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Jersey is one of the world’s leading offshore centres for Wealth Management. Reliability, political and economic stability, and a sophisticated and comprehensive infrastructure of laws have kept Jersey at the forefront of global finance for over 50 years. In recent years we have also witnessed a ‘flight to quality’ in the wake of the financial crisis, where the global move towards more stringent regulation has played to Jersey’s strengths and helped us to get on track for growth.

Our strong position has had wide reaching benefits for other centres. A recent Capital Economics Report, commissioned to assess the value of Jersey to the United Kingdom (UK), revealed the significant benefits reaped by the UK in terms of jobs, capital and inward investment, that are directly attributable to Jersey. It showed that 84% of the island’s financial services are carried out in the sterling zone with two-fifths of the total assets managed coming from markets beyond the EU. Consequently, Jersey is responsible for almost £½ trillion of foreign investment into the UK, which is 6% of the total stock of foreign-owned assets in the country.

Evidently, the majority of global investments from Jersey go into the UK, but if Jersey did not facilitate these transactions they would likely migrate to other offshore centres. These figures are compelling, and now that Jersey is in a positive position, it is the perfect time to focus on actively pursuing inward investments in the emerging markets and further boosting economic activity for Jersey and the UK.

Low taxes are vital drivers of economic growth and our unique tax structure means that we have the ability to leverage the value of global trade. This competitive edge will allow Jersey to act as a tax-neutral conduit for business migrating from North America and Asia to Europe, as well as between China and Africa, and Latin America and the developed and developing world. By building stronger alliances with the City, Jersey can also harness London’s dominance in the world of finance, together securing an even more competitive UK/Jersey proposition to effectively compete with centres such as Hong Kong, Singapore and New York.

In light of our plans for growth, and also current performance, the following economic forecasts can be made for the immediate-to-long term:

- In just 2-3 years, it is expected that economic performance growth will be resumed relative to long-term trends, so that growth rises to 1% by next year and 1.5% by 2016.
- In this time, it is also expected that the long-term relationship between average earnings and RPI will also be restored. According to OBR forecasts, these are broadly in line with those predicted in the UK.

Despite Jersey’s excellent track record, we have often been wrongly labelled as a ‘tax haven’, with the implication being that so-called ‘tax havens’ are lacking in transparency, are uncooperative and have poor regulation. Following the recent report described above, and also the G8, this debate has now well and truly moved on.

It was during the recent G8 that a historic meeting took place between the UK Prime Minister and our Chief Minister. This was a good opportunity to explain directly to The Rt Hon. David Cameron, the G8 members and the international media, that Jersey is not a tax haven and that, unlike a number of G8 countries, it already has a Beneficial Ownership Registry and can be part of the solution for improving global standards, as well as promoting growth.

As far as the agenda on transparency is
concerned, it is now more widely recognised that Jersey largely complies and is already ahead of a number of the G8 nations.

The signing of a UK-Jersey FATCA-style agreement, and the disclosure agreement with the UK, now puts our position on, and absolute commitment to, tax evasion (illegal in Jersey for more than 10 years) beyond doubt. We are also prepared to tackle unacceptable tax avoidance, which we do not welcome in Jersey.

The other message that we were able to get out clearly as part of our G8 communications was the importance of our stable and sustainable public finances.

One of the main reasons the world continues to be in such economic difficulty is because politicians and parliaments have spent unwisely. Jersey’s record of prudent public financial management is a powerful differentiator.

The past few years have been difficult, with substantial challenges to Jersey’s economic model including the introduction of the zero-ten scheme, and of course, the impact of the financial crisis. The issues we have faced and difficult decisions we have had to make have taught us many valuable lessons.

At a time when many countries in the world have debts of over 100% of their GVA, Jersey’s balance sheet represents net value assets exceeding 100% of GVA. Together with plans for balanced budgets, we are ahead of most other jurisdictions in many ways, including economic fundamentals.

While Europe continues to be in turmoil and the UK and US are only just beginning to see small signs of recovery, Jersey is already in a strong position, meaning we can offer a level of stability and tax certainty to investors that other jurisdictions cannot provide.

Added to our first-class reputation and financial strength as a jurisdiction, Jersey also boasts some impressive features as a finance centre.

Well-located in a central time zone that spans business working hours across both Eastern and Western time zones, Jersey has a tax-neutral environment, without Capital Transfer Tax, Capital Gains Tax, Value Added Tax, Withholding Taxes or Wealth Taxes. This provides an ideal environment for global trade, where Jersey acts as an efficient conduit for cross-border investment.

We also have a unique constitutional position, which means although we are loyal to the British Crown, we are not part of the UK and do not participate in the British Houses of Parliament. This autonomy has been preserved over the last 800 years and means that we have our own, democratically elected government and judicial system, based on common law principles.

Jersey employs the largest number of finance industry professionals in any offshore centre (nearly 25% of the total workforce), meaning it has an exceptional level of expertise. With over 50 years’ experience in providing private wealth management and trust expertise, Jersey’s trust law (established in 1984) is a model for others. We additionally have over 40 international banks, over 1,380 funds under management and over 100 Jersey companies listed on stock exchanges around the world. All of the major accountancy firms have a significant presence in Jersey as well as five first-tier legal practices.

To build on this foundation and bring the many opportunities we have to fruition, it will be important to raise productivity within the wealth management sector through innovation and investment in our infrastructure.

One of the major investments we have already committed to is ‘Gigabit Jersey’. Gigabit Jersey is a pioneering programme that is set to transform communications in Jersey by bringing super-fast broadband to every home and business over the next 3-5 years. By creating a universal fibre-optic network, Jersey will soon be one of the best-connected places in the world.

We are also investing in the development of a new International Finance Centre, which will provide a world-class district for our premier industry.

Whilst other countries are still concentrating on deficits and debt, we are putting in place strategies for growth, investing significantly in our finance industry and business environment and, in turn, international businesses are choosing to invest in us as we look forward to a positive and confident future.

Of course, this is still conditional on there being a manageable number of job losses within the finance sector and a positive economic outcome from negotiations with the UK, including FATCA. However, as our 800-year-old relationship with the UK grows ever stronger alongside our international reach, Jersey is more than capable of staying ahead of the game and securing growth for those who do business with us.
Challenges of a UK ‘FATCA’ and the global focus on tax transparency

By Dara Lutes-Guest

After signing a Foreign Account Tax Compliance Act (FATCA) with the US in 2012, Jersey closed a similar Intergovernmental Agreement (IGA) with the United Kingdom (UK) this year. The agreement will include:

- An alternative reporting arrangement for UK residents who are categorised as non-domiciled for tax purposes (res non-doms) which will be included in an annex to the IGA and finalised to the same timetable as the US agreement
- A disclosure facility which will allow investors with assets in Jersey to come forward and regularise their past tax affairs prior to information on their accounts being automatically exchanged.

The news of a UK-Jersey ‘FATCA’ initially prompted some serious concerns about its potential impact, in particular from UK investors who are non-domiciled for tax purposes. There was a perceived threat that if these individuals chose to divert their assets elsewhere, this could create economic losses for Jersey, and also for the UK.

There was also an understanding that for Jersey to fully engage, there needed to be a ‘level playing field’ – Jersey did not want to be the only jurisdiction to sign up. Now, the UK has clarified that similar tax-sharing initiatives are being signed amongst many overseas territories with FATCA setting the new standard in international tax
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Record levels of HNWIs drive growth

By Christopher Blampied

The challenges and uncertainty we faced during the financial crisis and the economic downturn are slowly being replaced with cautious optimism. An atmosphere of improved trust and confidence pervades the wealth industry, albeit tentatively, and this is certainly the case in Jersey.

For the first time in recent years, we are seeing an irrefutable, positive outlook in the wealth management market, driven primarily by new, record levels of global High-Net-Worth Individuals (HNWIs). The World Wealth Report, which was released in June and produced by RBC Wealth Management in partnership with Capgemini, showed that one million people joined the HNWI population in 2012 – an increase of 9.2% on the previous year – and that this segment is forecast to grow by 6.5% on average each year until 2015.

This phenomenon was predominantly driven by North America, where the HNWI population grew fastest (11.5%) compared with other regions. The continent reclaimed its position as the region with the highest number of HNWIs, having been overtaken by Asia-Pacific the previous year.

However, it is interesting to consider that these record levels of wealth have been achieved despite a more cautious approach to investing. There was, and remains, a focus on wealth preservation amongst wealthy investors globally. The World Wealth Report showed that nearly 33% of HNWIs have placed an emphasis on preserving their wealth, with a preference for cash or deposit asset investments, compared with the 26% who tried to grow their wealth using various instruments.

Investments aside (and even more encouragingly), there is also a measurable improvement in the level of trust and confidence when it comes to how HNWIs perceive their wealth managers. 61% of global HNWIs surveyed in the report said they have a “high degree of trust” in the firms they work with. Improved asset stability and clearer communication have been key facets in rebuilding the foundations of trust, as wealth managers steer their HNWIs to safer ground.

For over 50 years Jersey has been attracting deposits and investments from private clients and institutions across the world. The banking industry is both significant and growing – we currently have 42 licenced banks, with total deposits of GBP155 billion.

Although Jersey has not been immune to the recent financial pressures, the robust nature of its public finances, the high quality of regulation and a conservative banking model has placed the island in good stead to face any headwinds and continue on its growth trajectory. For instance, on-island deposits have increased by 4.3% in the last two quarters and continue to rise, indicating a sustainable improvement in this sector.

Investors and HNWIs now value security more than ever before, and whether they are using trusted advisors in New York or London, we believe it will become commonplace for clients to seek out Jersey as the most suitable offshore centre for this new mood of growth, tempered with prudence.

We have a strong value proposition in Jersey and a government that has shown its clear intention to invest in the development of the island’s finance industry through the funding of detailed global research, the commitment of resources to Jersey Finance Limited and the opening of new offices around the globe.

At RBC Wealth Management, we are certainly seeing the benefits of this improved environment, with new enquiries and increased investor activity across the board.
transparency. With recent announcements confirming that France, Germany, Italy and Spain, as well as the Cayman Islands, Isle of Man and Guernsey, will now be operating under a similar model, Jersey is now comfortable that the UK FATCA can be a positive development.

The UK FATCA is in fact consistent with priorities raised at the most recent G8 summit, which called for new global standards on tax transparency; a campaign spearheaded by the Organisation of Economic Cooperation and Development (OECD), which commissioned a special report ahead of the summit. In particular, Monica Bhatia, Head of Global Forum on Transparency and Exchange of Information for Tax Purposes at the OECD, has praised Jersey’s active role in the promotion of tax information exchange.

Sophie Dworetzsky, Withers LLP Partner in London, commented on this move towards tax transparency, saying: “The international tax clampdown has now gathered sufficient force and shape to make it clear that there are no hiding places left for tax evaders. Although negotiations continue in many jurisdictions, it seems inevitable that they will be successfully concluded before too long. Law-abiding taxpayers should have nothing to worry about here, but the current direction of travel raises two possibilities that would be unwelcome and damaging for everyone.

“First, deliberately overlooking the difference between tax evasion and avoidance may lead us down a road where structures, which are currently entirely legal, swiftly become outdated and are viewed with suspicion. Put another way, are we headed into a spiral of ever-diminishing options for legitimate tax planning? The second, related, point is the public scepticism relating to offshore holdings at present. Whilst we must acknowledge that offshore jurisdictions are sometimes used for tax abuse, this should not be used to smear every offshore structure. For many, offshore structures provide personal privacy, and are especially useful for individuals with business interests around the world.”

There is still some uncertainty regarding the practical application of FATCA to financial institutions. A significant amount of time and energy will have to go into preparing for the new regime, with a withholding tax of 30% for all financial institutions who fail to comply. Additionally, the act of identifying and reporting US and UK taxpayers imposes an additional compliance burden. It is essential that institutions are aware that FATCA is not just a one-off process and acknowledge the workforce required for thorough checking and consistent monitoring.

Every client affiliated with the US and UK will need to have their status established on a regular basis, and this will require manually searching all records, calculating withholding tax, recording and reporting findings, and making the necessary changes to a client’s status when these findings are confirmed. As well as satisfying regulatory requirements, it will also be imperative that all existing and future clients are reassured that these arrangements will not adversely affect investment performance and all information exchanged will still remain completely confidential.

Jersey’s financial institutions have had to work hard to ensure they can adopt these changes and establish systematic repeatable processes, and also to ensure that operational costs are not disproportionate to the potential investment opportunities and other long-term benefits that can be accrued by the regime.

All institutions have had to develop new client on-boarding requirements, the necessary reporting and withholding systems and a clear system to review existing customer accounts and make amendments to contract details. Many companies have had to consider significant IT changes, especially those that are used to storing client data on static systems both electronically and on paper.
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KYC gets deep and meaningful

By Peter Lucas

One of the most noticeable legacies of the financial crisis has been the level of engagement that customers want in terms of actively managing their portfolio. In particular, entrepreneurial clients want to be closely involved in how their money is invested and are looking for a partner to work with them to make specific choices.

The growing demand for this brand of ‘teamwork’, especially seen offshore by the Jersey investment team, has led to a shift in our approach, with an even greater emphasis on getting to know your client in a wider, more meaningful sense. Through active engagement and consultation with clients and their advisors we can now establish mandates, tailored for each client to support their individual requirements, and investment priorities and goals based on both their wider wealth and the extent to which the client wants to be involved in the decision-making process.

We have also observed an increase in the number of portfolios established by offshore trust companies looking for longer-term investment options that both protect capital first and then target capital growth. With the natural inclination for trust companies to be cautious, this can be a tricky balancing act that, again, requires a close, partnership-style arrangement, where advising on the overall client’s wealth, even if part falls outside of our direct management, is increasingly part of the process.

Given the significant market corrections seen over the past decade we are also discussing absolute return mandates alongside more traditional balanced portfolios, as these seek to target a positive return, regardless of fluctuations in the market.

To adjust to this more involved, cautious marketplace, Rathbones’ Strategic Asset Allocation Committee works to leverage the global experience of our portfolio managers in order to provide an accurate context of the market and determine the weightings of our core medium to longer-term investment strategies. In doing this, Rathbones has been able to introduce a greater level of structure and a rigorous framework that targets consistent risk adjustment returns whilst continuing to adapt to the changing markets. However, managers still retain freedom of movement to target shorter-term opportunities required of a more absolute return or capital preservation mandate, and now strike a good balance between providing reassurance through a structured process and maintaining a flexible and bespoke service.

A key differentiator within our enhanced investment process is how we allocate assets. Instead of dividing assets according to their volatility, we increasingly consider their correlation characteristics. As such, asset classes are based on liquidity, equity-type risk (including assets that are highly correlated to equity markets, e.g. corporate bonds, private equity and industrial commodities) and other diversifiers that have a lower correlation with, for example, UK equities (e.g. global macro trading funds and property and commodities such as gold or agriculture).

We have also introduced a quantitative scoring framework that extends the breadth of our research. We create both short and long-term return forecasts for each asset class and supplement this with historic correlation and volatility scores, to help construct the most efficient strategies.

Clients and their advisors will continue to search for their preferred blend of rigorous process, implementation flexibility and experienced managers to reflect their specific requirements, and clients of Rathbones can therefore expect a tailored service, underpinned by a well researched investment process and designed to deliver appropriate risk-adjusted returns.
Despite all of the challenges this implementation requires, the benefits of international collaboration are greater than ever. As it becomes commonplace for countries around the globe to enforce similar FATCA requirements as part of the move towards transparency, Jersey is going to be in a strong position.

Jersey’s Chief Minister, Senator Ian Gorst, sums up the situation: “This strategy (of signing FATCA) is designed to continue to ensure the industry innovates, prospers and continues to be regarded as one of the world’s financial centres. By reaching agreement with the US and UK on enhanced information exchange, we are making an important contribution to the future success of Jersey.

“Our internationally recognised reputation for being transparent and well regulated is a key strength of our financial services sector, and what we have now agreed with the UK will serve to further reinforce this message. It is also in the Island’s long-term interest to keep in step with the global direction of travel towards greater transparency.”

The industry in Jersey has also been largely supportive of the move, actively participating and accepting that moving towards transparency is inevitable and in some ways could be beneficial for Jersey’s reputation.

As Heather Bestwick, Deputy CEO of the industry body Jersey Finance, notes, “The outline package agreed between Jersey and the UK reflects Jersey’s strong relationship with it and the Island’s international reputation for high standards of regulation.”

FATCA-style agreements also have significant implications for the growing digital industry in Jersey, as finance firms consider what new technology they will need to implement to deal with client data to ensure both compliance and efficiency.

C5 Alliance Limited Director and Head of Business Intelligence Team, Dan Hare, says, “Regulatory reporting is one of the biggest efficiency challenges faced by financial services businesses. Maintaining compliance with the various new and existing international tax regulations can be time consuming and resource-intensive. New regulations are also being introduced all the time, so the important thing is to ‘future-proof’ systems so that they can be adapted quickly and easily to new requirements.”

It is clear that the sophisticated data requirements that are emerging as a result of these new agreements will result in much closer working relationships between the finance industry and the providers of technology and business solutions.

Whatever the challenges that implementation of the agreement with the UK brings, it is reflective of a positive new mood in terms of Jersey/UK relations. A very recent report by Capital Economics revealed that Jersey helps the United Kingdom generate around £2.3 billion in tax revenues each year and supports 180,000 British jobs. It also found that, counter to some previous claims, no more than £150 million per annum of British taxes could potentially be evaded using Jersey and that the recent FATCA-style agreement with the UK would substantially reduce or eliminate the potential for tax losses.

Mark Pragnell of Capital Economics, and principal author of the report, notes, “This work goes further than any previous study and, importantly, provides a comprehensive review of the sources and uses of assets administered or managed in Jersey. The Island is a catalyst for employment and economic activity in the United Kingdom, which itself generates revenues for the British exchequer.”

In terms of next steps, the UK has also indicated that it is happy to consider a possible renegotiation of the current Double Taxation Agreement between the UK and Jersey.
Opportunity. It’s not always obvious, but when you’re always looking for it, it becomes possible to find. At Nedbank Private Wealth we value opportunity and pursue it relentlessly. It’s how we find new and innovative financial solutions for you and your money.
In financial markets that are still unpredictable, the aim for wealth management institutions remains identifying safe forms of growth for clients.

Influenced by shifting global political landscapes, tax regulation has only become more complicated and, with it, investors increasingly cautious. More than ever, Jersey’s financial institutions need to consider how to position their offerings and find effective ways of delivering investments to customers.

In 2012, offshore wealth – also referred to as assets booked in a country where investors have no legal residence or tax domicile – rose by 6.1% to USD8.5tn. Despite the increase, stronger growth in onshore wealth resulted in offshore wealth’s share of global private wealth slightly declining to 6.3% (from 6.4% in 2011). Offshore wealth is anticipated to rise moderately by the end of 2017 to USD11.2 tn.

However, due to the mounting pressure that tax authorities are applying on offshore centres, there is a concern that wealth could increasingly move onshore.

With this in mind, there are a few key trends that have an influence on offshore wealth management strategies:

**Benefiting from the move towards tax transparency**

In Jersey, the government has been pursuing a policy of signing tax agreements for quite some time, while, in the last month, the political mood has shifted to mirror the global move towards tax transparency with the formal signing of a FATCA-style agreement with the UK. This was reflected globally during the recent G8, and also in terms of commentary coming out of the G20. Commenting on G20 outcomes, Geoff Cook, CEO of Jersey Finance, says, “The major development is the commitment of the G20 to automatic information exchange, which effectively sounds the death knell for on-request.”
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Diversifying into tangible, heritage assets

By Keith Heddle

In our industry, it is commonplace for wealth managers, collectors and other high-net-worth individuals to approach us seeking long-term, tangible investment opportunities. We make it our business to demonstrate to these clients that they are investing in low-risk collectibles with potentially high returns, if they are prepared to take a longer term view.

Stanley Gibbons specialises in handling only the finest and most exceptional stamps, coins, medals or signatures, establishing a prestigious portfolio of lucrative, safe-haven collectibles. Our team of experts has perfected the art of ‘stock picking’ in a specialised and often overlooked field, securing consistently solid returns for our investment clients.

The market for these items is much less subject to risk than one might immediately think. Their value does not correspond with market volatility and is therefore a ‘safe’ investment in a world of financial instability. This has subsequently been affirmed by using a number of indices to track historic prices.

Perhaps our most well-known tool is the GB30 Rarities Index, which has tracked the performance of British, investment-grade stamps for 50 years. Amazingly, the value of the stamps in this index has not dropped in this time. To further validate the market, we undertook a deeper and broader study of 250 rare British stamps. We then tracked their performance over the previous 12 years, which showed a compound annual growth rate of 13.2%; like the GB30 Rarities, this GB250 Index is also listed on Bloomberg for transparency and robustness.

Due to the nature of its asset class and the basic laws of supply-demand economics, the value of stamps is, in many ways, much safer than other commodities since it is underpinned by the demands of collectors rather than fluctuating markets. This was shown in the crash of 2008 where the GB30 Rarities Index increased by 38.6% and the value of the best-performing stamp by an astounding 93.5%. Even the worst-performing stamp increased by 8.6%!

Our experts understand what defines sought-after items and how to ensure they are safely preserved to at least maintain, if not gain, in value.

For the future, our vision is to create a global trading platform, where rare and valuable collectibles can be traded while creating greater transparency and liquidity. We recently acquired a US-based Internet auction business, which actually synchronises with eBay. The first online exchange of its kind, it will solely deal with collectable stamps, postcards, comic books and coins, broadening our outreach to clients looking to trade and also for healthy investment returns.

Another key market for rare stamp investors is China – in recent years, the Chinese market has seen remarkable growth, as high-net-worth Chinese collectors reclaim their heritage. Our China Market Study showed that between 1989 and 2012, the value of 200 rare investment-grade Chinese stamps increased by £4m – a compound annual growth rate of 11.6%!

Stanley Gibbons is set to build its business in Asian markets, with new offices in Singapore and Hong Kong. Although collectibles are not right for everyone, we have seen a steady trend of clients coming to us directly to diversify their portfolios into tangible, heritage assets.

With 157 years of unrivalled expertise and as the holder of the Royal Warrant for services to philately, Stanley Gibbons is the undisputed global market leader and the most trusted brand in its field – good to know when you’re entrusting them with your capital.
Andrew Robins, Senior Private Banker at Nedbank Private Wealth, describes some of the changes emerging from this new financial era: “We are all acutely aware of the impact of the 2008 financial crisis, the financial world has changed dramatically since then with on-going market volatility and an increased focus on tax transparency triggered by falling government revenues.

“International finance centres have been under the spotlight once again as sovereign states scramble to find perceived revenue streams from other sources. The ‘new normal’ of low interest rates, central bank intervention and stuttering growth in the East - which had previously been held up as the saviour of global markets - is likely to persist in the near term meaning that the spotlight is likely to continue shining on international finance centres.

“However, well regulated, mature international finance centres such as the UK Crown Dependencies continue to play an important part in the flow of global trade with a recent report by Capital Economic independently confirming the important role that Jersey plays for the UK economy.”

Institutions in Jersey now need to consider how they can use this new regulatory environment to their advantage. As Jersey increasingly works to actively position itself as the highest quality offshore centre in the world, its finance industry is realising that it needs to embrace this inevitable movement despite the significant data administration burden it has created. As a recent Boston Consulting Group report states: “Offshore centres must position themselves not only as possessing skills and expertise that cannot easily be found onshore, but also as embracing full transparency and integrity.”

A new era of client relationships

Transforming the client experience now has to be the key focus of the private bank and wealth management industry. In order to achieve segregated and economically sustainable business performance, it will be vital to understand how current trends are affecting overall client experience.

Andrew Robins briefly touches on the importance of building strong client relationships, noting: “Despite the changing landscape, the fundamental premise of wealth management remains unchanged and strong businesses who put client service at the core of their proposition will continue to thrive. Communication with clients has been key during the difficult recent past and wealth managers who have pro-actively kept their clients informed of developments, good and bad, will be rewarded through increased client loyalty.”

Between the wealth manager and the client, there need to be new ways of communicating, at every stage of the relationship. Peter Lucas, Investment Director of Rathbones Investment Management International (Jersey) reiterates: “Good relationships have never been more important, but how they operate has changed. Through active engagement and consultation with clients and their advisors we can now establish mandates, tailored for each client to support their individual requirements.”

Only through greater productivity, better teamwork and a more consistent experience for the customer, can institutions provide the required degree of excellence, while leveraging their commercial edge.

Gearing up for fast change

Another major trend affecting Jersey’s wealth management sector is the speed at which the regulatory environment and markets are changing. Clients are now looking at an organisation’s ability to handle significant transformational change, quickly.

The industry is only part way through its transformation and the level of change needed to meet operational challenges is frequently underestimated.

In light of the sheer scale and breadth of the task at hand, and the costs involved, it is perhaps understandable that transformation programmes are challenging, however, business industry players need to accomplish...
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Why gold is really money

By Andrew McGowan

The notion that gold is money is probably an anachronism to most people. At least three generations of westerners have grown up taking for granted the idea that money is only ever irredeemable bits of paper or electronic digits on a screen.

Many academic economists shudder with horror at the thought of any kind of gold standard. For them, a continually expanding money supply - manipulated by a central bank - is a sine qua non as far as monetary policy is concerned. Governments and banks are only too happy for this intellectual climate to persist, given that they are the main beneficiaries of central bank largesse. As first receivers of newly created money, they get to spend it before prices have risen in compensation for the increased money stock.

At this point it is best to take a step back and define what 'money' is as opposed to 'currency'. Money is still the same thing it always has been from the moment it was first invented in pre-history: a mental tool used for economic calculation that enables each of us to communicate what we value in an exchange. What changes throughout monetary history is currency. Gold and silver have been recognised as currency for much of the last 3,000 years. But for the last 40-odd years, irredeemable paper – fiat currency – has formed the basis of the global monetary system, with the US dollar king of the hill.

Gold is an ideal tool for measuring worth and changes in value over time. The above ground stock of gold grows by around one to two percent per year which is roughly in line with annual gains in global GDP. And contrary to what the media would have you believe, gold is not a commodity because it is not consumed.

Hence the consistency in gold’s purchasing power over time. The chart below illustrates how effectively gold has preserved purchasing power over the last six decades in contrast to some leading national currencies – an ounce of gold today buys almost the same amount of oil it would have done in 1950.

Gold is commonly compared with equities and bonds when assessing its price performance, but this is a mistake. These other two assets are investments. Equities represent ownership of enterprises that generate a cash flow. And, the bond is a cash-generating asset. Both equities and bonds represent liabilities of the issuer.

In contrast, gold generates no cash flow. It has no price/earnings ratio or management team. Even more crucially, it can be used as a financial asset without simultaneously being someone else’s liability. It is therefore apolitical money par excellence, and deserves inclusion in the liquidity or ‘cash equivalent’ section of your portfolio, rather than the ‘investment’ part. This is particularly true during bear markets or depressions. In the words of American market sage James Grant: ‘Nothing beats a little cash in a bear market, of course, and the oldest form of cash is gold.’

GoldMoney offers allocated gold, silver, platinum and palladium bullion and provides storage with the world’s leading vault operators in Canada, Hong Kong, Singapore, Switzerland and the UK. We transact in nine major currencies, and also offer extensive physical delivery and collection options.
more across the gamut of their operating models than they are achieving at present.

Opportunities for those organisations that are able to transform their business models effectively are significant.

Ultimately, the landscape remains particularly challenging for wealth managers as they attempt to keep technology budgets steady. Whilst several might be able to modestly increase them, more important will be their ability to modify their business models, customer segmentation strategies and service propositions. Only through these means will they be able to enhance their ability to retain clients and expand relationships within the industry.

The ongoing development of the digital world is providing clients with new sources of information while increasingly lessening the outmoded ways in which relationship managers perform their roles and provide information.

The digitisation of the industry will necessitate technology playing a much more active role in business. Web-based technologies now provide a slew of innovative methods that allow them to interact with clients and deliver advice, while social media is a strong influencer when it comes to issues of transparency and trust.

In order to serve clients’ needs, fast-developing data analytics technologies are offering new ways to generate proprietary insights on huge data sets – a significant investment in IT and superior IT-delivery capabilities is required in order to leverage these trends.

It is accepted that these developing technologies will be able to support the integration of asset preservation, lifestyle management and wealth creation. Jersey, for example, has already seen increased demand amongst corporate clients for its advanced incentivising arrangements for staff, such as the provision of retirement funding.

Keith Heddle, Group Investment Director, notes how Stanley Gibbons is embracing technological advancement: “We recently acquired a US-based Internet auction business, which actually synchronises with eBay. The first online exchange of its kind, it will solely deal with collectable stamps, postcards, comic books and coins, broadening our outreach to clients looking to trade.”

“Despite the changing landscape, the fundamental premise of wealth management remains unchanged and strong businesses who put client service at the core of their proposition will continue to thrive.”

Andrew Robins, Nedbank Private Wealth

For wealth managers and advisors who prefer not to deal with the cost of managing multiple systems, continual upgrades and/or employing more staff, the Cloud – where anything stored can be accessed almost anywhere, anytime – now appears to be the destination of choice.

This trend represents a significant shift. Along with the substantial cost saving of software no longer needing to reside on a user’s server or computer, overhead charges (cost of data storage, software updates, overall management of systems etc.) are also reduced.

For advisors, accessibility is one of the driving forces behind the adoption of Cloud computing, offering significant potential for cost savings and revenue growth, while, for businesses, Cloud solutions allow a broader range of capabilities without incurring the cost of implementation within their own IT department.

Overall, Jersey’s reputation is going from strength to strength with the government and industry bodies working hard to secure its status as a highly reputable, compliant and secure offshore financial centre.

The recent letter from the Secretary General of the OECD, Angel Gurria, written to Jersey’s Chief Minister to congratulate the Island on the measures it has taken in support of international tax transparency, has reinforced the clear recognition of Jersey’s ability to meet the demands of regulatory standards.

This level of high quality endorsement, added to Jersey’s commitment to investment in technology creates some significant opportunities for the local wealth management industry.