Doing Business in The Isle of Man

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Programme of reforms pays off

The territory has avoided recession and is on track to balance the books, says *Andrew Bounds*

Five years is a long time in offshore politics. In 2008, at the height of the financial crisis, British chancellor Alistair Darling denounced the Isle of Man as a "tax haven sitting in the Irish Sea".

The island is one of three crown dependencies, which are not part of the UK but owe allegiance to the British Crown. The others are Jersey and Guernsey.

In September, several years of icy relations with London thawed, as David Cameron, the UK prime minister, told the House of Commons: "I do not think it is fair any longer to refer to any of the overseas territories or crown dependencies as tax havens. They have taken action to make sure they have fair and open tax systems."

While noting that Mr Cameron's Conservatives have always been more sympathetic to offshore holdings than Mr Darling's centre-left Labour party, Manx politicians were nevertheless pleased with their efforts to repair the divide.

Mr Darling's decision in 2009 unilaterally to reduce a long-standing customs revenue-sharing agreement, deprived the island of some £140m a year of income, a quarter of government receipts. That led to a five-year programme to balance the budget by 2015-16, by using reserves to cushion the effects.

Allan Bell, the chief minister, says the economy is on track and the island has managed to cut spending without triggering a recession. It is in its 29th year of growth. Jersey and Guernsey, by contrast, have slipped into recession.

Tony Parker, of Riva, a financial software business and native Manxman, says: "I think it might turn out to have been the best thing that could have happened to us. It has been difficult to rebalance the books. But it means the island has had to diversify and think outside the box."

The Isle of Man, which has 85,000 residents, enjoys gross national income per head higher than the UK's at $48,550, and the World Bank ranks it as the eighth wealthiest country. This year the $4bn economy is forecast to grow between 3 and 4 per cent in real terms.

Financial services, which account for about a third of the economy and employ 7,000, remains crucial and the island has gone to great lengths to comply with the growing pressure to share tax information with bigger countries that are seeking to cut avoidance at a time of austerity.

It has managed to defend its "zero-10" tax system, with banks, property companies and big retailers paying 10 per cent corporation tax while other companies pay no tax on earnings. For individuals, the top income tax rate is 20 per cent and there is a £120,000 annual cap on the amount anyone pays. There is no inheritance tax, no capital gains tax and no stamp duty.

Recovery: the island is in its 29th year of growth despite having to cut spending to compensate for lost revenue

It was among the first to sign automatic exchange of tax information agreements with the US and UK, under which lists of account balances and interest payments will be sent annually to tax authorities in an investor's home country. It has also committed itself to making automatic exchange standard by 2016.

Mr Bell says tax evaders should be "smoked out" and that the island had no wish to "bottom feed" by providing them with a home for their money.

"There is no other way of doing business and surviving," he says, arguing that the island would benefit if laxer competitors elsewhere were forced to take the same approach. "But we are determined to maintain our competitive corporate tax rates, because they are critical to the successful economy we have enjoyed."

Combining low tax with a generous welfare state has proved a challenge. The island is in the third year of a five-year push to rebalance the budget and is ahead of target. Some 600 jobs, 8 per cent of the government workforce, have gone, the number of ministers has been reduced and a cabinet office has been set up to drive reforms.

"It is the most radical change in the structure of government since 1987, when we brought in the ministerial system. It will enable us to provide a more stable and secure government," says Mr Bell. Wages are £60m below the projections thanks to salaries rising below inflation and redundancies.

"We have tried to avoid the word austerity and . . . the excesses we have witnessed in the UK where slash and burn at one point seemed to be the preferred option. In a small community, too quick a change could destabilise the economy. We have to be aware of the humanity of all this."

The budget deficit is expected to fall to £11m in 2014-15, from £36m the year before, after £105m of cuts since 2011-12. Net spending, which is the amount funded by direct and indirect taxation, is to fall by £4.3m, or 0.8 per cent, to £543.6m. However, spending on benefits and social care was up £10m. Reserves will be a healthy £1.6bn, after spending £90m of them on rebalancing.

> 'Working in the same timezone as the City of London is important'

Mr Bell admits the state is now looking at "more challenging areas" such as removing universal benefits. It has to cope with an ageing population and funding pension commitments.

At least that coincides with an upturn in the economy. Manx Telecom, the dominant local carrier, floated on London's junior Aim exchange for nearly £160m in February. Simon Cain, a corporate partner with Appleby, an offshore law firm based in Bermuda, worked on the deal. He says: "It was a statement of faith in the Manx economy. The company's fortunes are tied to the island."

Foreign investment is ticking up too, as private equity moves into the offshore trust market.

Appleby says there are advantages to the island. Faye Moffatt, head of corporate, says: "Working in the same timezone as the City of London is important and the client service and quality of staff here are excellent."

Although the use of VAT – not applied in many offshore centres – increases lawyers' fees, it also brings in business. Many property developers in the UK use Isle of Man structures. Their companies can register for UK VAT but not pay corporation tax. They can then also reclaim the VAT.

It also works for Chinese or other manufacturers wanting to sell products in the EU. And it means the government has at least one dependable source of revenue. "It is a blessing in disguise," says Mr Cain.

The island has another advantage, he says. "The Isle of Man is unique among offshore jurisdictions in that someone can buy a house and settle immediately." The Caribbean and the Channel Islands, being more crowded, are stricter about work permits and property ownership. He says this made it easier to attract top staff.

Indeed, the government welcomes migrants. Its strategy calls for several hundred new jobs a year, yet unemployment is just 2.4 per cent, meaning outsiders will fill some.

The tax cap has induced some 70 individuals to move since it was introduced in 2006. In the latest financial year, the companies they set up employed 360 staff who paid more than £6.6m in tax. Planning rules have been relaxed, so the properties they demand are being built. One is costing £30m. "It will be the most expensive house built outside London this year," says Mr Bell.

Chris Eaton, chief executive of ILS Fiduciaries, a corporate services provider with 10 offices worldwide, says the island needs to combat price pressure by promoting its brand. "The Department of Economic Development's country strategy has started to work, but we are behind in brand awareness. We have got halfway and the government has to invest in it."

The island is cultivating links with Liverpool and Manchester and will have a big presence at the International Festival for Business in Liverpool in June and July.

If Scotland votes for independence in September, it could follow Ireland's path of low taxes. "It could be a competitor on our doorstep," says Mr Bell.

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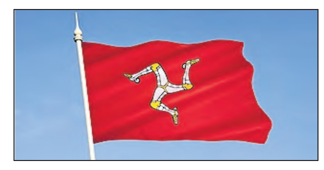


Island sees diversity as key to growth

Economy

Consumer spending remains depressed, but business optimism is on the rise, writes *Andrew Bounds*

The Manx tend to see things as they could be rather than as they are. While belief in fairies survives only in the tales on bookshop shelves, faith in the island's power to transform itself remains.

After branching out from fishing and tourism into banking, insurance, film, space travel, yacht registration and online gambling, the government and private sector are searching for new areas to explore. Vision 2020 paints a picture of the future.

Chris Corlett, head of the Department of Economic Development (Ded) and architect of the strategy, says diversification was vital. A decade ago, banking represented a quarter of gross domestic product and ecommerce 3 per cent. Now the figures are 10 and 14 per cent. "Sector lifespans are shortening," he says.

John Spellman, his colleague at the DeD, agrees: "Financial services have undergone a metamorphosis." Two banks representing almost half of funds on the island, pulled out – HSBC and Credit Suisse, and Britannia International will soon join them.

But there is a growing market in services for the internationally affluent seeking opportunities to invest and global corporates wanting to manage transactions across borders. Risk-taking is almost impossible in many onshore jurisdictions, as governments make their financial systems secure.

"They want to work with a regulator that does not treat everybody as a retail investor," says Mr Spellman.

Chris Eaton, chief executive of ILS Fiduciaries, one of the largest corporate service providers, says the effect is already being felt. "In the past six to 12 months, growth has returned. We are starting to see the possibility for new income streams. A number of clients from China are starting to use us as a platform to enter the EU."

One is Shanghai Linso Digital Technology, a manufacturer of commercial LEDs that last year set up a Manx company for its EU sales. Chen Jian, founder of Linso, says it was a "no-brainer" because of the zero tax regime and supportive government.

"The necessary VAT registration can be readily obtained along with access to automated customs clearance systems," he says. "Goods from China could go direct to the UK and then circulate within the EU freely."

John Shimmin, economic development minister, says others will follow, and the island is looking to cement links close to home too. "People in the northwest [of England] and the Isle of Man have lost touch in recent years. We are trying to restore that relationship. Air links to Liverpool and Manchester are very good."

Investors could use the island as a base, but build factories in the UK where labour is more plentiful.

Mark Woodward, chief executive of the Steam Packet company, says his ferries are carrying about 20 per cent less cargo than six years ago, suggesting a big drop in consumer spending.

Eddie Teare, Treasury minister, admits the domestic economy is suffering from lack of consumer spending power, with real incomes down 8.5 per cent in real terms over five years. He accepts that the days of the Manx tiger, reporting 8 per cent growth, may be over, but believes 3-4 per cent is achievable. "Over the past five years our economy has grown 15 per cent."

Spending hike: tourism is still important, at 2 per cent of GDP Getty

A national insurance holiday for employers taking on staff has been used by 550 businesses to recruit 1,100 people. Some taxes have been nudged up and a 10 per cent levy on profits of big retailers, aimed at multinationals, will bring in about £3m a year. More than 6,000 people signed a petition against a flat £50 per home sewerage charge, dubbed the toilet tax.

But Mr Teare says the squeeze will continue. Child benefit and university tuition fees are means tested and pension benefits could be next. "I am 65 with a decent income and pension and I get free prescriptions," he says. "We need to encourage people to have responsibility for their own future."

Government spending has been cut from 25 per cent of GDP to 20 per cent. Tourism remains important, at 2 per cent of GDP. In 2013, overall spending by visitors rose 1.6 per cent to £107m, although there was a fall of 1 per cent in the number of visitors to 291,000. That reflected fewer visits by friends and relatives. However, the number of visitors staying in paid-for accommodation rose 5 per cent and business visitors grew 1.2 per cent.

The government's decision to buy the seabed in its territorial waters from the Crown Estate in 1991 for £800,000 could bear fruit. It is in negotiation with wind power companies for a development that could lead to £5m annually in revenues for leasing the seabed for a wind farm.

Gas exploration is also continuing.

"There is a level of optimism that wasn't there three years ago," says Mr Shimmin.

Jane Dellar, chief executive of the chamber of commerce, agrees. Its latest survey of 300 businesses with 15,000 employees, found half expected turnover to grow in 2014, with just 12 per cent predicting a decline. Two-thirds were optimistic.

According to Mr Teare: "The main focus is on ebusiness, which we think is going to be the next powerhouse."

Allan Bell, the chief minister, says: "Clean tech, biomedical, ICT: we are open to ideas. The Isle of Man is a small and nimble jurisdiction. We can respond very quickly to opportunities. It is dangerous to have all our eggs in one basket. A diverse economy generates a diverse society."

Taking tough decisions pays dividends

Opinion
BRIAN GROOM

Thirty years ago the Isle of Man was a fading seaside resort, known mainly for its annual TT motor cycle race and its tailless cats.

It felt the pain of over-dependence on its shrinking agriculture, fishing and tourist trade: national income per head was little more than half the UK's level and unemployment was 12 per cent.

Today, the World Bank says the island is the eighth wealthiest country, with gross national income per head above the UK's at $48,550. Unemployment is 2.4 per cent and the island is in its 29th year of unbroken economic growth, making it one of the few parts of the developed world to come through the past few years without a recession.

Growth slowed to 2 per cent from a peak of 8 per cent, but has since recovered to 3-4 per cent.

The Isle of Man's transformation has been remarkable even by the standards of offshore finance centres.

The turning point came in the early 1980s, when laws were introduced to encourage banking, insurance, funds and investment businesses, corporate service providers and trusts.

It was a fiery baptism: the infant financial sector struggled to recover from the collapse of the infamous Savings and Investment Bank in 1982. But the island was on a path to revival.

More recently, two factors helped it weather the global financial crisis. A decade ago it had the foresight to plan the diversification of its economy beyond financial services. And it has strengthened its international reputation by signing up quickly to an intensifying series of global initiatives to increase transparency on tax.

It has been far from easy. When the UK government froze the assets of Kaupthing, the Icelandic bank, including deposits held through its Isle of Man branch, in 2008, the island used its reserves to guarantee those held there and restore confidence. A year later the UK Treasury rewrote the "common purse" agreement that determines how revenues from value added tax are shared, cutting government income by about £140m a year.

It has had to make hard choices to get its budget back into balance by 2015-16. The island's people have a reputation for resilience, for working out what needs to be done and getting on with it. It still faces a series of challenges.

First, it must continue to show the nimbleness that allowed it to develop niche opportunities to diversify its economy in areas such as egaming, space and advanced manufacturing, along with aircraft and shipping registries.

In 2004, an economic review foresaw the need to diversify and set out to create the conditions for it to happen. Now the government has drawn up a Vision 2020, which sees ebusiness as its main growth prospect, expanding from egaming, which accounts for 9 per cent of the economy, to areas such as computer games, high-speed trading, cyber security and online dating.

Longer-term, the biomedical industry and wind, wave and tidal energy look promising.

Second, while its efforts to balance the budget without resorting to "slash and burn" are on track, it still has difficult decisions to take. Child benefit and financial support to university students have already been means-tested and pensioner benefits such as free prescriptions could be next.

Third, it needs to continue to market itself effectively in emerging economies, particularly in financial services, where its future lies not so much in its traditional deposit-taking activities as in selling its expertise to global companies looking to manage transactions across borders and helping the world's affluent to find ways to invest.

And, fourth, it must continue to respond to international pressure against low-tax financial centres, which has been even more intense since the recession because of the pain of austerity in larger countries. The island was among the first to sign automatic exchange of tax information agreements with the US and UK and has committed to making automatic exchange standard practice by 2016.

> The World Bank says the island is the eighth wealthiest country

David Cameron, the UK prime minister, declared last September that overseas territories and crown dependencies such as the Isle of Man should no longer be seen as tax havens. It may take longer to shift the impression in the public's mind: after all, the island is still highly competitive on tax.

But in a world where financial security is ever more sought after, being a transparent and well regulated centre has to be the right way to go.

Brian Groom is the FT's UK business and employment editor

Manx migration saves business from extinction

Profile
Simpsons Shaving Brushes

Merged company thrives in supportive environment, says *Andrew Bounds*

There may be no badgers on the Isle of Man, but that has not stopped one company thriving on the use of their hair.

Simpsons Shaving Brushes started life in the east end of London in 1919. It reached the Isle of Man six years ago, a move that may have saved it from extinction.

The Simpsons name is familiar among the gentleman's barber shops of London's West End. But the brushes are made several hundred miles away in Braddan, on the outskirts of Douglas.

"It was a dying business. It was turning over £50,000 a year. Now we have created a bit of a monster," says Mark Watterson, whose father Philip bought the company in 2008.

The business, started by Alexander Simpson, moved to Chard in Somerset in 1941 after German bombs destroyed the factory.

In 1990, when he could not find craftsmen for its ageing workforce, David Carter, one of the owners, approached Mr Watterson senior for advice, as he ran a manufacturing operation on the island for Vulfix, a German maker of brushes for other brands.

Simpsons limped along until 2008 when Mr Watterson senior bought the brand from his friend Mr Carter and integrated it into his factory. His son took over in 2010 and turnover has quadrupled. It had £2m of revenues last year and employs 18.

"We are on Twitter and Facebook and all the rest of it. Word of mouth is still our best marketing tool, however. The US is our biggest market and we export as far afield as New Zealand and Hong Kong," he says.

"All our brushes are made by hand in the same way they were made in 1919. Even some of the equipment is the same."

There are 80 models based on hair grades starting at £16 and going up to £300 for a brush made of Manchurian badger, the finest hair.

Mr Watterson opened his new 5,000 sq ft factory in September but has already outgrown it. He is now building one twice the size nearby. In both cases, the government is contributing 40 per cent of the costs under a scheme to encourage manufacturing.

Heritage: shaving since 1919

"The Department of Economic Development is absolutely first class. It takes an active interest in promoting business," he says.

The zero per cent corporation tax rate and the fact that wages are lower than in the UK because salary taxes are lower offsets the cost of transport for a light, relatively expensive item.

Simpsons is expanding with a range of shaving creams and oils made by a third party. "People love the brand and we want to make the most of it," Mr Watterson says.

Factory volume is maintained by making own-label products for barber shops as well as razors and the cheaper Vulfix brushes.

Mr Watterson, 43, says the techniques have not changed in a century.

Badger hair is bought in bundles, selected, trimmed and tied together and then glued into a handle. The handles are turned on a lathe then vibrated in limestone chips to smooth the finish before being engraved and then buffed.

The brush head is then "clawed" to remove loose hair, all by hand. The brush should last 10 years.

"Some of the staff have been here for 18 years. They are very loyal and very skilled," he says.

Wet shaving is making a comeback as male grooming becomes more important. Mr Watterson says badger hair remains the best.

"It stimulates the hair on the chin to stand up and retains the moisture and heat so much better."

The company has started making synthetic brushes for those who object to badger. Celebrity endorsements are hard to get for the same reason, although the Saudi royal family are confirmed users.

"We have one Hollywood customer whose agent buys from us but we can't give his name because of the use of an animal product."

Mr Watterson says being in the British Isles is vital for sales. "Customers love the heritage. There is nothing like a British product."

From gambling to finance, the future of the economy is online

Ecommerce

Infrastructure, investment and education will aid expansion, reports *Andrew Bounds*

Skandia House in Onchan on Douglas Bay tells the history of the Manx economy in a single building.

From hotel, to financial services office block, to headquarters for PokerStars, the leading online poker website, the building's uses have mirrored the rise and fall of Manx industries.

Online gaming is the fastest growing sector of the Manx economy. The digital economy, dominated by the industry, grew 10 per cent in 2013 and added 100 jobs.

There were 56 licensed egaming companies based there, with five more in the process of applying. These companies are attracted by good telecommunications, low taxes – betting duty is between 0.1 per cent and 1.5 per cent of gross profit – and the island's presence on the UK and OECD white lists of countries that share tax-related information.

It means Manx businesses can advertise in the UK, though many target Asia.

Leading companies include Microgaming and Playtech, which provide software for the industry, PokerStars, Celton Manx, and 188 Bet. Their presence has supported £1bn of private and public investment in telecoms infrastructure, says Chris Corlett of the Department of Economic Development.

There are seven data centres on the island and Manx Telecom, the dominant local carrier, is to spend £10m to roll out 4G mobile internet services this year.

The island is on the route of BT and Vodafone's subsea cables running from northwest England to Ireland. The Manx Electricity Authority also sells surplus capacity on its fibre optic cable to the UK mainland.

Paul Telford, general counsel at PokerStars, says the infrastructure was central to the decision to set up on the island. The website deals some 50m hands in 500,000 tournaments every day – or about six starting every second. It also has to take stakes and settle accounts with the 65m registered players.

"All that activity goes through our servers on the island," says Mr Telford. The island is the hub of the business, with the directors living there and board meetings held there too.

The business expanded in 2012, when it bought Full Tilt, a rival, as part of a $731m settlement with the US, which had accused the two of violating its laws against online betting. With customer accounts frozen, PokerStars, which had to keep funds in ringfenced accounts under Manx law, reimbursed its clients but Full Tilt could not. Under the deal, PokerStars reimbursed Full Tilt customers.

Now there are moves by some US states to legalise online betting and PokerStars is seeking a licence in New Jersey. However, it is harder to operate in small markets because there are fewer players.

The industry also faces a move by rich countries to tax gambling at source, rather than by jurisdiction, with punters paying according to where they live.

The UK's Place of Consumption Tax takes effect in December. The Isle of Man government believes the introduction of this is unlikely to have a significant impact, as much of the business managed from the island is outside the UK.

Only 6 per cent of UK demand for egaming is supplied by Manx licensees, against about 60 per cent supplied through Gibraltar.

However, new UK rules could also stop Manx businesses advertising there, including via football shirt sponsorship. An estimated £60m-£90m annually is spent on the Premier League alone to reach Asian audiences.

As egaming matures, the island is hoping to expand into areas such as computer games, high-speed trading, cyber security and online dating.

Peter Greenhill, chief executive of the government's egaming department, says it is examining setting up an exchange for bitcoins and other virtual currencies. "The halcyon days of it driving rapid growth for the island may be over, so far as existing licensees are concerned," according to the Manx eGaming Association survey for 2014.

Chris Gledhill, founder of PDMS, a big data business, says the sector is growing. PDMS runs the UK Police National Legal Database, which keeps officers up to date on the law. It also created Employed.im for careers advice and job searches for young people.

PDMS has just opened an office in Scotland, but about a fifth of its £5m turnover comes from outside the British Isles. "We see ourselves unashamedly as a world-class software business with a global market," says Mr Gledhill.

> The island hopes to expand into cyber security, computer games and online dating

If the industry is to expand beyond egaming, it needs trained staff. Mr Gledhill, as chairman of the island's ICT association, has thrown his weight behind plans to establish a training college.

The Manx Educational Foundation, a private philanthropic organisation funded by local companies and businesspeople, has bought a building and intends to open the college.

Global names such as HP have shown interest and Mr Gledhill says UK universities have been approached, as the college hopes to teach to undergraduate level. The government has committed an extra £350,000 over the next two years to promote ebusiness. Tony Parker runs Riva, a home-grown business that provides back office software for the asset management industry. He started the business in his bedroom in 2002 and in 2007 was acquired by Franklin Templeton, the US asset manager. It is deployed in 14 countries with £290bn of assets on its platform. "We've grown beyond our wildest dreams and there is a lot more potential".

Riva, which has just moved to bigger offices, employs 20 on the island and 60 worldwide. Mr Parker says it has not had to recruit from abroad.

"I was surprised by the depth of skills." The business has a development centre in India, but the cutting edge software is written on the island.

"The government is very accessible and red tape is limited here," he says.

Sector changes its make-up and looks further afield for returns

Financial services Banking has contracted while insurance is growing, says *Brian Groom*

Financial and professional services are likely still to be the Isle of Man's largest wealth-creators in 2020, but the industry is changing shape. Banking has contracted and some small fiduciary companies have closed or been bought, while insurance and long-term savings are growing.

The financial sector makes up 34 per cent of gross domestic product and employs almost a quarter of the workforce. Its share of GDP has fallen from 48 per cent in 2001, as other sectors such as egaming and manufacturing have expanded, but it still contributes to growth.

These days, the business is less about tax-driven offshore deposits and more about selling investment products, services and advice to companies, wealthy individuals and the moderately affluent around the world, including Asia and the Middle East.

John Spellman, the island's director of financial services, says the sector is "stable, with an excellent prognosis". He says: "Its main opportunities lie in a new approach to banking, a simplified funds regime, long-term mass affluent savings through insurance, and, potentially, technology."

Financial technology is a promising area. The government is talking to 20 companies with activities including digital currencies and foreign exchange trading platforms to micro-lending and crowdfunding that are interested in setting up operations. The island is working out its policy on virtual currencies such as Bitcoin.

It has developed country marketing strategies to win private and corporate business in emerging economies such as the Middle East, India, China and Russia, and is doing research for a push into Africa and Latin America.

The industry's main pillars are banking, insurance, the fiduciary sector and fund management and administration. They in turn are supported by a strong cadre of law firms and accountants.

Banking deposits have fallen from £69bn in 2008 to £52bn, but the island's 18 banks remain the sector's biggest employer with nearly 3,000 staff. "Most of the banks are concentrating on the quality of their business," says Peter Reid of the Isle of Man Bankers Association and island director for Lloyds Bank International. Opportunities include increased personal and corporate lending, foreign exchange, and advice to international clients on cross-border tax and regulation.

Greg Horton, executive head of Nedbank Private Wealth International, says his bank's profits, having dipped sharply in 2008-10, were likely to grow 20 per cent this year. "We have no end of opportunity," he adds.

David Batey, director of relationship management at Coutts, the private banking arm of Royal Bank of Scotland, says: "We have had to be more innovative. We are looking at investment solutions for personal clients but also things such as hedge fund liquidity, captive insurance liquidity and corporate structures."

Insurance, employing nearly 2,000, has the biggest share of GDP of any sector of the economy at 15 per cent and saw output grow by nearly 10 per cent last year. The life assurance sector, which includes big names such as Zurich, Skandia and Friends Provident, is a strength.

"Most of the growth is coming from the developing world: Asia and the Middle East," says David Kneeshaw, chief executive of RL360° and chairman of the Manx Insurance Association. He recently led a £134m management buyout of his company from Royal London, backed by Vitruvian Partners, the private equity house.

The island's stable sector of captive insurers, which insure risks for parent companies ranging from financial groups to utilities, manufacturers and airlines, has seen a rise in interest.

The fiduciary sector – trusts and corporate service providers – has about 1,900 staff and accounts for 4.5 per cent of GDP. But smaller companies, facing increasing regulatory costs, have been snapped up by larger, private-equity backed groups such as First Names and Equiom or the law firm Appleby. There is also a tier of midsized independents such as ILS, Abacus and Boston Group. "We must develop our international footprint and diversify," says Greg Ellison, Boston's chief executive.

Boston has developed a niche in sharia-compliant trusts, typically for Middle Eastern clients collaborating to buy commercial property in London. It has also created Boston Ventures, which puts investors on its client list in touch with those who have investment opportunities.

The fund management and administration industry, which employs up to 1,000, expanded rapidly before the crisis but was hit hard by it, with funds under management falling from $58bn in 2008 to $22bn today. But, says Paul Kneen, chief executive at Abacus and chairman of the Isle of Man Funds Association: "Three years ago, we plateaued, now we aim to build."

The EU's Alternative Investment Fund Managers Directive has restricted opportunities for marketing into Europe so the sector has looked further to Asia, Africa, South American and the former Soviet Union. The island is particularly targeting early-stage funds in innovative niches.

Carolyn Gelling, head of collective investment funds at Thomas Miller Investment, says: "We have been involved in two funds launches so far this year and we have seen a significant increase in funds under management in the first quarter."

One former growth area for the island's law firms, handling the listing of overseas companies on markets such as London's Aim, shrunk after 2007, but has shown signs of a return.

Business opportunity: the island's 18 banks remain the sector's biggest employer
Alamy

Company looks for next niche

Profile
Manx Telecom

Mike Dee tells *Brian Groom* why it was the right time to float

Manx Telecom, the Isle of Man telecoms group, was floated on London's junior Aim exchange for nearly £160m in February, allowing an exit to its private equity owners but also giving a boost to the company and to investment in the island.

HgCapital and CPS Partners, the majority owners, sold their interests. HgCapital, having bought Manx Telecom from Spain's Telefónica in June 2010, had made clear it expected to hold the company for only three to five years.

"We felt it was a good move for us as a company, moving into the next stage of our development, and also for the Isle of Man," says Mike Dee, chief executive of Manx Telecom. "It gives us the opportunity to promote the island in the City."

The company was created as a subsidiary of BT when the Manx government awarded a licence to operate the telephone system in a tender process in 1985. Spun off in 2001, it spent nine years as part of O_2 and Telefónica.

Mr Dee has worked there for nearly 30 years, becoming finance director before he took over as chief executive in 2011. He believes being a quoted company will bring advantages. "It enables us to . . . focus on the Isle of Man without getting distracted by a major shareholder's aspirations. We all on our board understand the island and our customer base here."

Institutional investors were attracted by a company that should deliver steady growth and dividends over the next decade. The offer was 1.7 times subscribed. There was no retail offer, but there was a lot of interest among islanders and some locals may have bought shares after the flotation.

The company reported a rise of nearly 20 per cent in adjusted operating profit to £18.1m on revenues 5 per cent higher at £76m in the year to December. It plans to pay a dividend with a 7 per cent yield.

"We have seen good progress across our key areas of growth – data centre and off-island – while the core business continues to generate good levels of cash that will enable us to invest in growth while also maintaining an attractive dividend," says Mr Dee.

Manx Telecom is the only fixed-line network operator on the island and has 75 per cent of the mobile telecoms market, where it competes with Sure, owned by Bahrain Telecommunications Company. Manx will spend £10m to roll out 4G mobile internet services this year.

Manx recently suffered an unusual three-hour period of intermittent network disruption because of problems at a server in London. It is replacing its London servers and looking at extra communication circuits.

Security of telecoms services has enabled the island to expand its egaming industry. It is on the route of two subsea cables running from northwest England to Ireland, run by BT and Vodafone.

Manx Telecom owns three of the island's seven data centres. Agreements with UK mobile phone operators mean Manx has developed a SIM card that can piggy-back off their networks, moving between them depending on which is offering the strongest signal.

The cards can also be inserted in lorries, cars, energy meters and vending machines to relay information about what those machines are doing.

The growth of egaming on the island has been a boon. Mr Dee says: "The challenge is the same for this business and for the island – to find the next niche market."

Government backs adoption of information exchange despite cost

Tax

Early move to transparency has had its advantages, says *Brian Groom*

As international pressure for tax transparency in offshore centres has grown in the past 15 years, the Isle of Man has sought to place itself in the vanguard of change, in the belief that global investors will see a well-regulated jurisdiction as a safe place to put their money.

"There is always a chance that some business will migrate elsewhere," says Allan Bell, chief minister. "We believe, though, that the Isle of Man has had such a determined approach to stamping out any illegal or illicit activities that there is very little business left that would want to go somewhere else."

Mr Bell says the island is conscious of public feelings around the world about "aggressive" tax planning, especially at a time of austerity and unemployment in many countries. He agrees that if wealthy individuals or companies are avoiding their responsibilities by sheltering money in smaller jurisdictions, "it is only right that they should be smoked out".

In the past 18 months, the Isle of Man has been quick to volunteer to sign automatic exchange of tax information agreements with the US and UK, under which lists of account balances and interest payments will be sent annually to tax authorities in an investor's home country. It has joined other international initiatives in the belief that automatic exchange will quickly become the global standard.

Changing public perceptions may take longer. The Isle of Man remains a competitive, low-tax jurisdiction, even if it sells itself mostly on its professional expertise. Most companies pay zero corporation tax, though banks, property companies and big retailers pay 10 per cent.

For individuals, the top income tax rate is 20 per cent and there is a £120,000 annual cap on the amount anyone can pay, for which they must make a five-year election. There is no inheritance tax, no capital gains tax and no stamp duty.

The aim of the tax cap, established in 2006, is to attract wealthy entrepreneurs who will establish businesses that generate economic activity.

The number of people eligible for the cap has grown from three to 70 and they have created more than 1,000 jobs, says John Shimmin, economic development minister. Ministers believe the building of more top-price properties will accelerate the trend.

The pace of international tax changes is a challenge for the island's authorities and for businesses. Automatic information exchange under the US Foreign Account Tax Compliance Act and its UK equivalent starts in July for new customers, with a couple of years' grace to review existing accounts.

Nicola Guffogg, assessor of income tax, says companies are used to automatic exchange under the EU savings directive, though she does not underestimate the cost and effort required.

Nicola Guffogg says compliance changes could be costly

The Isle of Man is part of an "early adopters' group" of 44 countries committed to making automatic exchange standard by 2016, and has signed up for a multilateral convention on tax that will provide the legal authority for exchanging information with a wide range of countries. The OECD has issued a "common reporting standard" covering the information to be exchanged.

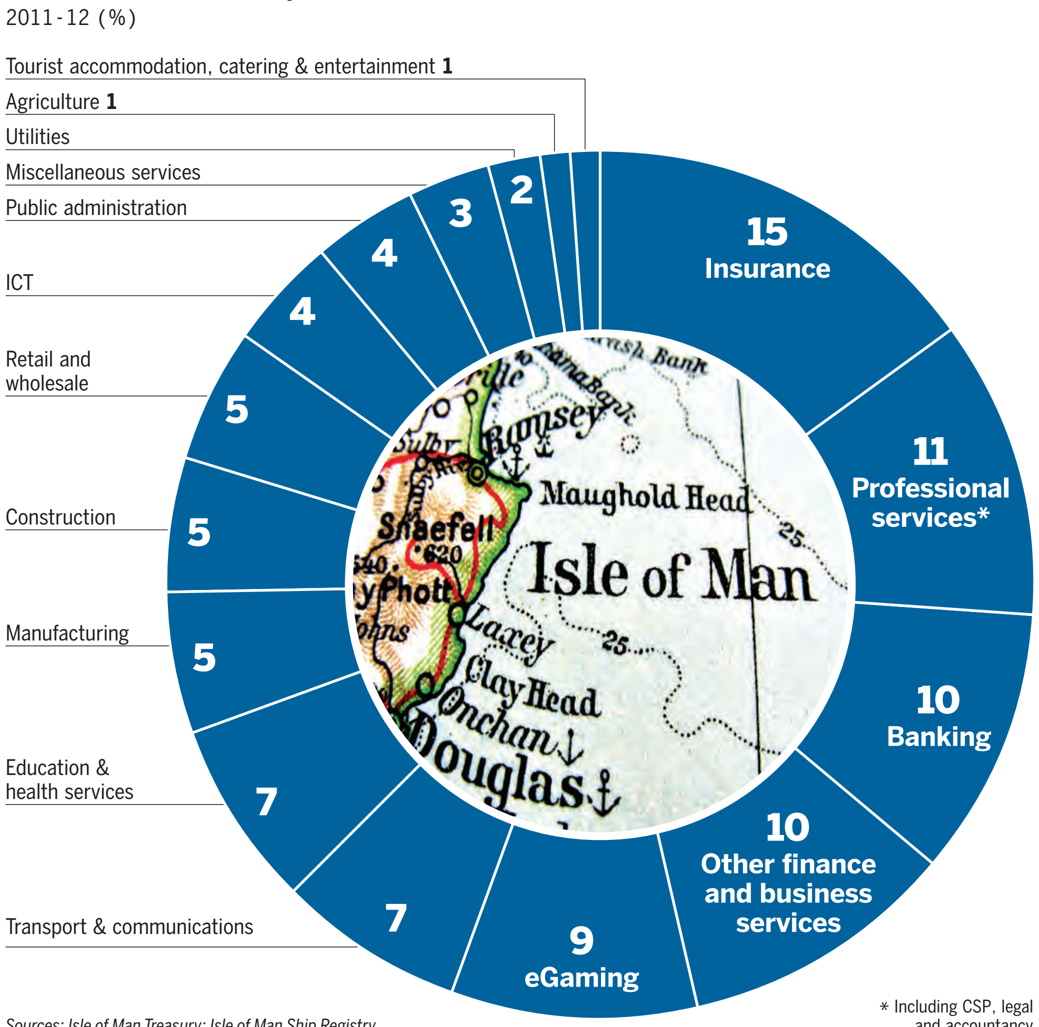
One initiative on which the island is more wary is UK prime minister David Cameron's drive for public registers of beneficial owners of companies.

Unlike most big countries the island has that information, which can be disclosed on request to law enforcement officials or tax authorities, but is consulting with business on whether it should be made public.

Business has mostly supported the transparency drive, says Jane Dellar, chief executive of the Chamber of Commerce: "There need to be rewards for jurisdictions that play ball and consequences for the ones that don't."

Mark Kiernan, director of Boal & Co, actuaries and pension consultants, says there are advantages in the island being a "good global player" despite a small rise in costs. He says his firm has had pledges that some schemes will move their domicile from Bermuda because that island signed a more onerous agreement with the US.

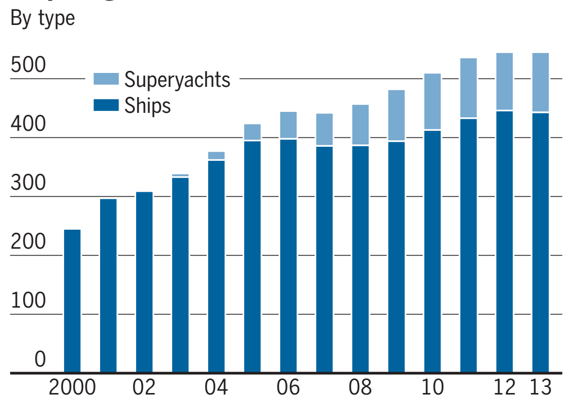
Isle of Man sectoral composition of national income
2011-12 (%)



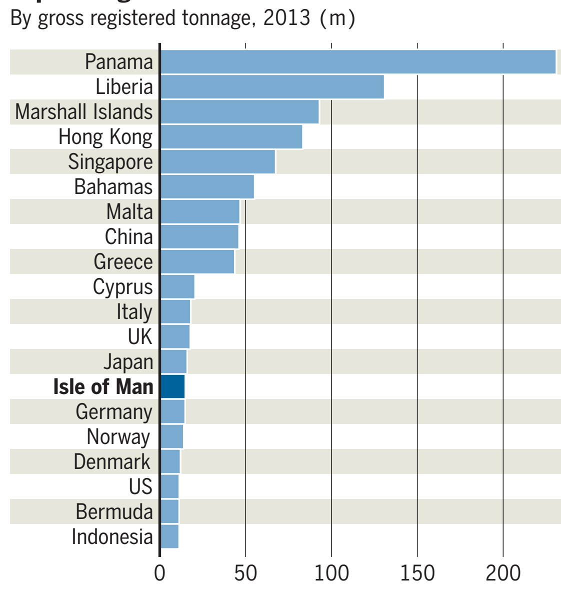
* Including CSP, legal and accountancy

Sources: Isle of Man Treasury; Isle of Man Ship Registry

Ships registered in the Isle of Man
By type



Top 20 registers
By gross registered tonnage, 2013 (m)



Innovative manufacturing keeps companies aloft

Industry Clusters give small businesses a competitive edge, writes *Andrew Bounds*

Few things in business life are certain but the growth of the civil aerospace industry is one. The two groups that make most larger aircraft, Europe's Airbus and Boeing of the US, have order books filled more than a decade ahead. A small part of those orders are fulfilled on the Isle of Man.

The aerospace cluster has 22 businesses that employ 881 people, up from 837 last year.

"Output never dipped. Those with military activity saw a fall as governments cut back. Order books are strong, 10-15 years ahead," says Chris Allen, operations director of GE on the island, which makes hydraulic systems for landing gear on the island. The US multinational is one of a number of big companies with operations on the island. Others include Swagelok, which makes parts for the oil and gas industry, and RLC Ronaldsway, which makes parts for the Martin-Baker ejector seat and Rolls-Royce engines, among other components. It is part of the island's RLC Engineering, which is privately owned and has sales of about £120m, and more than 800 employees.

The cluster was an early example of offshoring, says Mr Allen. Labour was cheaper on the island, where there were few jobs.

But the secure location and skilled workforce, combined with low tax and government grants to buy equipment, has enabled the industry to compete. Since 2006, with government support, it has also collaborated.

Mr Allen says companies are working ever more closely with each other and with the northwest of England, home to manufacturers such as Airbus and BAE Systems, also with many suppliers. It joined the Northwest Aerospace Alliance (NWAA), a lobby group for the industry some years ago. "To obtain world recognition for the Isle of Man, we need to ensure standards. We are working with the NWAA to develop a business excellence model, so we are keeping up," says Mr Allen. "We have deepened the relationship."

'We can protect the IP. The Isle of Man is very secure'

The businesses, which employ between a handful and 250 people, are trying to pool costs. They have begun common sourcing of raw materials such as oils. And most important, they are working together on skills.

The manufacturing sector created 80 jobs last year but there are more than 50 full-time vacancies in aerospace alone. Inward investment leads and new businesses are at a record high, according to Treasury minister Eddie Teare.

He announced funding of £1m in the February budget to create an engineering training centre and doubled the number of places for the flagship engineering apprenticeship programme to 36. The government is taking a bigger role after companies struggled to train apprentices while operating at full capacity. Mr Teare says the long lead times in the industry repaid the investment.

"There are contracts for 25 years on the island," he says. Manufacturing represents 5 per cent of GDP.

Mr Allen says transport is not a problem, with daily sailings to the UK and plenty of flights. "We have always had strong logistics as an island nation. We can deliver the same day. Sometimes the delay is on the motorway in the UK."

The competitive challenge remains. CVI Technical Optics, which made the optics for the Nasa craft that found water on Mars, closed this year with the loss of 41 jobs. Its US parent blamed excessive manufacturing capacity. Helmut Kessler, former CVI managing director, has taken some of the staff to start his own business.

So has a newcomer to the island: Highland Scientific. John O'Driscoll, managing director, has moved the business from Hertfordshire and taken on 15 ex-CVI employees in a £4m, 45,000 sq ft factory.

Highland Scientific designs and develops thin film deposition machines for a number of industries, including aerospace, the military, pharmaceutical and precision optics. The films improve the quality of materials and are used to make everything from stronger pipelines to eyewear lenses. Its latest machine deposits a diamond-like carbon inside oil and gas pipes to reduce corrosion and friction. Each machine costs more than £2.5m and, by 2020, Highland aims to make 200 a year.

"We can protect the IP [intellectual property]. The Isle of Man is very secure," says Mr O'Driscoll. "The government has been proactive and helpful. There is good retention of the workforce and plenty of skilled people. In 10 years, we will be hiring 500 people. The aim is to float on Aim in 2017-18."

Mr Kessler, who works next door, is an early customer for the machine.

"It is so easy to get things done," says Mr O'Driscoll. He lives nearby and can walk to work. "I think I last filled the car with petrol in September," he quips.

Skill set: Swagelok makes parts for the oil and gas industry IOM Tourism

Overseas delegations attracted by local skills

Niche services

Manx shipping and aircraft registers help bolster the economy, says *Andrew Bounds*

From Fletcher Christian, who led the mutiny on the HMS Bounty in 1789 and settled on Pitcairn Island, to John Quilliam, Admiral Nelson's lieutenant at the Battle of Trafalgar in 1815, Manxmen have long made a living from the sea.

Now, as well as joining ships they are registering and running them, in a successful venture to diversify the financial services industry.

The Manx shipping register, established in 1984, recently overtook Germany to become the 14th largest in the world by tonnage. Growth in the number of vessels and tonnage took off after 2000, more than doubling to 540 at the end of March, 2014, with 16.3m tonnes.

Dick Welsh, director of the ship registry, points out it is on the international white lists maintained by maritime organisations in Paris and Tokyo.

There are no tonnage dues or annual inspection fees and the annual registration is £1,400, far below those of other jurisdictions. Flags of convenience such as the Marshall Islands can charge $100,000 for the largest container ship.

"We are not here to make money. We are here to attract business for companies on the island," says Mr Welsh, a former sailor.

Law firms, trust companies, banks and accountants are involved in registering ships, arranging mortgages, setting up companies to own them, insuring them and hiring and managing the crew.

There are 580 people working in the industry on the island. About 100 work in the racier but smaller superyacht industry. There are 100 on the register, which opened a yachting section a decade ago.

Mr Welsh says there was competition from Gibraltar, which can also fly the famous red ensign, and Malta, but Cyprus was losing ground after its financial woes.

The island is heavily promoting the register abroad, with a delegation from China visiting recently, after a trip by Allan Bell, the chief minister, to the country.

"Maersk, Bibby Line and BP do all their crewing from here," he says. He said the attraction in the 1980s was avoiding higher national insurance contributions required by the EU. "The reason they are here now is the expertise."

John Nugent, managing director of Equiom Solutions, agrees.

It advises on VAT registration, the implications of bringing a yacht into EU waters, and ownership structures. "We have developed niche services. We have expertise dealing with very expensive assets and tax structures. But tax is secondary. It is expertise they are looking for."

'We are not here to make money, [but] to attract business for companies on the island'

Despite the recession, the number of very rich people has grown, as has their individual wealth. "There is a growing class of very wealthy people and they want to spend on luxury assets and they need people to take care of them."

About £3.2bn of UK property is owned via Manx companies.

Mr Nugent says that, as governments seek to increase their tax revenue dealing with moveable assets, such as yachts and aircraft, there has become more complicated. As they move from one country's waters to another, they are increasingly being assessed for tax. "It is a minefield," he says.

Rules that enable VAT to be written off over the lifetime of the yacht as depreciation are also being challenged.

Many client referrals come from London law firms, but Equiom has established offices in other jurisdictions such as Jersey and Malta.

"We find the Manx government is customer-friendly, from the shipping and aircraft register to customs and excise. Many would rather deal with the Isle of Man than the UK, which is more impersonal," says Mr Nugent.

A newer venture is the aircraft register, which celebrated its seventh birthday in May. Hartley Elder, director of civil aviation, says: "For the past five years, we have registered more than 100 aircraft a year, or on average two aircraft a week – quite an achievement when considered against the economic backdrop during the period."

There are almost 700 aircraft on the register, with the number of business jets rising year by year.

The net figure is 433, as owners deregister older aircraft. Commercial airliners also come on and off the register, as they are often "parked" there between leases.

Both registers are holding events as part of the International Festival of Business, the UK's largest business event since the Festival of Britain of 1951. The 50 day festival, in June and July, is based in Liverpool.

Mr Welsh says: "We have a great relationship with London, but Liverpool is very close and has a big shipping industry, so we will be making the most of the opportunity."

Shipping news: Maersk is registered on the island Reuters

Tie-up with London studios puts island in a leading role – again

Film industry

The government has dug deep to attract projects, but it is a controversial move, says *Andrew Bounds*

The Isle of Man became a mini-Hollywood in the early 2000s with stars such as Johnny Depp, Zac Efron and Claire Danes shooting movies there, thanks to generous tax breaks.

Between 1995 and 2011 more than 100 films were made. But changes to tax rules that stopped the island keeping the value added tax earned on cinema screenings in the UK curtailed the government's ability to assist.

The UK and Ireland introduced tax breaks of their own and the number of days of filming fell from 830 in 1997 to 25 in 2011.

So, in 2012, the government agreed a controversial tie-up with Pinewood Shepperton, owner of the London studios where James Bond films are made. It spent £12.2m on a 9.99 per cent stake in Pinewood, which is quoted but majority owned by the privately held Manchester-based Peel Group. Some 84 per cent of the shares are not in public hands. John Whittaker, multimillionaire chairman of Peel is an island resident.

Part of the deal saw Pinewood take on the role of adviser to the Isle of Man's £25m film and TV investment fund for an initial five year period.

Members of the House of Keys, the Manx parliament, have criticised the lack of transparency in using taxpayers' money. Kate Beecroft, leader of the Liberal Vannin, the island's opposition party, has regularly questioned how much of a return the fund has made. *Belle*, its first feature, is out this year.

Eddie Teare, Treasury minister, told parliament that four more films had been made. He said: "I am not prepared to give details of the investments in each individual film. We have to respect commercial confidentiality and I am not prepared to break commercial confidentiality.

"This investment has worked, and I feel that it has been a very good diversification for the economy of the Isle of Man."

The government said that the film sector is this year expected to generate about 4,000 bed nights, 16 trainee placements and £2m of local spending.

There has been just one production filmed since April 2013, but 2014 should be busier. A film version of the BBC TV series *Spooks*, featuring British spies, began shooting in March. Its cast includes *Game of Thrones* star Kit Harington and *Ides of March* star Jennifer Ehle.

That will be followed by *Take Down*, an outdoor action drama, and *Stan and Ollie*, a two-part TV biopic of Laurel and Hardy, due to shoot in the summer for two weeks. *Goodbye Christopher Robin*, the biopic of author AA Milne, is also expected to shoot on the island in the autumn. In all, there should be about 60 days of shooting. Pinewood receives an annual fee for running the fund, but Mr Teare has kept precise figures close to his chest.

He received a boost when the Welsh government in February agreed a similar deal, setting up a £30m television and film investment fund, though without buying a stake in Pinewood.

The Welsh assembly is also establishing Pinewood Studio Wales in Cardiff Bay. It will have four stages and Pinewood is taking a five-year lease. Pinewood will operate the studio and contribute £800,000 over five years for the purchase of equipment.

Pinewood was in a closed period before results and could not talk about numbers. But a representative said: "The agreement, which Pinewood recently signed with the Welsh Government, will see Pinewood Pictures (the film finance and distribution arm of Pinewood Studios) broaden its investment advisory portfolio to include the Welsh government's £30m media fund, alongside the £25m Isle of Man media fund which we have managed since 2012."

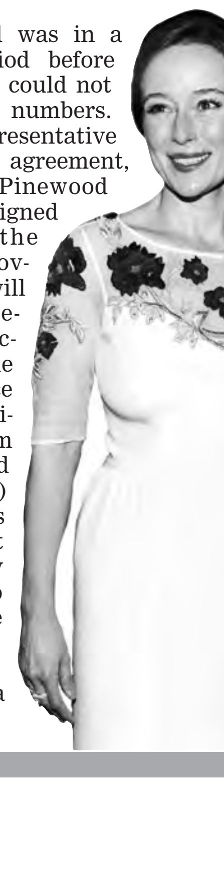
The combined funds now total £55m, making them one of the largest investment portals in new British high-end television and film content."

Mr Teare says Pinewood's shares have risen from 250p to above 460p since the investment. "We have turned £12m into £21m, though I accept we cannot sell straight away. I met the Welsh first minister as he wanted to see if we thought it was working well or not.

"The first films were made in 2012. It is a two-year cycle, so they will soon be out. The number of films made on the island has gone up substantially. What we had was a business model that would not work in the face of very substantial competition."

The Welsh fund helps spread the risk, he says. "We didn't want to go down the subsidy route."

"We have the final say on any film," he emphasised. It is thought that some filming has to be done in the country that helps finance the movie.



Jennifer Ehle is to feature in 'Spooks'

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