

Asia is driving global growth in offshore industry, according to OIL study

Hong Kong and Singapore, so-called midshore centres, seeing benefit of increased global regulatory scrutiny

Hong Kong, 7 December 2011---Growth in Asia, in particular increasing capital raising and rising individual wealth, is driving growth in the offshore industry globally, but also creating opportunities for ‘midshore’ centres such as Hong Kong and Singapore, according to a study of the industry by Offshore Incorporations Limited (OIL), a leading global company formation specialist based in Asia.

OIL’s annual study looks at the current environment for the offshore industry around the globe, what is influencing it, what has changed since last year, and what trends are expected over the coming years.

Martin Crawford, CEO of OIL, gave an overview of the findings, “There has been a significant shift in the environment for the offshore industry, even over the last 12 months. We have seen four key themes coming out from our research. Firstly, growth of the industry globally is clearly being driven by the growth in Asia, which has weathered the global financial crisis better than other regions. An equally interesting trend, however, is that, because of increased regulatory scrutiny worldwide, midshore centres such as Hong Kong and Singapore are seeing more business. Saying that, it is also clear from the research that, whilst the regulatory demands of the OECD have been a key area of focus for traditional offshore jurisdictions, in reality they have not necessarily adversely affected growth. And lastly, we can see that the sophistication of clients has increased and therefore service providers like ourselves need to respond to that with strong technical knowledge, tailored advice and a global network.”

OIL surveyed 92 participants consisting of consultants, lawyers, banks, accountants, regulators and industry associations from 22 jurisdictions, comprising Anguilla, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Cyprus, Delaware, Guernsey, Hong Kong, Ireland, Isle of Man, Jersey, Labuan, Luxembourg, Malta, Mauritius, Netherlands, New Zealand, Samoa, Seychelles and Singapore.

Asia is and will continue to be the biggest driver of new growth in the offshore industry

Participants in the global survey rated Asia as the top region for client origination both in 2010 and 2011 and predicted it to continue being the largest for the next 5-10 years. The reasons were five-fold: Hong Kong leads the world in capital raising; M&A activity, both corporate and private, continues to be strong across the region; the growth in High Net Worth Individuals, with Asia surpassing Europe this year as the second largest region globally; the growth of the wealth management industry, in particular in Singapore, to serve this increase in personal wealth; and the growing awareness in China of the use of offshore companies for trading purposes.

Interestingly, the ratings for Latin America, the Middle East, Australia and New Zealand also went up in terms of importance for client origination, although not as much as Asia, with Europe being the only loser.

Crawford noted, “In terms of the drivers for offshore structures for Asians, currently we estimate only around 5% is led by the need for asset protection, whereas we believe this will increase to at least 10% by 2020.”

Have OECD demands stunted the industry?

Over the past three years, the Organisation for Economic Cooperation and Development (OECD) has been attempting to impose uniform transparency requirements on offshore jurisdictions. To qualify for the OECD’s “white list” of jurisdictions that have shown a willingness to meet these requirements, 12 tax information exchange agreements (TIEA) have to be signed with other nations.

“This has naturally caused a huge amount of activity amongst offshore centres in attempting to comply,” comments **Jonathan Clifton, Executive Director of OIL**. “Since the start of 2009 to now, 448 TIEAs have been signed and 88 countries are now on the OECD’s white list, versus 4 on the grey list and none on the black. The offshore industry has taken these requirements very seriously. However, very interestingly our survey shows that despite this, any slowdown in business has been driven by economic conditions rather than regulatory, and that in most jurisdictions, business has picked up. In fact, more than half of companies incorporated in the BVI originated out of Asia, which has powered through the global financial crisis, and we anticipate that business there will exceed pre-crisis levels this year.”

Hong Kong and Singapore – the rise of the mid-shores

One of the starkest trends to arise from the study is the growth in demand for structures which combine off-and onshore elements, which was beginning last year but has accelerated faster than expected, with 73% agreeing that it is due to stringent regulations and greater scrutiny of offshore structures. 80% of respondents said that clients are preferring combination structures and favour some tax to no tax solutions. Countries which have set up Double Tax Treaties (DTT) with a wide range of

countries are increasingly attractive. In 2011, 77% of respondents said DTTs were more important, versus 15% who opted for zero-tax structures, in contrast to last year where the split was 53% versus 32% respectively.

Clifton noted, “Markets such as Hong Kong and Singapore, which are viewed as mid-shore centres are the clear beneficiaries of this trend, in particular for trading and holding purposes, because they can offer low tax but also established and high-performing onshore financial sectors, strong legal systems, high levels of service, relatively painless bureaucracy, and extensive trade links.

“Saying that, it is not a zero-sum game. Business that Hong Kong and Singapore are gaining is not coming out of the pockets of the traditional jurisdictions, the pie is just getting bigger because clients are wanting combinations of the two.”

The debate continues, however, on whether traditional European jurisdictions, such as the Channel Islands, are losing their competitive edge, because of increased regulatory oversight, with 53% agreeing, 30% denying it and the remainder not sure. Whilst the naysayers claim that sustainable structures will thrive under better regulation, allowing traditional jurisdictions to consolidate their positions, the majority believe that higher operating costs increased disclosure requirements and client concerns about loss of privacy will diminish their competitiveness.

“It’s all going to be about playing to one’s strengths,” continued Clifton. “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.”

BVI still ranks first in the study for asset protection and estate planning, individual tax planning and special purpose vehicles, while Cayman shared top spot with Luxembourg for fund management. Hong Kong was voted top for both investment holding and trading for corporates. Additional research has shown that Cayman and Bermuda account for the lion’s share of listing vehicles on the Hong Kong Stock Exchange, although Cayman dominates by far the latest 100 listings on the HKEx, and Hong Kong incorporated companies dominate the top 50 by market capitalization.

Service providers for the offshore industry need to adapt

A resounding 86% of respondents agreed that clients were becoming more sophisticated in their understanding of what solutions are available and desirable, driven by a younger generation having access to a wider range of materials and information, in particular through the internet and other media.

Crawford commented, “To adapt to the evolution of the offshore industry and increasing demands of clients, OIL has been moving towards more customized solutions, investing in infrastructure to support larger scale operations and recruiting and training professionals who stay abreast of policy developments and apply them to individual clients’ situations.”

The debate over whether consolidation in the service provider sector would be a positive for the industry as it develops and adapts has swayed squarely in favour.

60% of respondents agree, citing economies of scale delivering increased efficiency and better pricing and broader geographical footprint facilitating the delivery of bespoke products, as well as an ability to lobby regulators as a larger organisation.

Crawford concluded, “The offshore industry has not seen so much attention and change for a long time as it has seen over the past few years. As a Hong Kong company, with a global network, which has seen 25 years of development in offshore services, we are heartened by the trends we are seeing and excited for Hong Kong at the opportunities it faces.”

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