

## **Isle of Man Financial Services go from Strength to Strength**

By Steven Beevers, Deputy Head of Isle of Man Finance

The Isle of Man continues to enjoy a bright outlook and successful economy which affords opportunities for both its residents and businesses and is an attractive proposition for new businesses either establishing in, or relocating to the Island.

A cursory look at the Isle of Man's economic track record and it is easy to see why. The Island benefits from over 21 years of continuous economic growth; virtually no unemployment for the last decade; good controls on public spending and strongly performing industry sectors, none more so than the financial services sector (which makes up nearly 40% of the Islands GDP). The future of the Isle of Man looks bright, and all the indications are that this growth is continuing at a pace for the 22nd year, which is a remarkable achievement for a country of just 80,000 people.

### **Triple 'A' rated by Britain's most respected agencies**

The Island has for some years now possessed and continues to retain its 'triple A' credit rating from both Standard & Poor's and Moody's. The main strengths the reports highlights are the Island's substantial fiscal flexibility, it's high degree of economic alignment with the United Kingdom, a relatively wealthy economy characterised by consistently strong income growth, a buoyant and flexible economy driven by financial services, a substantial level of reserves, stable political relationship with the United Kingdom, prudent and conservative approach to financial management, relatively low debt levels and it's 'international good citizen' approach to the EU regarding harmful tax practices. All in all, the Island can be seen to have a constructive and visionary outlook and is a highly reputable and well regulated place of business for international finance.

Since the mid-nineties, real economic growth has been averaging around seven per cent per annum, and this rate now seems to have stabilised at a more sustainable five to six per cent p.a. Per capita income is now ten per cent higher than that of the UK and 19 per cent higher than the EU15 average.

And yet Isle of Man residents have even more to cheer about! The top rate of income tax, which kicks in when personal income exceeds roughly £19K, is only 18%, the most favourable personal income tax regime of all the Crown Dependencies. In addition, following the 2006 Budget in the Isle of Man, tax liability for high income earners has been capped at no more than £100,000, a policy decision taken to further encourage the attraction of highly skilled entrepreneurs and new business to the Island.

Businesses are also thriving, since along with the implementation of the cap on personal income tax, the Treasury Minister announced the introduction of a standard zero rate of corporate tax for business (10 per cent for banking and property development) in the 2006 Budget, thus putting into place the Island's new tax strategy as a central plank for further development.

### **Public / Private Partnership**

The credit for a successful economy can not be attributed to the Government alone, it is equally due to the partnering relationship that it has with industry and residents.

For example, in 2002 Treasury and local Fund Managers worked side-by-side to introduce significant reforms which paved the way for growth and helped to build a platform from which the fund industry could develop. Since 2002 the industry has seen outstanding growth with funds under administration trebling to stand at in excess of US\$41.9 billion by the end of 2006. Significant opportunities for further growth and development have led leaders of this industry to forecast US\$100 billion under management and administration by 2010. The current success of the funds industry has proven to be a practical demonstration of what can be achieved by proactive partnership between the public and private sectors.

### **Financial Services are booming**

It's not just the funds sector that is performing well, the total Banking Deposits currently stand in excess of US\$51 billion up nearly 20% on 2005. The Isle of Man is also home to more licensed Corporate Service and Trust Service Providers than any other jurisdiction and has now built a reputation as a centre of excellence in administration of companies and trusts.

Alongside this the Isle of Man remains a leading world player in the international life insurance industry. Annual premium income last year rose by 62 per cent to UK£6.7 billion, and indications from the market are that 2006/7 is likely to be another buoyant year in terms of volume of business. While such healthy figures reflect to a certain extent the rising investment market, they also indicate the international recognition of the level and depth of skills available on the Island enabling its' companies to administer more sophisticated and innovative investment products – and these companies' ability to identify the needs of the market and fulfil them.

Similarly, there has been a steady increase in the number of international pension schemes based in the Isle of Man, which is by comparison, a relatively young industry. A total of 104 International Authorised Schemes have been registered since the Government launched a new initiative to enable pension provision for multi-nationals and wealthy expatriate workers only a few years ago. The regulatory framework provides for the setting up of tax neutral international pension arrangements for non-resident corporations and individuals, and has created many new opportunities for the Island's legal and accountancy firms and other specialist service providers.

International wealth, expatriate and related private client markets continue to thrive and clear opportunities exist for the Isle of Man to continue to develop business in the areas of personal asset and wealth management, corporate finance, international financial planning, funds management and fiduciary services.

The Island isn't placing all its eggs in one basket, as the economy grows and diversifies so does the skill base and additional international capital the Island has to offer. Filmmaking, satellite commerce and other technology driven industries are now thriving alongside the more traditional ones. But here, too, innovation remains the watchword with both Government and industry continuously seeking out new markets such as mega yachts registration and management - a recent success story and aircraft registration, which is just on the starting blocks.

As well as its natural attributes of space for growth and development (227 square miles), the Isle of Man also boasts world leading telecommunications, and modern physical infrastructure and public services, which combine to make it a very attractive location in which to both work and live, and especially for those with young families, the Island offers a welcoming and attractive lifestyle.

This year the Isle of Man again brought home the trophy for 'Best International Financial Services Centre' at the International Investment annual Fund and Product Awards in London (for the sixth successive year) and Isle of Man companies won eight of the key categories.

## **Reform to Company Law**

Over the past few years the Isle of Man has evolved into an international finance centre on a level with some, and often ahead, of many of its contemporaries. In order to maintain this position as one of the worlds most respected and competitive jurisdictions the Isle of Man has focused its attention on performing the most radical reform of Isle of Man Company Law for more than half a century.

The Isle of Man Government worked closely with its financial services industry to create and launch in November the 2006 Companies Act. This new company law offering has been specifically designed for international use, at the same time meeting key OECD expectations in terms of disclosure and corporate governance. The Act complements the Island's zero corporate tax regime and offers the industry a new product solution for meeting the modern day needs of a fast moving 21st Century global market. In effect, the new legislation streamlines the whole process of how businesses are set up and run. It is

considered that these two initiatives taken together will position the Isle of Man as the jurisdiction of choice for company services and incorporation within a European time zone.

The Act provides for a new corporate vehicle that will coexist with present and future companies incorporated under existing legislation including the Companies Acts 1931 to 2004, or which may be incorporated as LLCs under the Limited Liabilities Companies Act 1996.

The main benefits of the new Act are that it combines the advantages of speed of incorporation and flexibility of use with the ease of administration as it streamlines the process of setting up and running a Company in the Isle of Man. It is the only modern 'business company' model available in a European time zone and it complements the Isle of Man's zero rate corporate tax attractions. When coupled with the strong professional support on the Island – over 170 licensed fiduciary service providers – the Isle of Man can be seen to offer an ideal environment for incorporation, and servicing of companies.

The provisions of the new Companies Act 2006 are expected to have broad appeal in the specialist offshore market. Key elements compared with the Isle of Man's 1931 Companies Act include greater flexibility of use, greatly reduced and simplified reporting, use of regulated corporate directors, increased focus on registered agents, use in protected cell form and ease of re-domicile to or from the Island.

On the 1st January 2006 there were 30,934 live (1931 Act) companies on the register compared with 30,847 in 2005.

During 2006 3,465 new 1931 Act companies were incorporated, an increase of 29% (788) on 2005 (2,677). The 1st November 2006 saw the introduction of the 2006 Act company, and in its first 2 months 254 were incorporated. The increase in new companies has also resulted in a 29% increase in the number of enquiries about prospective company names, from 7,025 in 2005 to over 9,000 during 2006. The main drivers seem to be the increased demand for bespoke trustee companies, increased use of Isle of Man companies for AIM listings, and interest arising from the changeover to the new Tax Strategy.

### **Isle of Man and the City**

The Isle of Man has a strong reputation in international markets, especially in Europe and the Middle East, but none more so than on our immediate doorstep. The streets of the major UK Cities are a frequently trodden, and especially so those in London, where the Island has demonstrated its commitment by setting up an office in the prestigious home of banking at Cornhill, neighbour to the Bank of England. Island professionals utilise this thriving base as a platform to work from in the City benefiting from easy access into this important market while helping to raise the Isle of Man's profile with their City counterparts.

### **A bright future ahead**

While the Island has already demonstrated an enviable track record, it has also shown that it has no wish to stand still. It is clear that with forward thinking taxation strategies and reforms to company law, quality international finance centres like the Isle of Man are playing an increasingly important role in the highly competitive international business and wealth management industries. Business is not attracted by any one single factor – but the overall quality of the 'package' of benefits, including the calibre and depth of professional services. This coupled with the Island's genuine cost-effectiveness, fiscal and political stability and quality of life, affords those, who make the Island their domicile of choice, the 'freedom to flourish'.