

Shifting Markets and Strategic Planning for the Future of the International Trust Industry

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Introduction

The international trust industry is now entering a maturing industry cycle resulting in major consolidation. Consolidation is a process of change. Entities either willingly or not so willingly, cease to do business, shrink their business or grow their business.

Management must know the particular strengths and weaknesses of their company, accurately envision an area for exploitation and effectively mount a campaign to operate therein. These are seemingly basic considerations, but there are many managers who do not know where to look for the answers to these considerations or fail to ask the questions at all.

Is the International Trust Industry Indeed Maturing?

There is no doubt that the international financial industry, which includes the international trust industry, is maturing. A maturing economic cycle is not synonymous with an economic decline, but it does share some similar elements.

One of the signs of a maturing market is a slow down in the rate of growth. Although the empirical evidence of this claim is selective on my part, it is noteworthy that the number of incorporations in a majority of International Finance Centres ("IFC's") has significantly declined in the last two to three years.

For instance, Bermuda's incorporation of exempted companies declined 26.3% from 2000 to 2001.¹ The Cayman Islands reported a drop of 44% from 2000 to 2002.² In the Turks and Caicos Islands, exempted company incorporations declined 15.9% from 2001 to 2002.³ Anguilla reports a 27.3% decline from 2001 to 2002.⁴ and incorporation of IBC's in Cyprus was down 21.2% from 2001 to 2002.⁵ (The Bahamas and the British Virgin Islands ignored repeated requests for information.)

It is also significant that there has been no new country claiming IFC status for several years now. In fact, Nauru has just this year revoked its international banking legislation in a move to curtail its international product offerings.⁶

While a couple of IFC's have had what effectively has been offshore legislation for several decades, the majority of self-proclaimed IFC's enacted their primary legislation in the 1980's with certain enhancements continuing into the 1990's. However, it is clear that this was a definable trend that has now ended.

What Signs are There Amongst the Industry Players Themselves?

Evidence from the industry players themselves is showing signs of a maturing market as firms scramble to develop their market niches. Some companies are buying out other companies or particular branch operations, while their counterparts are selling. Other companies are pursuing growth through joint ventures. While still other companies are salvaging existing operations by merging with strategic partners or simply winding up unprofitable business lines.

An example of a growth and exit strategy working in tandem, is the purchase by HSBC Holdings of Bank of America's asset management business in Brazil. HSBC's acquisition makes it the largest asset manager in the country.⁷

Conversely, Bank of America, together with J.P. Morgan Chase and Deutsche Bank are scaling back their operations in Brazil as slowing growth and weakening currencies threaten profit. "Unlike Bank of America, HSBC has a branch network in the country, has been among the largest asset managers and is big enough to make the transaction profitable, analysts said."⁸

Another example of a growth player is RBC Financial Group, which has greatly expanded its operations in the United States. First RBC acquired Dain Rauscher, an American full service brokerage firm in 2000. Then in 2001, it purchased Centura Banks, Inc., a banking operation with over 240 retail outlets in the southeastern states. Then, RBC's Global Private Banking division acquired the trust and private banking operations of Barclays Bank Plc. in New York and Miami in 2002.

Alternatively, some players such as Northern Trust are growing through joint ventures. To break into the European asset management business, it entered into two joint ventures in 2001; the first with Helaba Bank in Germany and the second with the Italian based banking group Mediolanum. This was followed up this year by a joint venture with a large French mutual insurer called Groupama. "Northern Trust's investment subsidiary [Northern Trust Global Investments] manages more than \$300bn globally and has been active on the continent for two years. It gains footholds in European markets that are otherwise hard to access through alliances with distributors, usually domestic banks or insurers."⁹

As an example of a salvage strategy, Barclays Bank further consolidated its international operations by merging its Caribbean retail banking operations with CIBC in 2002, creating a new entity called First Caribbean International Bank. Several mergers also took place recently amongst Switzerland's smaller private banks, including Lombard

Odier and Darier Hentsch.¹⁰ Unlike Northern Trust's joint venture strategy, these mergers are an attempt to protect market share as opposed to grow it.

Lastly, certain other players simply wound up various operations or trimmed their business lines. For example, the Bank of Ireland closed its offshore accounts in the Isle of Man originally offered to Irish residents, claiming that the majority of its offshore accounts were predominately sterling-based belonging to expatriate holders. The Irish offshore accounts represented a piece of business the Bank no longer wished to pursue.¹¹ The Bank's clients were simply "de-marketed."

What About Profits?

Unlike a declining market or growth market, in a maturing market some players will continue to be profitable while others will lose money until the consolidation process is complete.

As evidence of this phenomenon, Goldman Sachs earned a record US \$455,000,000 in the first quarter of this year alone, and increased their AUM by US \$4 billion.¹² TradeWeb, an online fixed income trading platform, witnessed a record trading volume in the first quarter of 2003 with US\$3.75 trillion in activity, up 80% from 2002's mark.¹³

Conversely, private bank Julius Baer announced a 19% drop in overall net profit for 2002,¹⁴ while Deutsche Bank's net profit plunged by more than 30% for the same period.¹⁵

There are numerous examples of both profitable and unprofitable companies in the industry today, despite current short-term economic conditions. While the current economic downturn, no doubt, does affect some individual companies, the factors driving the current industry cycle are the result of fundamental shifts in the international financial industry.

What Caused the Structural Changes?

The consolidation occurring right now in the industry is largely being precipitated by external initiatives embarked on by several international organizations formed by the industrialized nations of the world ("Member States"). The most influential of these organizations are the Financial Action Task Force ("FATF"), the Organization for Economic Cooperation and Development ("OECD"), and the Economic and Finance Counsel of the European Union ("ECOFIN").

The initiatives commenced by these groups include: the Anti-Money Laundering Initiative as outlined in *The Forty Recommendations* and the *Non-Cooperative Countries and Territories list* published by FATF in 1990; the Harmful Tax Competition Initiative as described in, *Harmful Tax Competition an Emerging Global Issue*, published by the OECD in 1998; and the Savings Tax Directive and Code of Conduct, which arose from principles agreed to by the European Union Finance Ministers on December 1, 1997 and

proposed (in the first instance) in a 1997 speech by Mario Monti, European Commissioner for Internal Market and Taxation and later detailed in a 1999 report entitled, *Financial Services: Implementing the Framework for Financial Markets: Action Plan*.

These initiatives, although incomplete and still in dispute amongst the relevant participants, have created fundamental structural changes to the international finance industry.

The Cost of Compliance

The first fundamental change created was to significantly raise the cost structure to provide financial services due to increased regulation and compliance measures. As a result of the Anti-Money Laundering Initiative, for instance, new regulations were enacted in all IFC's. These regulations substantially increased client due diligence requirements, as well as, internal and external audit procedures.

To implement these new regulations, firms were required to incorporate more technology to manage the increased reporting and filing and hire more skilled labour to perform the compliance and audit functions.

The absolute cost to implement these new procedures is expensive enough in its own right. However, the cost to companies resident in IFC's is exponential given the lack of a developed infrastructure from which to draw upon.

Most IFC's must import all technology. Transporting and paying customs duties on hardware and software is expensive. Also expensive is the requirement of telecommunications services to support the functionality of the technology, even when it is available. For instance, high-speed internet connection service is only available in a handful of IFC's. Most still rely on dial up networking service.

The availability of skilled labour is also an issue. Skilled workers must be either recruited from foreign jurisdictions or sent to schools abroad for extended training. Either option is expensive and potentially crippling in terms of implementation time.

The Money Laundering Initiative also recommended increased licensing scrutiny, which together with the Harmful Tax Initiative, encouraged new and substantially more onerous regulations.

Part of the new regulations enacted in the IFC jurisdictions created new capital requirements for businesses that did not need them previously or they increased capitalization minimums that had lower requirements previously, as was the case for trust and insurance companies. Requiring increased capitalization added another significant cost to doing business and also created further barriers to entry for potential competitors thereby causing significant structural change.

Increased Transparency and Domestic Tax Legislation

The second fundamental change to the industry is the increase in transparency and the moral dissuasion of marketing secrecy by the IFC jurisdictions. This came about as a result of the Harmful Tax Initiative taken up by the OECD.

The Harmful Tax Initiative set out a list of activities, which it charged as harmful or predatory behaviour on the part of IFC governments against Member States. The Initiative originally seemed to have broad international support and the OECD persuaded several IFC's to sign Memorandums of Agreement to negotiate changes to the subject provisions.

However, the Initiative lost momentum after the election of the Bush Administration in the United States, and as a result, the OECD has retrenched and focused primarily on increased transparency and the cessation of marketing secrecy. To this end it has succeeded in witnessing the execution of several transparency agreements between the United States and various IFC's, although arguably this would have occurred in any event, with or without the existence of the Initiative.

No legitimate trustee wants a client who is paranoid about secrecy. Obviously, this raises money laundering concerns. However, confidentiality is intrinsic to dealing with significant wealth and the perceived loss of confidentiality in the IFC's has a definite structural effect on the industry.

The Harmful Tax Initiative also encouraged Member States to take domestic action to enact deeming provisions in their respective tax codes. An example of this is Canada's enactment of new non-resident trust and foreign investment entity rules.¹⁶

These rules deem non-resident trusts and foreign investment entities, which possess foreign trustees or domiciles, to be taxable in Canada. The liability to pay the taxes falls jointly on the trust and the resident contributor. The trust can even be taxable, in some cases, in retrospect. This is so due to certain look back rules, which deem trusts established by former long-term resident Canadians taxable if the settlors re-establish residency in Canada within 60 months of settlement.

Increased transparency and new domestic tax legislation, as called for by the Harmful Tax Initiative, have definitely dissuaded clients from using international financial products, including trusts.

The Foreign Persuasion of Member States

A third fundamental shift to the industry has been the advent of tax liability on the IFC itself by certain Member States. The American Qualified Intermediary ("QI") rules and the European Union Savings Tax Directive ("EUSTD") both obligate IFC's to either report directly to their respective tax authorities the existence of certain financial accounts held by their residents/citizens or withhold tax and remit it to them.

The QI rules and EUSTD are both examples of extra-territorial legislation, which trustees doing business in certain IFC's are forced to comply with. Not only do these rules add cost, but again the trustee accepts obligations directly vis-à-vis these tax authorities which increases their operational risk.

To deal with these obligations, international trustees will be forced to become more sophisticated. These rules also disqualify and discourage smaller international trust clients.

While it is acknowledged that the final text of the EUSTD has yet to be agreed, and certain jurisdictions such as Cayman are disputing the application of the directive to their jurisdiction, a certain form of the EUSTD will eventually be enacted. Together with the QI rules, these laws are pushing the international trust industry into a mature cycle.

How Have the Courts Influenced the Industry?

While a case review of international trust cases is beyond the scope of this paper, it is logical to surmise that the adjudication of cases involving international trusts has helped to define the scope and use of trusts in the international context. *Rahman*¹⁷, *Grupo Torras SA*¹⁸ and *Anderson*¹⁹ (amongst many others) are all cases that modified trustee behaviour.

Like the extra-territorial legislation referred to above, case law has forced trustees to become more knowledgeable and sensitive to Member State laws. Case law has, therefore, limited the pool of potential international clients by restricting the use of trusts.

Long Term Capital Movements in the International Arena

One last concept worth considering briefly is the movement of global capital versus the transfer of it. Most international trust practitioners have heard of the proposition that the world will be exposed to the greatest transfer of wealth ever in its history with the death of the "Baby-Boomer" generation.

This may or may not be the case, but there are certainly some questions in relation to the ultimate benefit the international trust industry. First, the concept of the "Baby-Boomer" generation is primarily an American phenomenon and American citizens are difficult to tax plan for on an international basis. Second, there will be an intense domestic play for these assets as well, which may result in very little if any of the assets finding their way to international service providers.

What is interesting to note, however, is the continued growth of international active business. Just as manufacturing profits overtook profits from trade in commodities after World War II, profits from international service related activities is now outpacing profits from manufacturing.²⁰

Another area of interest is the importance of foreign direct investment amongst nations. This is business activity that by its very nature is international. The foreign direct investment amongst the OECD countries in 2000 was estimated to be US\$1 trillion.²¹ Although the 2001 amount was considerably lower at US\$565 billion²², the potential for future profit by international trustees in relation to international business, far exceeds the potential in relation to generational transfers.

Given the Above, What Can You do to Enhance or Save Your Business?

When industries move from a new growth phase to a maturing phase, many managers tend to balk at making the required transitions. Rapid growth protects firms when they make mistakes. People, are by nature, reluctant to change.

Typically, in a high growth phase of an industry cycle, firms tend to engage in a wide variety of strategies: some work, others do not. But while an industry is in growth mode, revenues and volume tend to be high enough to cover systemic problems. However, a maturing market changes all of that by forcing managers to analyse what their company is truly good at and what it is not.

The following strategies are adapted from the text *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, by Michael E. Porter as applied by me to the international trust services industry.²³

Professor Porter teaches at the Harvard Business School and is a leading authority on competitive strategy and the competitiveness and economic development of nations, states, and regions. His ideas on strategy have now become the foundation for the required strategy course at the Harvard Business School, and are taught in virtually every business school in the world.²⁴

a) Accounting

Profitability becomes very important when entering a maturing market. Managers must focus on profit as opposed to revenue generation. This may be a good time for a firm to increase their prices and de-market lower margin clients.

Cost analysis is also key. Managers must analyze their cost of production and cut all costs that do not add direct and accountable value to the bottom line. Unnecessary travel and ineffective promotional or advertising costs are typical areas for scrutiny.

Managers must also seek out lower cost alternatives. Given that the industry is service based, managers should look to increased technology capabilities to reduce labour and general overhead costs. A good example would be to reduce paper based client reporting and marketing in favour of a digital alternative.

Outsourcing non-essential or non-proprietary elements to the product offering is also a good strategy for lowering costs. Some international firms already engage on-shore

internet service providers or back office reporting services to assist where they can not do so cost effectively in-house or would face less efficient and more expensive alternatives in their home jurisdiction.

Cost recovery is also a major initiative for firms entering a maturing market. Phone calls, faxes, photocopies and couriers are all expensive overhead items that can and should be tabulated and passed directly on to the client. Legal and accounting firms are especially adept at these cost recovery practises and should be consulted directly for information on the technology and service providers they engage in one's home jurisdiction.

Pricing strategy is also crucial in a maturing market. Choosing a pricing model is part and parcel of determining one's overall niche. Typically, when industries start to mature, processes can be standardized in such a way as to allow for price competition. Managers should be prepared to price their product aggressively in the short term while other players in the industry sort themselves out. The idea is to "ride-out" the "weed-out."

However, one word of caution, while there will be many increased efficiencies in the international trust industry compared to yesteryear, a "high volume-low price" model may still be difficult to effectively achieve at this point. The infrastructure development in many IFC's is still weak and expensive to really engage in a high volume strategy. There is also the fact that international financial transactions have intrinsic risk, which is not conducive to a high volume strategy in the first place.

Alternatively, some firms will instead chose a "low volume-high cost" model, which is completely acceptable in a maturing industry, so long as they are still able to retain market share in the face of potential price cutting by competitors. In other words, the "low volume-high cost" model must still be competitive in relation to the industry as a whole.

b) Finance and Corporate Structuring

Corporate structuring is key when moulding a company's niche. Where a company has proven itself successful in the past at a particular business, corporate acquisitions may work. Where expansion by acquisition is not possible, start-up branch operations may be necessary.

Where a company has a certain competitive advantage, perhaps in technology, it may be a good joint-venture partner for another company that possesses a complementary competitive advantage such as a well-recognized brand name.

Similarly, a company engaged in a certain line of business, such as asset management, may be a good potential joint venture partner for a trust company. The idea is to build the business entity that best suits the proven niche to make the company more efficient or to increase market share through structure or alliance.

However, in a maturing market scenario, profit horizons in corporate structuring strategies must be short. If profit is not generated almost immediately, a company may be undermining its cost reduction strategies and leaving itself exposed to overly narrow profit margins.

Some firms should consider selling in a maturing market. The candidates for selling are those that are inflexible or too small to compete. Other reasons may include lack of jurisdictional support in a particular IFC or simply no obvious management successor.

c) *Marketing*

The main thrust to marketing in a maturing market is to scour the landscape for untapped resources. The idea is to create market share where it never existed before and diligently protect the market share already possessed.

To start the process, firms need to enhance their corporate intelligence and competitor analysis capabilities. By determining what other companies do well or not so well, a firm starts to create a road map towards building a successful niche. A very useful piece of information in this regard is finding out what a competitor charges. Although most companies publish a list of prices for their services, many players only assume what a competitor charges and do not really perform any due diligence.

Hiring a consultant in this regard is also useful. Although some consultants may not reveal the names of their references, the information provided will be relevant competitor data.²⁵

One of the main strategies in a maturing market is to protect existing market share by focusing on servicing existing clients. Industry experts are all agreed that it costs less to keep an existing client, than it does to locate new clients.

To help keep existing clients, it is paramount to communicate with them. The trust industry, by its very nature, requires on going reporting. One of the biggest complaints of existing clients is the lack of reporting. One potential solution to resolve this is to institute internet based reporting facilities.

A digital newsletter featuring changes in firm procedures as well as any personnel changes that are relevant to the client base are also usually welcomed. Unlike paper-based communication, digital communications are not seen as wasteful and they are easy to delete if the client so wishes.

Paramount to keeping an existing client is to actively solicit feed back from the client. Those firms that do not welcome, if not actively solicit, feedback from clients will atrophy in their operations. Marketing is as much a function of receiving feedback as it is sending out a message.

Face to face meetings have been the typical method of obtaining feedback in the international trust industry, but this is very expensive and inconsistent at best. What might work better, is again digital communications requesting feed back or invitations to a telephone call, which the company manager would initiate. Part of this depends on the size and needs of the client.

The philosophy noted above in relation to retaining clients, is similar for new product offerings. It is easier to cross sell an existing client, than it is to generate a new one. Existing clients are the ones that are already sold on the relationship and as everyone in the international trust industry knows, relationship with the client is the key element to the sale. Cross selling existing clients new products is a way of expanding market share on an efficient basis.

However, when offering new products, a company must again only do so, so long as it falls within a deliberate niche strategy. As with corporate structuring noted above, offering new products must be coordinated so as not to undermine a firm's cost cutting strategies.

Given the fact that sales cycles for international trust services can take months and sometimes years to come to fruition, it is crucial for companies to find a cost effective method to maintain awareness within their centres of influence and potential clients. Again, an easy method to achieve this is through digital media. Whether it is through a regular information piece or simply by forwarding articles of interest on a consistent basis, digital media can help keep the company in the forefront of a potential client's thoughts.

d) Product

Mature markets are generally signified by a slow down in new product development. Certainly as that relates to international financial services industry, we are less likely to see any new product legislation, such as STAR trusts or protected cell companies, being enacted in the near future.

The first consideration for any company in a maturing market is to focus on products or services already being offered to clientele and make sure that those products and services are being delivered in the best and most efficient method possible. This is the first and most important product concept in a mature industry cycle and it cannot be over emphasized.

Next however, product innovation is still necessary and important even in a maturing market. Product is where the rubber hits the road. A company may have all other areas of its business operations streamlined and operating as efficiently as possible, (accounting, finance, marketing, personnel, etc), but without product there is no revenue.

Companies offering trustee services will need to consider applying themselves to other forms of fiduciary activities. Given the domestic legislation aimed at deemed taxation of

trusts noted above, many planners are looking to the use of other entities such as foundations, protected cell companies and hybrids.

So long as the trustee can be satisfied that it is not exposing itself to inordinate regulatory or civil risk, it may choose to play a role in the new planning. One such role is to sit as an “advisor” to a foundation to oversee the management of the assets in the foundation and to assist in the accomplishment of the provisions of the foundation. Unlike directorship appointments to active businesses, an advisor role is simply passive and is very similar to a trustee’s traditional role.

Another potential area for service innovation is to seek out more complex trust opportunities. Given that the market is maturing and plain-vanilla trusteeships are more difficult to find, trustees should look for trust opportunities that may be secondary to the lead product or imbedded in the product offering.

An old opportunity in this regard, which everyone is familiar with is, the trusteeship in relation to an offshore fund, where the fund was created as a trust as opposed to a corporation. However, there are now new opportunities opening up in relation to insurance products whereby trustees act in a fiduciary capacity on behalf of licensed insurers that segregate certain assets in relation to policy liabilities, as opposed to co-mingling premium payments or purchasing reinsurance.

Another opportunity beginning to arise is for trustees to provide personal estate planning solutions to their domestic market. Given the large accumulations of wealth over the previous two or three decades in several IFC jurisdictions, trustees should consider the possibility of providing trust services to wealthy IFC resident clients.

An offshoot of this same concept is the growing opportunity to provide corporate trusteeships in IFC jurisdictions. International trustees should review what corporate roles onshore trustees provided in the past, such as trusteeship of corporate pension plans, as these opportunities will start to emerge in IFC jurisdictions as well.

Lastly, trustees must consider joint venturing with service providers in other jurisdictions to tailor-make products for clients. In the example of the foundation given above, unless a trustee has operations in a jurisdiction that provides for the creation of foundations, it will need to joint venture with a partner that does. Similarly, given the matter of “black lists” in certain Latin American countries, some trustees may need to joint venture with trustees in non-listed jurisdictions. Plus, as Member States attempt to become more competitive with IFC’s, they will offer products that an international trustee may be able to take advantage of.

It will become increasingly important in the future to work in a multitude of jurisdictions both, treaty and non-treaty, as well as both, Member States and IFC’s. Therefore, trustees will need to form alliances as part of a multi-jurisdictional solution. Organizations such as STEP are excellent forums to make these contacts.

e) *Personnel*

The maturing industry cycle is marked by a “topping-out” of new hires. Instead management will need to focus on the quality of the personnel that they now possess and how to get the most out of these individuals.

Management will concurrently be tasked with engineering scaled down expectations of the staff, as growth and advancements slow. People will no longer have a multitude of exciting tasks on their plate, nor will they experience such upward mobility as they had in the past, going from mail room hire to Vice President of Business Development in less than six months.

Recruiting, when it is done at all, must be strategic. As the business develops there will be a need to move from “cowboy boots” to “pinstripes” and consolidate all of the gains previously made.

Strategic individuals will be more expensive than casual hires, but these will be the individuals most likely to be able to implement a specific niche plan. These will also be the individuals who will best lower operational risk to guard against large-scale losses.

f) *Choice of Jurisdiction*

The consolidation transpiring amongst industry participants is also being played out amongst IFC jurisdictions themselves. As competition mounts from Member States to retain their tax base, IFC’s must defend their ability to keep these same clients.

Some IFC jurisdictions such as Bermuda and Jersey have attempted to take a conciliatory tact. When the United States recently announced new penalties for tax evasion schemes, Bermuda came out in full favour of them. They also tried to put on a conciliatory face in relation to the recent challenge to Tyco’s offshore migration scheme.

Jersey for its part, took a similar tact to Bermuda when it attempted to picture itself as a cooperating IFC in relation to the EUSTD. Before a final position was taken by many of its competitors, Jersey announced that it would follow the preferred course of action requested by the European Union and report what savings accounts were held by Member Country residents.

Conversely, IFC’s such as Cayman and Barbados have generally challenged the positions and initiatives taken against them by Member State organizations. Early on, the Barbados government organized a meeting of the IFC governments, which eventually restricted the ambit of the Harmful Tax Initiative. Cayman has just successfully challenged Great Britain in its position that the EUSTD can be imposed on Overseas Territories of Great Britain without their consultation or consent.

However, a third position taken by many IFC jurisdictions is to simply sit back and do nothing.

International trustees must carefully consider whether or not a particular stance taken by their IFC jurisdiction supports their choice of niche. Larger trustees, who are attempting to appeal to a broader band of client base, will need to locate in a jurisdiction that takes active steps to protect its competitive advantages. These trustees will then need to decide if a conciliatory approach, like that taken by Bermuda and Jersey is better for their particular niche, compared to a more aggressive approach as taken by Cayman and Barbados.

Only smaller trustees, who are exploiting a local niche, can position themselves in jurisdictions that do little or nothing to protect their IFC status. Larger trustees must reside in mainstream jurisdictions that are active in defending the status of the jurisdiction, whether that be in a conciliatory fashion or in a more aggressive manner.

Conclusion

In a maturing industry cycle consolidation occurs and the spirit of pioneering begins to fade. This is the cycle now facing the international trust industry.

Trust companies must decide what it is that they are good at. They must pick a strategic niche and pricing model. Once management has determined the niche, it must put in place policies and procedures to achieve the niche.

The focus in a maturing cycle is profitability, not revenue generation. Therefore, management must make the company more efficient at delivering its services. This means finding low cost alternatives, outsourcing non-strategic elements, implementing cost recovery of basic overheads, increasing corporate intelligence and client communication and feedback, cross selling products to existing clients, product innovation (as opposed to development) and strategic hiring.

For the companies that are able to manage their way through a maturing cycle, they can look forward to a less competitive final phase; the cash cow cycle, where barriers to entry are too high for new competitors and profit margins can again be raised with little or no effect to market share.

¹ Bermuda Monetary Authority Annual Report 2001, <http://www.bma.bm/>.

² *Caymans reports lower company registrations*, Tax News, February 28, 2003, <http://www.tax-news.com>.

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⁴ Email dated March 26th, 2003 from Lanston Connor, Registrar of Companies, Anguilla Corporate Registry, addressed to the author.

⁵ Email dated April 11, 2003 from Evangelia Christodoulou of the Central Bank of Cyprus, addressed to the author.

⁶ *Offshore banks no longer welcome in Nauru*, Go Asia Pacific News, March 31, 2003, <http://www.abc.net.au>.

⁷ *HSBC to buy Brazilian unit of Bank of America*, New York Times, April 14, 2003, <http://query.nytimes.com>.

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- ²¹ Jon E. Hilsenrath, *OECD Reports a 56% Decline in Foreign Direct Investment*, Wall Street Journal, July 5, 2002 at A2.
- ²² *Id* at A2.
- ²³ Michael E. Porter, Competitive Strategy: Techniques for Analyzing Industries and Competitors (The Free Press, 1980).
- ²⁴ HBS Intranet Biography of Michael E. Porter, *as accessed through* the Institute for Strategy and Competitiveness website, April 12, 2003, <http://www.isc.hbs.edu/>.
- ²⁵ *One such consultant is BB&P Marketing and Communications in Grand Cayman.*