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OFCs face fiscal problems

By Alex Wright in Miami

Increased spending and tighter revenue constraints are the biggest issues facing offshore financial centres (OFCs), including Bermuda, at the moment.

That was the finding of a panel of experts speaking about the state and future of the OFC industry at the first day of the OffshoreAlert Financial Due Diligence Conference held at the Ritz Carlton Hotel in Miami yesterday.

They debated everything from the impact of the global recession on the banking, finance and corporate services, insurance and hedge fund sectors within those jurisdictions to the clampdown on tax evasion and other financial crimes, as well as sustainable future business models.

The panellists comprised Jim Miller, chair of the Miller Commission on Taxation, Fiscal Management & Regulation Reform in the Cayman Islands, Myles Flint, of Appleby (Bermuda), Cherise Cox-Nottage, of UBS (Bahamas), Jack Blum, of the Tax Justice Network in Washington DC, and Eduardo D'Angelo Silva, an offshore banker from the Cayman Islands and moderator Burke Files, of Financial Examinations & Evaluations in Arizona.

Michael Foot, of the UK-based Promontory Financial Group, who recently completed a financial review of British Overseas Territories, including Bermuda, for the UK government, was unable to talk at the event due to earlier being hospitalised. Mr. Files gave an overview of Mr. Foot's conclusions, including OFCs coming under continued pressure from the US and European Union because of revenue requirements and the need to improve their legislative and regulatory standards.

He said that Mr. Foot was also concerned about the bounty of riches that OFCs had enjoyed for many years drying up while their governments maintained spending levels without the revenue to back it up, adding that they would need to look at additional sources to fill the gap.

Mr. Foot similarly questioned the result of OFCs losing their competitive advantage and the position of the likes of Bermuda, the Cayman Islands and the Turks & Caicos Islands in 10 to 30 years if the financial sector was no longer the main pillar of business.

Mr. D'Angelo Silva said that the Cayman government's spending was currently outstripping its revenue and despite raising fees and trying to collect more money, the real solution to the problem was to cut expenses.

Mr. Miller, who oversaw a study on Cayman's economic viable stability, said that while the islands' revenue had risen, its spending has exploded in recent times. He said it would be counter productive to hike up fees, however he identified reducing civil service employee costs as the key to bringing spending under control, in addition to boosting the country's economic activity through a number of initiatives such as building a new runway for aircraft from Europe and a cruise ship berth.

Nasdaq	2394.36	-30.66
NYSE	7234.37	-81.99
S&P 500	1157.44	-14.23
Crude Oil	36.13	-0.64
TSX Index	12116.59	-79.38
FTSE Index	5433.73	+50.23
Hang Seng	20422.46	+209.97
ACE	53.72	-0.07
AWAC	45.00	+0.61
AIG	40.65	-0.75
AON	42.42	-0.57
Arch Capital	76.44	+0.04
Argo Group	31.76	-0.56
Aspen Insurance	27.04	+0.45
Assured	17.96	-0.01
Axis Capital	30.64	-0.19
Chubb Corp	51.88	-0.33
Endurance	36.64	+0.14
Everest Re	77.82	+0.08
Flagstone Re	11.90	+0.08
HSBC	48.56	-1.09
Lazard Class A	36.12	-0.01
Maiden Hldgs	7.13	-0.09
Marsh &	23.13	-0.35
MontpelierRe	16.68	+0.09
Max Capital	22.98	+0.00
Nabors	20.14	-0.33
Orient-Express	12.40	-0.47
PartnerRe	76.87	+1.33
Platinum	37.73	-0.09
Primus Guaranty	4.42	-0.38
RAM Holdings	0.73	+0.00
RenaissanceRe	57.26	+0.72
Validus	24.65	+0.42
White Mountains	334.20	-4.79

"It became quickly apparent that the problem was spending," he said.

"The way to get spending under control has to include substantial constraints on overall costs and thus we recommended substantial cutbacks in personnel costs."

Mr. Blum said the core issue for OFCs was corporate tax evasion and that the way to solve it was to raise the corporate tax level.

Ms Cox-Nottage said that if a company committed an offence it was possible to reach into almost any reputable OFC to redress the situation.

"That is something possibly 10 years ago that would not have been considered," she said.

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