEW GENERATIONS AND INTERNATIONAL STANDARDS'

Kristina Moore is the Chief Minister of Jersey

This will require more of what Jersey has always delivered, providing solutions rather than adding to complexity. This will also be central to our efforts to further digitalise the industry and ensure that Jersey's business environment remains a first choice for international businesses in a changing world.

Responding to ongoing developments in international financial services and tax standards will also continue under this government. This long-standing commitment has been central to Jersey's success over the decades and will underpin our success for decades to come.

To deliver this framework, of course, we need to meet the current challenges that many jurisdictions face. Housing, skills and continuing to be a first-choice place to live are key to any jurisdiction's success and will be a priority of this government.

STEP and its members are central to all of these objectives, and I look forward to working with Stephen Alexander as the newly elected Chair of STEP Jersey and thank Fiona McFarlane for her good work as the previous Chair. It is together that we succeed, responding to challenges and ensuring that we remain the jurisdiction of choice for wealth planning. ✖