

STATES OF JERSEY

Economic Affairs Panel Role and Funding of Jersey Finance Limited

MONDAY, 17th DECEMBER 2007

Panel:

Deputy G.P. Southern of St. Helier (Chairman)

Deputy J.A. Martin of St. Helier

Deputy K.C. Lewis of St. Saviour

Witnesses:

Mr. F.G. Voisin

Deputy G.P. Southern of St. Helier (Chairman):

Welcome. We are here to examine the financing and the setup of Jersey Finance which occurred on your watch as a member of Finance and Economics, as a member of the Industries Committee and latterly as President of the Economic Development Committee. Thank you for coming along to talk to us about the setting up of Jersey Finance. I have to draw your attention to the document in front of you which indicates the terms on which you are appearing here. Could you start with your recollection of how Jersey Finance Limited was set up and what you thought it was there to do? In particular, if you would like to talk to us about the financing of it in its start up point that would be very useful.

Mr. F.G. Voisin:

Its aim was to promote the finance industry in Jersey. It started the -- going right the way back to I think even before I entered the States there was talk about a body being set up - an organisation being set up - to promote the Island's finance industry. Of course I think that funding was agreed by the then Finance and Economics Committee. I think it was agreed at a level of £250,000. Later on more money was agreed but, yes, what we saw is we saw Jersey Finance Limited established. Later on there was another organisation that represented the financial services industry. I cannot remember what it was called.

Deputy G.P. Southern:

Jersey Finance Industries Association.

Mr. F.G. Voisin:

Yes, that is right. That merged into Jersey Finance. Funding was increased and their marketing activity started. Is that the level of detail that you want me to go into or would you like to go into ...

Deputy G.P. Southern:

I will take you, if I may, into some of those matters. Certainly on 12th July 2000, the Industries Committee have this minuted: "The Committee noted proposals for the membership of Promoco. [as J.F.L. was then known] and noted that the Finance and Economics Committee have advised that the States would fund the initiative during the first year and then to be funded by subscription in subsequent years." Then it says here on 26th July, initial funding would be provided through the Financial Services Commission. You were on the Industries Committee at the time. Does that accurately reflect what you thought was happening?

Mr. F.G. Voisin:

That rather implies that the industries -- no, that the States were going to pay for the whole organisation.

Deputy G.P. Southern:

Initially. With initial funding, received money, the £250,000 which it does there.

Mr. F.G. Voisin:

My recollection is that the £250,000 was there to match monies raised from within the industry. I think the notion was that Jersey Finance Limited was always going to be funded partly by the industry and partly by government. I think that is a bit misleading. That is an Industries Committee of 12th July 2000, was it?

Deputy G.P. Southern:

Yes.

Mr. F.G. Voisin:

Because when was the F. and E. (Finance and Economics) grant agreed for the first time?

Deputy J.A. Martin of St. Helier:

13th November 2000.

Mr. F.G. Voisin:

November 2000. When that grant was made, what limited --

Deputy J.A. Martin:

Sorry, £150,000. They are talking about 2000, 2001 in the sums of £150,000 and £500,000 respectively.

Mr. F.G. Voisin:

But was it not -- I thought that --

Deputy J.A. Martin:

Yes, then gone on to a 50/50 arrangement.

Mr. F.G. Voisin:

That is right.

Deputy J.A. Martin:

Presently limited to the annual amount of £250,000.

Mr. F.G. Voisin:

Yes, but I think that the funding was arranged -- it was agreed that the funding given by Finance and Economics would be a maximum but would be reduced if it represented 50 per cent of the sum raised by the industry.

Deputy G.P. Southern:

So it would depend on matching funding coming from the industry?

Mr. F.G. Voisin:

Yes, yes. It was always seen that it was important to get the industry to contribute.

Deputy G.P. Southern:

The reasoning for setting up of Jersey Finance Limited was as a result of the *Edwards Report* in 1998, I think.

Mr. F.G. Voisin:

The *Edwards Report* said that the Financial Services Commission should not continue in its role of promoting the industry. It said if you are regulating an industry, you cannot promote it. Nobody then was promoting the industry in the Island. Sorry, not in the Island but outside of the Island. That is why it was finally -- it was felt from within the industry that a body was needed. Somebody needed to do this. Then later on the States agreed. That is why the funding was arranged. I think it is also important to recall that at that time we were going through a great deal of grief with various reports. We had the *Edwards Report* and the uncertainty that that created. We had the Savings Tax Directive that was being talked about. We also had the initiative on harmful tax practices as well. I think Jersey was being talked about as going on various black lists as well. There was a view at that time that it was really important to promote the Island as a financial services industry to the outside world. I know that it was put to me at that time, surely it is the industry that want to promote themselves, therefore, they should pay for it. Our view on E.D.C. (Economic Development Committee) was that it is vital for Jersey to promote Jersey as a financial jurisdiction rather than for HSBC, for example, to promote themselves because HSBC operate throughout the world. What we want is we want funds and, indeed, we want businesses to locate in Jersey rather than the Isle of Man, Guernsey and the Cayman Islands, et cetera, et cetera. I think that is an important point. Indeed I think we are fortunate to persuade some of these organisations to contribute to Jersey Finance because it can be argued that in actual fact they are competing with themselves. A lot of the financial institutions that we have in Jersey operate in other jurisdictions. What they are doing is contributing to Jersey Finance Limited to try and get the business into Jersey rather than other jurisdictions in which they may operate.

Deputy G.P. Southern:

Can I just explore, you have mentioned I think about twice or 3 times now to promote Jersey as a finance industry.

Mr. F.G. Voisin:

International finance centre, yes.

Deputy G.P. Southern:

Was there any thought at the time, as you saw it, that Promoco, as it was initially when it first reared its head, was to do something wider? Is there a wider brief for it or was it strictly finance, as you saw it?

Mr. F.G. Voisin:

I think it was strictly finance. Indeed it was discussed at some stage whether Jersey Finance Limited should not also be the vehicle to promote the I.T. (Information Technology) industry in Jersey. There are a number of disaster - sorry, I should not say disaster - business continuity businesses operating in Jersey. They also go out to the wide world to offer their services. I know that it was mooted that Jersey Finance Limited could perform that role as well. In the end Jersey Finance said: "No, we are here to promote the financial services industry. If you want to become members and ride on our coattails then fine. If you pay your money to become a member then you are perfectly entitled to do that."

Deputy G.P. Southern:

I think it is perfectly okay to refer to disaster recovery. I think that is what you were looking for.

Mr. F.G. Voisin:

That is the old -- they do not like disaster in disaster recovery. Business continuity.

Deputy G.P. Southern:

Business continuity, okay. Political correctness comes to business speak as well.

Mr. F.G. Voisin:

I am looking here; looking at this it says I might be sued for what I might say
[Laughter].

Deputy G.P. Southern:

There is a first for every time but I do not think it has either been even likely or certainly not happened as yet. Can I just again go back to J.F.S.C. (Jersey Finance Services Commission)? Edwards said J.F.S.C. should not be promoting Jersey and regulating the industry at the same time. I think it is obviously a reasonable stance to take. It is suggested that initial funding should be provided through the Financial Service Commission. Can you tell us anything about that?

Mr. F.G. Voisin:

Simply because the Jersey Financial Services Commission had a budget for promoting/marketing the industry and I have a feeling that is where the £150,000 or £250,000 figure came from. That is the figure that they had budgeted for. The industry believed then - and still believe to a certain extent - that the business registration fees should also be made available. I know that there was a group in the finance industry that argued that all of those fees should be made available for promoting industry which would have been a significant sum. It was argued that, no, those were separate fees and they were there to be included as part of the States own funding. But I know that there was a lot of debate over whether those fees should be used to fund Jersey Finance Limited.

Deputy G.P. Southern:

So there was some argument over the nature of this £250,000 as to whether it was, as you suggest there, some form of refund on fees or whether it was a grant.

Mr. F.G. Voisin:

Yes, there was a big debate because it is interesting that it was not until November 2000 that the Finance and Economics Committee finally agreed the initial funds. I think that discussions over the amount of money and the basis of the funding had been going on probably a year. A lot of discussions. The industry felt very passionately that really all they should -- the industry felt that these fees should be returned to the

industry via a marketing grant sort of thing. Finance and Economics of course argued that, no, this money was part of the States' funding and that was in their pot.

Deputy G.P. Southern:

Your position either on finance or on industries at the time, how did you regard it?

Mr. F.G. Voisin:

On Finance and Economics of course we were already spending that money on other initiatives. It was a question of trying to break the link. I think also, to be quite honest, it was a bit unrealistic to expect all of the fees raised - which run into millions - to fund Jersey Finance Limited. I think that was fairly unrealistic but what the Finance and Economics Committee did is to break the link between the fees that were raised through the Financial Services Commission. We broke that link and then had a separate sum granted to Jersey Finance Limited.

Deputy G.P. Southern:

As far as you are concerned it was a form of refund through the new body? Separating promotion from J.F.S.C. to J.F.L. enabled a separate mechanism to redirect this £250,000 into the finance sector.

Mr. F.G. Voisin:

Yes, that was certainly in the logic of this, yes.

Deputy G.P. Southern:

Was that the way you saw it?

Mr. F.G. Voisin:

Personally I saw it as -- I suppose at that time, yes, that is partially the way I saw it because we all knew that the F.S.C. (Financial Services Commission) had this budget set aside for marketing. They were not going to spend that money on marketing because they had been told that they could not so then this money was available.

Deputy G.P. Southern:

Okay, because that is quite important in the sense that in 2001 and 2002 when the money was being provided for J.F.L. there was no form of partnership agreement or what used to be called a service level agreement between Jersey Finance and the Industries Committee.

Mr. F.G. Voisin:

The Industries Committee were not responsible for Jersey Finance Limited.

Deputy G.P. Southern:

Yes, F. and E. --

Mr. F.G. Voisin:

It was F. and E., yes.

Deputy G.P. Southern:

-- on which you also served. So I will rephrase that, take the first half and then direct it at F. and E. How do you feel about that in terms of at the time no service level agreement?

Mr. F.G. Voisin:

I think we knew exactly what Jersey Finance Limited were doing. Not only -- I think I was the representative on the board and I would report to the Finance and Economic Committee. But also the industry worked very closely with the States. For example, the president of the Policy and Resources Committee would go with Jersey Finance Limited on their events. He would very often speak at their events in London, go with them on their conference to the Far East. There was very close communication. We knew exactly what Jersey Finance were doing.

Deputy G.P. Southern:

You felt then that your presence on J.F.L. was sufficient to cover --

Mr. F.G. Voisin:

I think not only was it my presence on the board but I knew that in actual fact both the president of the Policy and Resources Committee and the president of F. and E. were

involved in the events that Jersey Finance put on. It was a very close working relationship. I do not know what the relationship is now. I imagine it is just as close.

Deputy G.P. Southern:

How do you feel that the absence of a service level agreement or a partnership agreement reflected in terms of financial directive 26 which dictates that there must be an accountability between a grant and the services provided? Was that discussed at the time?

Mr. F.G. Voisin:

I do not believe it was discussed at the time. I do not recall it being discussed but whether this was a refund of fees paid I do not know. Certainly when I became president of E.D.C. it was brought to my attention and we started working on that fairly early on. I think it came out in an audit review as well that we did not have a service level agreement under Code 26, is it?

Deputy G.P. Southern:

Yes, Code 26.

Mr. F.G. Voisin:

We started working on that fairly soon. I have to say that we spent a long time negotiating that with Jersey Finance Limited. I think we ended up with a partnership agreement rather than a service level agreement because the difficulty here was that Jersey Finance Limited was being funded to a very large extent by members. The Jersey Finance Limited board did not want to have their hands tied too much by any service level agreement that existed with one part of their funding stream, rather they obviously had to look after the funds that were received from all their other members. That is why I think it took us probably 2 years to negotiate the partnership agreement. When was it signed in the end?

Deputy G.P. Southern:

It was 2004, I think.

Deputy J.A. Martin:

Yes, 2004.

Mr. F.G. Voisin:

Yes, and I took over in 2003 so it was the following year. Was it at the end of 2004 it was signed? Yes.

Deputy G.P. Southern:

It was a fairly lengthy process.

Mr. F.G. Voisin:

It was a lengthy process, yes.

Deputy G.P. Southern:

That was brought about you suggest by the fact that - the phrase I have used this morning - Jersey Finance is working for 2 masters? There are 2 sources of funding.

Mr. F.G. Voisin:

There are 2 sources of funding but the aims were the same.

Deputy G.P. Southern:

Tell me more.

Mr. F.G. Voisin:

The aim was to promote Jersey as a centre for financial services. That was the aim.

Deputy G.P. Southern:

Which would have resulted in both a benefit for government and for individual members contributing to that?

Mr. F.G. Voisin:

Yes.

Deputy G.P. Southern:

You say “the aim”. When you set up Jersey Finance did it have more than that aim - promoting Jersey as a finance centre - do you believe?

Mr. F.G. Voisin:

There may have been subordinate aims but I think that was the overriding aim from my recollection. I think also when Jersey Finance merged with the other group -- I cannot remember.

Deputy G.P. Southern:

J.F.I.A (Jersey Finance Industry Association).

Mr. F.G. Voisin:

J.F.I.A, that is the one. They also - and this worked very well - were a conduit for new laws that were being proposed and also any other initiatives for the finance industry. They were a very useful sounding board in that respect. I think Jersey Finance Limited took on a technical director to help do that. Because also one of the problems that we had experienced with the J.F.I.A. is that when the States had drawn up draft legislation, we had sent it out to the industry for consultation. Very often it was months before we heard anything. It slowed down the whole process quite badly. By sending it to Jersey Finance Limited we got a much speedier response and a better response as well.

Deputy G.P. Southern:

Could you talk us through the process by which - because I believe under your term as president of E.D.C.; Minister, president, chair - that merger took place? It strikes me that effectively the J.F.I.A. was, for want of a better word, a trade body. It was set up to promote the interests of its members.

Mr. F.G. Voisin:

I do not know the circumstances around which the J.F.I.A. was set up. That was going for some time.

Deputy G.P. Southern:

Do you accept that you could describe it as a trade body, as a professional association in that sense to promote the interests of its members?

Mr. F.G. Voisin:

As I say, I really do not know. The experience that I had with the J.F.I.A. was when we were consulting on legislation and also when I was a member of the Finance and Economics Committee, I later on was charged with taking through all of the finance legislation. The J.F.I.A. was the means of communicating with the industry but it was rather slow. When you had a meeting of the J.F.I.A. there were an awful lot of people sitting around the table. The trouble is that all of these people were also engaged in their daily work. You can argue that of course it was in their interests to have a successful finance industry in the Island but also a lot of the work that they did was of a much wider nature, giving feedback to the committee on legislation that was being proposed.

Deputy G.P. Southern:

But those roles were subsumed from when J.F.I.A. was merged into J.F.L..

Mr. F.G. Voisin:

Certainly that particular element was taken over by Jersey Finance Limited, yes. I think everybody accepts that Jersey Finance Limited did it better.

Deputy G.P. Southern:

Would you say that it was like slimming down and turning ministerial government into an equivalent in the finance organisations, that we were slimming them down into a more effective --

Mr. F.G. Voisin:

No, I would not [Laughter].

Deputy G.P. Southern:

Okay, right. An analogy too far I think, right. Nonetheless, it is your role perhaps -- you keep talking about promotion of Jersey, therefore, to the benefit of the government as a finance centre but also with J.F.I.A. merged into J.F.L., a secondary

role perhaps to promote the interests of its members. Do you not see any potential conflict between the government paying what would be seen by some as a lobby group to lobby itself?

Mr. F.G. Voisin:

I have to say in all the meetings I had on the board of Jersey Finance Limited and when I consulted with the J.F.I.A., I cannot recall an occasion when any particular members tried to promote themselves over and above the good of the industry as a whole. I cannot recall any instance. Obviously companies would join Jersey Finance Limited so that they knew what was going on and also to be involved in the consultation. Also that was an issue that was discussed when the J.F.I.A. merged with Jersey Finance Limited. If Jersey Finance Limited were going to consult with the industry then there had to be a way of doing that and not just communicating with its members because there were a few people in the industry that were not members of J.F.L. What Jersey Finance Limited did is they set up a website that everybody could log on to and certainly get access to potential proposals from the States for legislative changes. Then there was another part that you had to have your password - obviously you only had that if you were member - to get into the rest of the site. I cannot recall that there was an instance where an organisation tried to either hijack the process to promote itself or use Jersey Finance as a vehicle.

Deputy G.P. Southern:

I would not suggest that any individual company would see it as a means to promote itself. I do not say that at all. What we are talking about is a realistic choice between spending all of your marketing budget as a company marketing yourself in Jersey or elsewhere or spending some of that marketing budget by a contribution to J.F.L. marketing the sites, the products you are involved with in particular areas that you want to be in and also incidentally promoting Jersey as a finance centre anyway. The conflict comes between what is the interest of the company which is going to pick up business off the back of promotion and marketing spend. Does it spend it itself? Does it spend it with J.F.L.? What is the benefit for themselves in that? Do you not see that as a potential grey area in terms of accountability? Here is the States currently spending £1 million promoting Jersey as a finance centre through J.F.L. which is also working in part for its individual members.

Mr. F.G. Voisin:

If business comes to Jersey then some of those members are going to pick that business up. It is the same as marketing for the tourism industry, is it not? If we market Jersey as an island destination, hoteliers and tour operators are going to benefit from those people coming over. That is the nature of the economy, is it not? I do not know that that is a reason why we should not -- nobody has ever argued that we should not advertise Jersey as a tourist destination because the hoteliers may benefit. We all recognise that that is a great benefit to the Island.

Deputy G.P. Southern:

In the context that we have got the particularly setup we have where it is part funded by the States, part funded by individual companies, members, if we were to take the 2 ends of that spectrum, do you think we have got the right method of funding between totally States' responsibility - we are promoting Jersey as a whole - and the finance sector within that to totally finance by the finance sector promoting finance and Jersey incidentally. Where are we? Would you see merit in either of those 2 alternatives at the extremes?

Mr. F.G. Voisin:

I think Jersey Finance Limited have got it about right. I do think it is important for the members to contribute. Equally I think the States are very fortunate that they do contribute to the extent that they do contribute because it would be quite easy and I know that this has happened in some organisations, they have said, no, it is for the government to promote the Island as a financial centre. We will capture the business where it is happening. If it starts happening in another jurisdiction then we will go there to capture it. I think that it is good that the industry contributes. I think it is very important that the States contribute. I think that the States are fortunate that the industry does contribute to the extent that it does. If you ended up with a body that was all States' funded then I think that we might lose some of the entrepreneurial aspects of Jersey Finance Limited, in other words looking for new markets, seeking them out and trying to promote Jersey in those new markets. Indeed that was part of the discussions and negotiations around the service level agreement because Jersey

Finance Limited did not want their entrepreneurial spirit extinguished. They did not want to become another branch of the States' structure.

Deputy G.P. Southern:

How did you react when you read the internal audit report that suggested on a scale of one to 5 where one is poor, the terms of your accountability of the actions of Jersey Finance to the E.D.C. at the time, you only scored a 2?

Mr. F.G. Voisin:

Yes, that is largely because the service level agreement was not in place. By my recollection at that time, we were already in discussions with Jersey Finance Limited about that.

Deputy G.P. Southern:

But it took perhaps 2 years to finalise that partnership agreement.

Mr. F.G. Voisin:

Yes, but you cannot just ride roughshod into an organisation that is being largely funded -- I think in those days the States was a minority funder at that stage. I cannot remember exactly where the figures were. But it is very difficult --

Deputy G.P. Southern:

In fact if you look at the minutes, F. and E. had agreed an additional £350,000 to take it to £600,000 at that time which was more than matching, subject to the partnership agreement being formed.

Mr. F.G. Voisin:

Partnership agreement, yes.

Deputy G.P. Southern:

But it came some time later.

Mr. F.G. Voisin:

Some time later, yes.

Deputy G.P. Southern:

The funding was already majority States then.

Mr. F.G. Voisin:

Nevertheless, there was still a significant amount of funding coming from private, non States organisations. It was very difficult to -- do not take it personally. I do not think it would have been right to just walk in and hold the organisation to ransom saying: "If you do not sign then we will take our money away."

Deputy G.P. Southern:

If I can replace your word "ransom" by "account" would you have said --

Mr. F.G. Voisin:

Jersey Finance Limited always accounted for how the money had been spent. Not only were we involved with budgets as they were being drawn up at the beginning of the year and involved in where to go, there was a high level of accountability. Everybody knew where the money was being spent and how it was being spent.

Deputy G.P. Southern:

But nonetheless you seem to be saying that the dual nature of the funding makes it more complicated.

Mr. F.G. Voisin:

Yes.

Deputy G.P. Southern:

That E.D.C. should be saying: "We want you to account. We are holding you to this. This is the sort of agreement we want." That surely would happen with any other outside body.

Mr. F.G. Voisin:

Sorry?

Deputy G.P. Southern:

That surely would happen with any other outside body. You would put the money there and you would say: "You get this if you do this, this and this."

Mr. F.G. Voisin:

Yes, but it is a bit different though. When I took this over in 2003, funding had already been given. Jersey Finance Limited was up and running. We realised that there was not -- I think it was Bev Anthony that saw that we should have a service level agreement in place and we started discussing this. It is not as if you are setting off down the road along which Jersey Finance is going to be established. It had already been established then. Also we did not want to destroy the goodwill that existed between the States and Jersey Finance Limited and also all of its members. I think that is why we started off talking about a service level agreement and ended up with a partnership agreement.

Deputy G.P. Southern:

Should a partnership agreement or a service level agreement have been in place at the time of the initial funding? Do you consider that would have been appropriate? Would that have saved you the problem later on?

Mr. F.G. Voisin:

Would it have saved us the problem later on? I think it goes back to the view that there is £200,000-odd sitting in the Financial Services Commission that is earmarked for marketing and it is not being used, let us have that money. It was a sort of budget transfer. Then you have the issue of recycling fees paid to the commission as well.

Deputy G.P. Southern:

Was it a repayment or was it a grant?

Mr. F.G. Voisin:

I think you get different answers depending on who you ask.

Deputy G.P. Southern:

Perhaps clarity should have been sought at the time.

Mr. F.G. Voisin:

Perhaps, but was it money well spent? I think now we have -- I am not involved in Jersey Finance nowadays but when I was involved from what I read in the newspapers now I think Jersey Finance are doing an excellent job, not only promoting Jersey as a financial institution. Also incidentally it gave the guys at the tourism office the chance to join in as well. When, for example, we had the events in London there would be all the Jersey tourism marketing material available as well. That was again how we were able to work in with them. But I would have thought that we have an organisation working in Jersey that is part funded by the States, part funded by members, that is helping to maintain the Island's very successful financial services industry. Then we were getting that for about between £500,000 and £750,000 I think. It has gone up now, has it not, to £1 million?

Deputy G.P. Southern:

£1 million.

Mr. F.G. Voisin:

Yes. When you consider that we spend what £3 million or £4 million promoting tourism which provides a lot less G.N.I. (Gross National Income) then finance then surely I would have thought that they were getting good value for money. Certainly the Economic Development Committee felt that when we agreed funding.

Deputy G.P. Southern:

We will return to the value for money debate later in the new year I think and look at the wider aspects then. But for the moment thank you very much for your time. Good luck in civvy street [Laughter]. I was wondering how I was going to end that.

Mr. F.G. Voisin:

Civvy street? The real world do you mean?

Deputy G.P. Southern:

The real world.

