

Isle of Man well-placed to ride financial storm

By Mike Goodman

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Many British expatriates must be wondering whether there are any safe havens left for their savings and investments.

Familiar high street banking names have needed government bail-outs. Bank shares have collapsed in value, former blue chip companies struggle. Interest rates paid to savers have fallen while the value of sterling has plummeted against major currencies.

The Isle of Man has not escaped the global financial turmoil.

Last October the once fast growing Kaupthing Singer and Friedlander (Isle of Man) bank (KSIOM) fell victim to the Icelandic bank crisis. The Manx authorities reacted by raising the maximum payable under the island's bank deposit compensation scheme to £50,000 for each individual.

Savers with KSIOM are eligible for the payout but will have to wait until the outcome of moves to rescue the bank.

The Manx Treasury has offered interim "hardship" payments in the meantime.

A key reason for the failure of KSIOM was that support from the parent Icelandic bank was not forthcoming when the Icelandic financial system virtually collapsed.

The Isle of Man government, by contrast, enjoys a strong financial rating as it ran comfortable budget surpluses during the boom years, and built up reserves against bad times.

Significantly, the AAA rating on its government debt was recently reaffirmed by rating agencies Standard and Poor's and Moody's.

In particular Moody's noted that the £150 million earmarked by the Manx Treasury for bank compensation schemes "is clearly manageable against free reserves and projected capital spending."

Allan Bell, the Manx Treasury minister, said: "I welcome the fact that Moody's and Standard and Poors have reviewed our ratings and concluded the Isle of Man is well-placed to ride out recent storms and to withstand any future economic downturn."

However, Manx economic growth which reached 7.7 per cent in 2007 is almost certain to slow sharply this year.

The island's low tax regime is a key reason for its past success.

There is no corporation tax for most businesses, a top rate of income tax of 18 per cent, with a £100,000 "cap", no tax on capital gains or inheritance taxes, and indirect taxes such as value added tax account for most of the local tax "take".

However, the present Manx system could be under threat and not just because of the recession.

In his pre-Budget report last October Alistair Darling, the Chancellor, announced an "Independent Review" of the UK's offshore financial centres, including the Channel Islands, the Isle of Man, Gibraltar and Bermuda.

The review, headed by the former financier Michael Foot, will not try to undermine present constitutional arrangements and the right of these centres to set their own taxation, according to the UK Treasury.

But it will investigate how the financial industries of these UK offshore centres can weather the current financial turmoil.

One of the remits is to consider "financial stability and competitiveness".

Mr Foot is to submit an interim report in time for the next British Budget but no date has been set for a final report.

Should the report conclude that UK offshore centres need stronger government backing for investor protection and for keeping financial firms solvent, the cost might fall on local taxpayers.

The need to raise more money to support financial services might threaten the low-tax regimes of some offshore centre.

For the time being, the Isle of Man can afford to keep low direct taxation and remains one of the safer offshore havens for savers.

The island's offshore life assurance business remains resilient. Indeed the prospect of higher tax and national insurance rates on the better off in the UK may even encourage new business.

Customers of insurance companies registered on the island are protected by a compensation scheme in case the insurance company fails.

The scheme pays up to 90 per cent of liabilities. However, the level of compensation for customers who hold money through a life assurance bond with a bank that fails is not so clear cut.

A new pension law which came into force last year aims to attract pension business from British expatriates who want to move their UK pension schemes offshore.

Until stock markets crashed, many overseas companies, particularly those from Asia, were incorporated in the Isle of Man and listed on London's Alternative Investment Market (AIM).

This was a growing source of financial business for the island's professionals, particularly for local law firms. The AIM provided an opportunity to buy shares in companies trading in India, China and other emerging markets.

Apart from financial services, the island has developed specialist industries, such as producing components for space rockets and has a thriving film industry.

E-gaming is growing with 13 firms already licensed for internet gambling with 10 applications in the pipeline.

A local financial institution, Conister Financial Group, has developed a worldwide business in prepaid cash cards, which can be denominated in major currencies.

A new business, MoBank, has set up a customer service centre on the island ahead of a UK-wide launch this month.

The MoBank system will allow people to use their mobile phones to buy tickets, pay bills,

transfer money and conduct other banking activities.