Insights into future trends and structure of the offshore industry
CONTENTS

Foreword .......................................................................................................................... 5

Introduction to the market ................................................................................................. 6

Key trends ................................................................. 12
Regulators: On the rise .................................................. 12
Jurisdictions: Traditional strongholds losing ground ................................................. 16
Service Providers: Increasing client sophistication ................................................... 24

Summary ......................................................................................................................... 30

Methodology .................................................................................................................. 31

Acknowledgements ........................................................................................................ 34
Foreword

Nothing changes in a year, right?

When we first undertook this market research study last year, the results were interesting but not necessarily surprising. The trends coming out seemed logical to us, as a participant in the industry who tries to stay close to the coalface. Of course there would be some changes, some nuances along the way.

But as one of my business mentors once told me “it is easy to over-estimate what can be achieved in the next month, but don’t under-estimate what can happen in a year”. Our organisation, for example, has nearly doubled in size since writing this report last year. Spreading our wings to now encompass Europe, the Middle East and the USA, we have a much better vantage point to see these global trends play out.

And so repeating the Offshore 2020 research this year has been a fascinating exercise for us, and hopefully for you as the reader.

The themes coming through in this report – the growing sophistication of the Asian market, the rise of mid-shore locations such as Hong Kong & Singapore as viable alternatives to pure offshore jurisdictions and the ever increasing regulatory environment makes for interesting reading. The need for service providers and IFC jurisdictions – whether offshore or onshore – to create clear points of differentiation – are even more evident when taken in broader international context.

We are delighted to have so many international contributors as survey respondents in order to give this year’s report more richness and colour.

OIL will be using the results of this research to develop the products and services we provide to clients. We look forward to receiving any comments and feedback so we can further enhance our services and add value to your business.

Martin Crawford
Chief Executive Officer
INTRODUCTION TO THE MARKET

THE GLOBAL PICTURE

Twelve months ago, the offshore industry was still adjusting to the largest wave of international regulation in over a decade. The Organisation for Economic Cooperation and Development’s (OECD) drive for greater tax transparency peaked in early 2009 with backing from the G20 nations and its impact was being felt when OIL’s first White Paper came out in December 2010.

Several other international bodies weighed in alongside the OECD, including the Financial Stability Board and the Financial Action Task Force. As a result, the industry now has to deal with a four-tier regulatory framework comprising international standards set by the OECD, bilateral regulations, national regulations and client-specific regulations.

At a macro level, the OECD created a “white list” of jurisdictions that have shown a willingness to meet global transparency requirements and therefore won’t be considered for sanctions. Qualification was dependent on signing 12 tax information exchange agreements (TIEAs) with other nations. Nearly 400 TIEAs were signed in 2009 and 2010, compared to just 47 over the preceding eight years. Between April 2009 and November 2011, 48 countries were placed on the white list, while four remain on the “grey list.”

This has been succeeded by a peer review process to assess how effectively jurisdictions’ willingness to comply is translating into concrete action. Several nations have come up short in the peer review for failing to implement acceptable accounting requirements and exchange of information systems. In some cases, jurisdictions are reprimanded for signing TIEAs but not yet implementing them. In other cases, jurisdictions are singled out for pursuing double tax treaties (DTTs) rather than TIEAs, even if this is government-mandated policy. DTTs address information exchange but also offer a variety of other financial benefits. Critics
argue that, by comparison, a TIEA amounts to little more than an agreement to serve as an outpost for foreign revenue authorities.

Opinion remains fiercely divided on the OECD’s initiative. Concerns have been raised that it is a precursor for automatic information exchange systems that would work in the interests of OECD member nations. On a broader level, it is also claimed that the offshore financial centers being targeted are not the problem at all; financial services providers in the US and Europe have been shown to be far less stringent when applying anti-money laundering (AML) and know-your-customer (KYC) due diligence to prospective clients.

Interviewees were asked to name regulatory obstacles to company formations beyond the general OECD agenda and over two thirds cited AML and KYC requirements. The problem is not the requirements per se, as the failure to apply them uniformly across different jurisdictions. It is particularly an issue in emerging markets that, although growing rapidly, are doing so from a relatively low base.

Domestic regulation in general continues to be a challenge for offshore service providers as countries take their own action regarding tax transparency. At one end of the scale, developed nations are obtaining – through ultimatum, regulation or even subterfuge – information on tax residents who hold bank accounts in offshore jurisdictions. At the other, countries are tweaking tax laws to prevent abuse of tax treaty benefits.

The enduring hope is that, as a result of the OECD’s efforts, the industry will emerge better managed and better regulated. Operating in a more even and transparent commercial environment, larger service providers should be able to capitalise on their geographical and product scope while smaller operators reap the rewards of high-end specialisation. However, the web of bilateral, national and client-specific requirements that exist below the macro level is far from being untangled.
It reinforces the notion that in an increasingly international, multi-layered and offshore and onshore industry, investors cannot put too high a price on good guidance.

THE REGIONAL PICTURE

The principal areas of interest to offshore financial services providers are inevitably those where wealth creation is most aggressive. Asia is well established as the most important region for client origination, although oddly the interest level among interviewees is down slightly on 2010. This may be a reflection of the sharp uptick in interest in Latin America. The Middle East, Australia and New Zealand and Africa also saw their ratings go up. (See Figure 1)

Figure 1 Client origination by location

Source: OIL
It should come as no surprise that Europe ex-UK has slipped the most over the last 12 months, although ratings for the UK and North America both rose marginally. Looking 5-10 years ahead, respondents expect these developed markets to remain important areas, but the gap with other regions is closing, even as Asia extends its lead at the top.

A decade hence, Latin America is tipped to become the second most significant area for client origination, up from its current seventh place. Europe ex UK and UK will take third and fourth, followed by the Middle East and North America. However, these regions are so closely bunched as makes little difference and this will pose a challenge for service providers looking to deploy finite resources to best effect.

Positive sentiment on Asia is reinforced by data on wealth distribution, which is in itself largely a product of GDP growth patterns. According to the Capgemini and Merrill Lynch Global Wealth Management World Wealth Report 2011, the population of high net worth individuals (HNWIs) in Asia-Pacific is now the second-largest in the world behind North America. HNWIs are defined as people with investable assets in excess of US$1 million while ultra-HNWIs have investable assets of US$30 million or more. Total assets controlled by these individuals grew 12.1% year-on-year in 2010 to US$10.8 trillion, compared to Europe’s US$10.2 trillion. (See Figure 2)
Of Asia-Pacific's 3.3 million HNWIs, 1.7 million live in Japan, 535,000 in China and 153,000 in India. In China and India, the HNWI population is projected to triple by 2018 from 2008 levels, although the most rapid growth in 2010 was in Hong Kong, Indonesia and Singapore. Japan and China between them account for more than 60% of the total wealth. (See Figure 3)
Latin America can’t match Asia for growth – its HNWI population and wealth grew 6.2% and 9.2%, respectively, in 2010 – but it has proved a relatively resilient market in recent years. HNWI wealth barely saw a retraction during the global financial crisis and is up 18.1% from 2007. A total of 500,000 individuals control about $7.3 trillion.

In the Middle East, 400,000 HNWIs controlled $1.7 trillion in 2010, up 12.5% year-on-year, the fastest rate outside of Africa, which is working from a very low base.
KEY TRENDS

REGULATORS ON THE RISE: PROVING SUBSTANCE HAS BECOME A MAJOR ISSUE

Given the tightening regulatory environment of the past 18 months – on a global level through the Organisation for Economic Cooperation and Development (OECD) as well as through local tax authorities – it should come as no surprise that industry participants are keeping a close eye on policy. Asked to assess the role of regulators in the market today, 96% of respondents deemed it important or very important, with only 4% opting for neutral. (See Figure 4)

Figure 4 Is the role of governments and regulators important?

Source: OIL
The progress made by the OECD in its attempts to impose uniform transparency requirements on offshore jurisdictions is reflected in industry participants’ perception of the principal regulatory issues. To qualify for the OECD’s “white list” of jurisdictions that have shown a willingness to meet these requirements, 12 tax information exchange agreements (TIEAs) must be signed with other nations. A similar clause addressing information exchange is present in most double taxation treaties (DTTs), which also offer the signatories a variety of other financial benefits intended to facilitate trade.

Over half the respondents agreed that the advent of DTTs and TIEAs had impacted their business. In 2010, interviewees were asked whether zero tax or the existence of a broad range of DTTs would become more important in the medium to long term; DTTs collected 53% of the vote compared to 32% for zero-tax. In 2011, the gap widened, with DTTs taking 77% and zero-tax just 15%. (See Figure 5)

Figure 5 Which will become more important in the medium-to-long term?

Source: OIL
In this respect, the conclusions reached last year still hold true. First, jurisdictions with a particular niche offering – such as a DTT network or easy access to an attractive target market for investment – can expect to do well. Second, jurisdictions that are regarded as fully fledged onshore financial centers can expect to do especially well.

Hong Kong and Singapore are the classic beneficiaries of this trend. Aside from being low-tax rather than zero-tax, they have well established and high performing onshore financial sectors. Investors are attracted by their strong legal systems, high levels of service, relatively painless bureaucracy, extensive international trade links, and rich DTT networks.

The combination of a developed and diversified financial sector and a DTT network is indeed compelling. Individual nations are tightening up on the criteria offshore structures must fulfill to become eligible for the tax breaks on passive income – interest, dividends, royalties, and so on – granted under many treaties. A company must therefore establish a level of substance in the treaty jurisdiction that is sufficient to convince regulators that it doesn’t exist purely to leverage DTT benefits. The “unfavorable factors” published by China’s State of Administration of Taxation that come under consideration when assessing beneficial owners succinctly express what regulators are looking for. (See Figure 6)
The treaty resident is obligated to pay or distribute a portion (for example 60% or more) or all of the income within a prescribed timeframe (for example within 12 months of receiving the income).

The treaty resident does not have or almost does not have any other business activities besides ownership of the assets or rights that generate the income.

Where the treaty resident is a corporation, its assets, scale of operations, and employee are relatively few and not commensurate with the amount of the income.

The treaty resident has no or almost no controlling rights or disposal rights on the income or the assets or rights that generate the income, and bears no or very little risk.

The other treaty country (region) does not tax or exempts the income, or taxes the income at a very low effective tax rate.

Besides the loan contract on which the interest arises, the lender (treaty resident) has another loan or deposit contract with a third person with very similar amount of principal, interest rate and time of conclusion.

Besides the copyright, patent and technology licensing contract on which the royalty arises, the treaty resident has another licensing or transfer contract with a third person with respect to the relevant copyright, patent and technology.

The bottom line is that it’s far easier to establish substance in a developed commercial hub than in a small jurisdiction.

Mauritius is a case in point. For years, the jurisdiction has been the conduit of choice for foreign direct investment into India. However, the Indian authorities are poised
to introduce a new direct tax code that includes anti-avoidance provisions, which would allow them to target structures deemed only to exist to exploit DTT benefits. Investors must therefore create substance in Mauritius in order to use its treaty with India. Many are voting with their feet and setting up in Singapore where tax advantages are more or less equal and the business environment is far superior.

The Hong Kong vs. Singapore debate, though guaranteed to generate spirited conversation, is increasingly irrelevant. Hong Kong’s most attractive features to financial investors remain its proximity to China and developed capital markets, making it a natural draw for fund managers and corporates. Singapore, it could be argued, has been fleet of foot in its regulation, effectively carving out niches – by geography and sector – around Hong Kong’s footprint. In an offshore context, a firm line on information exchange and proactive wealth management policies are a draw card for private banking.

**JURISDICTIONS: TRADITIONAL STRONGHOLDS ARE LOSING GROUND, BUT TARGETING MARKET NICHEs CAN PAY DIVIDENDS**

The emergence of "mid-shore" jurisdictions like Hong Kong and Singapore doesn’t necessarily mean muted prospects elsewhere: A private equity fund, for example, can still register in the Cayman Islands and set up subsidiaries in Hong Kong and Luxembourg that offer tax efficient routes into Asia and Europe, respectively.

More than three quarters of interviewees said that they are seeing increased demand from clients to incorporate elements of onshore into offshore structures; 73% agreed that stringent regulations (in terms of information exchange and double tax treaties) and greater scrutiny of offshore investments (due to negative perceptions of the industry) are the key driving factors. At the same time, and for the same reasons, eight in 10 respondents reported a growing call for combination structures. (See Figure 7)
Is there an increasing client preference towards combination structures?

Asked to rank jurisdictions by importance then (2010), industry participants interviewed last year came up with two tiers. The British Virgin Islands (BVI) and Cayman Islands, by some distance the best established pure-play offshore locations, placed first and second, followed by Hong Kong and Singapore. The two mid-shore jurisdictions were expected to match or surpass the others in the medium term. Other top jurisdictions included Luxembourg, US (Delaware) and Bermuda (See Figure 8). In the second tier, Mauritius, Seychelles and Samoa were the leaders, with Bahamas, Ireland, Anguilla, the Cook Islands and Malta further back. (See Figure 9)
**Figure 8** Top jurisdictions by importance

*Not in the list of jurisdictions in last year’s Offshore 2020 research

Source: OIL

**Figure 9** Other major jurisdictions

*Not in the list of jurisdictions in last year’s Offshore 2020 research

Source: OIL
The 2011 survey addressed 22 jurisdictions, with Europe more strongly represented than before, but the same two-tier model applies. If anything, the results show that Hong Kong and Singapore are emerging faster than expected, with the former already ranked as the leading jurisdiction globally. It should also be noted that respondents in the latest survey are less Asia-focused than those last year, so there is even less scope for regional bias.

Interviewees were asked specifically if they thought traditional offshore financial centers in Europe were losing their competitive edge as a result of the tougher approach to regulation – 53% agreed and 30% disagreed (See Figure 10). The principal reasons cited for diminishing competitiveness were higher operating costs, increased disclosure requirements and client concerns about loss of privacy. The counterargument is that sustainable structures will thrive under better regulation, allowing jurisdictions to consolidate their positions.

Figure 10 Are traditionally favoured offshore financial centres in the West (particularly in Europe) losing their competitive advantage because of stringent regulations?

- Higher operating costs
- Increased level of disclosures – while clients are not willing to share information
- Loss of privacy has become a concern for clients
- Clients have become fearful of consequences

Source: OIL
Certainly, Caribbean offshore financial centers like BVI, Cayman, Bermuda and Bahamas and European strongholds including Jersey, Guernsey and the Isle of Man are tipped to become comparatively less important over the next 5-10 years. But the divided views over the prospects for traditional jurisdictions point to a more nuanced competitive environment.

Just as Hong Kong and Singapore are leveraging their roles as the onshore component of financial structures, so other jurisdictions must identify and promote their unique selling points. Cyprus, Malta, New Zealand and Labuan are, alongside Hong Kong and Singapore, expected to grow in significance. Cyprus has a compelling set of DTTs, including agreements with Russia and India; Malta is seen as an onshore platform for Europe; New Zealand is championing its trusts as onshore structures with offshore benefits; and Labuan offers geographical proximity to the growth markets of Southeast Asia, with access to most of Malaysia’s DTTs.

Similarly, the Channel Islands jurisdictions are seeking to turn robust regulation to their advantage as a “reputational reinforcement,” the end goal being to target higher value not higher volume business. Cayman and BVI, meanwhile, need to satisfy the global investment community that they are able to meet transparency requirements in order to retain their market leader positions for fund registrations and company incorporations, respectively. Although their images have been tarnished by the regulatory assault on all offshore financial centers, BVI and Cayman still featured prominently in the responses when interviewees were asked to name their preferred jurisdictions for specific business purposes. BVI ranked first for asset protection and estate planning, individual tax planning and special purpose vehicles, while Cayman shared top spot with Luxembourg for fund management. (See Figure 11)
**Figure 11** Single most important location for specific purposes

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Location</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset protection and estate planning</td>
<td>BVI</td>
<td>Traditionally favoured well-established centre</td>
</tr>
<tr>
<td>Fund management</td>
<td>Cayman Islands and Luxembourg</td>
<td>Widely recognised and mature market with better regulations and infrastructure in place</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Traditional leader with well-developed funds market, stable and flexible regulatory and tax system</td>
</tr>
<tr>
<td>Individual tax planning</td>
<td>BVI</td>
<td>Traditionally favoured well-established market, better in terms of privacy</td>
</tr>
<tr>
<td>Initial public offerings (IPOs)*</td>
<td>Hong Kong*</td>
<td>Developed and well-regulated IPO market, active trading market with high investor appetite</td>
</tr>
<tr>
<td>Investment holding for corporates</td>
<td>Hong Kong</td>
<td>Traditional leader - simple and cost-effective market; provides tax advantage and privacy (not much reporting required)</td>
</tr>
<tr>
<td>Special purpose vehicles (SPV)</td>
<td>BVI</td>
<td>Traditional leader; provides ease of maintenance, cost-effectiveness and the flexibility to create any type of SPV</td>
</tr>
<tr>
<td>Trading for corporates</td>
<td>Hong Kong</td>
<td>Developed equity markets, favourable tax system and strong advisory support</td>
</tr>
</tbody>
</table>

*Most preferred destination for IPO.

Source: OIL
Hong Kong was the preeminent choice for investment holding companies, corporate trading and IPOs. The latter is particularly interesting as it promises to benefit offshore jurisdictions that have become popular for listing entities. An analysis of the last 100 IPOs in Hong Kong at time of writing compared with the jurisdictional origins of all companies listed on the exchange shows Cayman supplanted Bermuda as the preferred domicile. (See Figure 12)

**Figure 12** Listing vehicles for Hong Kong IPOs

![Pie charts showing jurisdictional origins of IPOs](source)

*Others include Singapore, UK, Jersey, BVI, Canada, Luxembourg, Germany and Italy

The Hong Kong bourse used only to accept listings from Hong Kong, China, Cayman and Bermuda but in recent years it has added to the list of approved jurisdictions, widening business opportunities.
A separate investigation by OIL into the major drivers for setting up offshore companies, adds credence to the idea of a Hong Kong listing as the ultimate goal for investors. A quarter of respondents cited investment holding purposes as their primary motivation, while another quarter opted for trading purposes and 11% for special purpose vehicles (SPV). By 2020, the holding, trading and SPV shares are expected to rise to 25%, 20% and 15%, respectively. This likely reflects the increasing appetite among Chinese investors for offshore investment. The mounting wealth of this segment is also the key factor in the projected rise in asset protection as a reason for setting up offshore companies. (See Figure 13)

Meanwhile, the expected fall in the tax weighting, from 40% at present to 30% in 2020, suggests that pure “zero-tax” considerations will fade as more investors adapt to the mid-shore model.

![Figure 13](#) The changing demand for offshore companies in Asia

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holding Purposes</td>
<td>22%</td>
<td>25%</td>
</tr>
<tr>
<td>SPV</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Trading Purposes</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>Asset Protection &amp; Wealth Management</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Tax Planning</td>
<td>40%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: OIL Internal analysis
SERVICE PROVIDERS: INCREASING CLIENT SOPHISTICATION, THE NEED FOR SCALE AND A BROADER SPECTRUM OF SERVICES ARE DRIVING CONSOLIDATION.

Within the offshore service provider community, two questions are continually asked. First, how should the industry best respond to the demands of an increasingly sophisticated client base, and the greater burden it places on resources? Second, is consolidation inevitable in this evolving market? While both remain open issues, there is considerably more certainty among interviewees this year compared to 2010.

Last year, 73% of respondents said that clients had become more sophisticated over the last 3-5 years; in 2011, the figure reached an even more resounding 86%. (See Figure 14). There is generally greater awareness of structures and documentation requirements, enabled by wider availability of information through the internet and other media and the emergence of a “younger” generation of clients capable of accessing this information.

Figure 14 Has the client’s relative level of sophistication increased?

![Figure 14: Has the client’s relative level of sophistication increased?]

Source: OIL
In order to adapt to these changes, service providers must enhance client orientation and servicing, moving toward customised solutions. This approach involves the introduction of new, more complex structures able to withstand rigorous regulatory scrutiny; recruiting and training personnel who are abreast of policy developments and can apply them to individual clients’ situations; and investment in infrastructure to support larger-scale operations.

Nearly two-thirds of respondents said that consolidation, particularly in the company formations space, would be a positive development for the industry. (See Figure 15)

**Figure 15** Is consolidation in the industry a positive development?

![Pie chart showing the distribution of responses to the question.]

Source: OIL

Economies of scale can deliver increased efficiency and better pricing for clients while a broader geographical footprint facilitates the delivery of bespoke products. Furthermore, the larger the organisation the easier it is to lobby regulators and, from a customer perspective, brand awareness brings in business.
While client sophistication and cost pressure are key factors in M&A decisions, our 2010 survey suggested market considerations such as the need for a global footprint and delivery of scale are primary drivers (See Figure 17). There has already been some M&A activity in this area over the last two years, including OIL and Vistra, TMF and EQ, ATCP and New Haven, and GCSL and Jeeves Group.

What appears to have happened in the last 12 months is an erosion of the divide between institutional and individual business. The two strands require different

\textbf{Figure 16} Will consolidation adversely affect small service providers in the industry?

- Agree 51%
- Disagree 24%
- Depends/Can’t Say 25%

Source: OIL

The counterargument remains that confidentiality is more difficult to protect when many people have access to the files and that size works against the provision of a customised service. Jurisdictional fragmentation, low barriers to entry and the need for specialisation are also cited as considerations. With this in mind, only half the interviewees believe consolidation threatens the survival of smaller players, with one quarter arguing that there will always be a place for niche players. (See Figure 16)
Figure 17 Is the industry likely to consolidate in the medium term?

- Jurisdictional fragmentation
- Need for specialisation
- Low barriers to entry
- Globalisation
- The need for scale economies
- Increased complexity

Don’t know 7%

Agree 57%

Disagree 36%

Source: OIL

Skill sets and therefore different practitioners have emerged in each area, but consolidation, or at least the need to broaden services, might be creating common ground.

In 2010, 23 of the 37 respondents were institution-focused, with individual clients accounting for 10-40% of existing business; for 17 of these 23, the figure was 20% or below. The remaining 14 of the 37 respondents fall at the far end of the spectrum, 80-100% of business coming from individual clients (See Figure 18). Last year the institution-focused players anticipated the most change.

Analysis of the 2011 numbers must be preceded with a reminder that the sample size is larger and drawn from a wider variety of jurisdictions. Nevertheless, there is a marked contrast with one year ago. Of the 88 respondents, 14 – exactly the same number as in 2010 – source 80-100% of their business from individual clients. The remaining 74 exhibit a much more balanced mix of institutional and individual
business. 24 rely on individuals for 20% or less of their work, with 41 in the 30-50% bracket and 9 at 60-70%. (See Figure 18)

**Figure 18** Institutional vs. individual

<table>
<thead>
<tr>
<th>Time Line</th>
<th>Percentage of Institutional Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td>Now</td>
<td>57%</td>
</tr>
<tr>
<td>In 5/10 years</td>
<td>60%</td>
</tr>
</tbody>
</table>

Percentage of individual - Distribution 2010

![Percentage of individual - Distribution 2010](image)

Percentage of individual clients - Distribution 2011

![Percentage of individual clients - Distribution 2011](image)
Expectations for the next 5-10 years amount to a gradual shift to the middle ground. The 15 individual-focused operators will stretch across the 70-100% bracket, while the 40-50% space will become more populated. While this doesn’t reflect the polarisation scenario discussed in this report one year ago, core groups of small, specialised operators and large-scale, full-service operators will remain at either end of the spectrum.

At the same time, the disconnect between expectations this year and last year might in part result from the more geographically dispersed sample size. The larger representation from European jurisdictions brings exposure to developed markets where the participants are more entrenched and the product range more diverse. But in Asia and Europe, it remains to be seen whether these mid-market players can withstand the onslaught from large-scale competitors able to leverage global networks and economies of scale as well as taking an agnostic approach to jurisdictions.
SUMMARY

Regulation remains the single largest factor in the development of the global offshore financial services industry. The transparency drive led by the Organisation for Economic Cooperation and Development (OECD) has pushed jurisdictions to sign tax information exchange agreements and assert their credibility on a general level. Double taxation agreements, which offer concessions on certain forms of passive income as well as facilitating transparency, are increasingly important competitive tool. Qualification for treaty coverage rests on proving sufficient business activity in a jurisdiction and this is much easier to achieve in established financial centers. This has led investors to “mid-shore” locations such as Hong Kong and Singapore.

While mid-shore jurisdictions are expected to grow in significance over the next 5-10 years, it is not a zero-sum game. Structures are becoming more layered, combining onshore and offshore elements. This creates opportunities for financial centers that fill a particular niche, whether it is access to a certain kind of product or to a particular geographical location. The traditional European jurisdictions may take a hit, but this could be counterbalanced through innovation. The likes of the British Virgin Islands and the Cayman Islands, though defending much stronger competitive positions, face similar challenges.

Service providers must respond to growing client sophistication by building out human resources and infrastructure capable of providing customised solutions that take into account an increasingly complex operating environment. The cost implications alone make for a compelling argument for consolidation. As a result, the industry is expected to become more polarised, with a small number of large, universal service providers and a large number of smaller, specialist operators that target particular products or jurisdictions. While the dividing line between those who service institutional clients and those focused on individuals is already blurring, change will continue to be slow.

OIL will continue to track these trends over the coming year as a means of opening up the debate on where the industry could – and should – be headed.
METHODOLOGY

OIL’s first White Paper, Offshore 2020: An Asian Perspective, which was published in December 2010, was based on interviews with 47 offshore industry participants who conduct business in Asia. Interviewees were based in locations including Hong Kong, Singapore, Taiwan, China, the Cayman Islands, the British Virgin Islands, Anguilla and Labuan.

This year’s offering, Offshore 2020: Insights into Future Trends and Structure of the Offshore Industry, clearly has a wider geographical remit and larger sample size (92). More interviews were conducted and the likes of Switzerland, Jersey, Cyprus and Ireland added to the existing complement of jurisdictions covered. One reason for this was OIL’s expansion into Europe, a London office having opened earlier this year. (See Figure 19)

![Figure 19 Survey participants by location](source: OIL)
However, it is important to note that Asia, as the key driver of industry growth, remains the dominant focus in this report.

Interviewees represented the following industry segments (See Figure 20):

- Accounting
- Law
- Banking
- Private banking/financial advisory
- Regulatory agencies
- Consultancy firms/corporate services providers
- Industry associations

![Figure 20 Survey participants by company type](source: OIL)
The aim was to assess how the offshore financial services industry is likely to develop over the coming decade. Specific areas covered in the interviews included:

• Growth and drivers: What are the key factors that will contribute to the growth of the industry over the coming years?

• Regulation: How important is the role of regulators and what are the principal regulations impacting the offshore community?

• Industry structure: Is consolidation imminent, or can the industry maintain a large number of smaller players?

• Client origination and sophistication: What are the key origination locations and how is client sophistication evolving?

• Jurisdictions: What are the most popular jurisdictions and how are their fortunes being affected by global policy headwinds?
ACKNOWLEDGEMENTS

OIL wishes to express appreciation for the input and support we received from clients and partners in our second market research study. Of the 92 participants who participated in the survey, the following companies have agreed to be listed in the report.


To have a further conversation about the key findings and how OIL may further enhance its services and add value to your business, please contact any of the following business unit heads in our local office:

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If you wish to participate in the next survey, please register your interest with marketing@offshore-inc.com.
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