TMF GROUP

Global reach
Local knowledge

CELEBRATING 10 YEARS OF GBCI

PRIVATE WEALTH AND FAMILY OFFICES

STAYING ON COURSE IN TURBULENT TIMES

INTRODUCTION

Managing family wealth, often across international borders, has always been a complex affair – and the past 12 months, rampant inflation and an intensifying climate crisis haven't made the task any easier. We examine how the trends highlighted by TMF Group's Global Business Complexity Index 2023 (GBCI) are impacting private wealth.

Trying to navigate a safe path through an increasingly complex world has been top of the agenda for investors over the past 12 months. It has been a year of geopolitical upheaval while world trade is in recovery from the difficult years of the Covid-19 pandemic.

The troubled picture has led to global economic instability, with higher inflation and rising interest rates which have also been the trigger for stresses in the financial markets, that have so far been contained by prompt intervention by the relevant authorities. The increasing importance of environmental, social and governance (ESG) has also been in sharper focus as families and businesses further define what this means for them.

Private wealth and family office clients are concerned with reputation, compliance, governance, legal and political stability, access to specialists and, importantly, navigating the complexity of the global markets they operate and invest in.

The GBCI report, which is celebrating its 10th anniversary this year, provides an authoritative overview of the complexity of establishing and operating businesses around the world. The index is based on the analysis of 292 different indicators relating to business complexity in each jurisdiction examined, providing an overview of the global and local challenges faced by businesses. Analysis for the report is also based on a set of comprehensive questions for 78 jurisdictions, a number of which are focused on the private wealth and family office (PWFO) space, around the globe. It found that businesses and private wealth clients alike have been impacted by three key trends over the past year: geopolitical and economic turbulence; global compliance challenges, particularly around new sanctions regimes following the Russian invasion of Ukraine; and a deepening commitment to ESG considerations when investing.

Here, we look at each of these three areas in turn.

1

Geopolitical and economic turbulence

The GBCI found that political, geopolitical and social stability predictions by jurisdictions have remained mostly stable over the past three years.

However, a clear indication that confidence has been shaken comes with the finding that, in 2023, 65% of jurisdictions said businesses would find it more appealing to operate in their respective market over the next five years – down from 74% in 2020. This seems to suggest that optimism is declining and that businesses are taking a more cautious approach to investment.

A clearer indicator of the havoc of 2022 is the large drop in confidence among jurisdictions over forecasts for economic stability over the next five years. In 2020, 82% of the jurisdictions surveyed were confident about their future economic stability. However, this number has dropped to 71% in 2023, with the effect of higher inflationary pressures uppermost in many minds and likely to be felt for some time.

As an example, Vietnamese GDP growth forecasts sit at 6.5% for 2023, down from 8.02% in 2022. It's the same story in other APAC jurisdictions, such as Thailand, with global headwinds slowing growth.

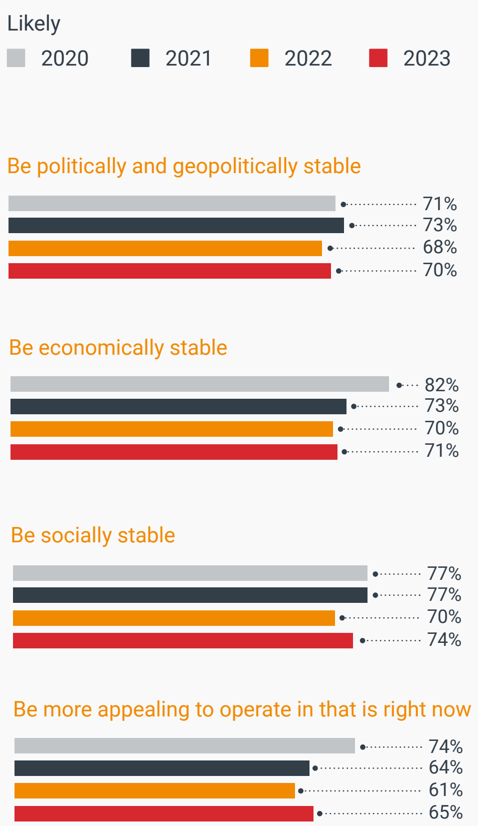
However, there are exceptions, such as Hong Kong, which has an economic growth forecast for 2023 of up to 5.5% after a decline of 3.5% in 2022. It has been helped by the easing of the Covid-19 pandemic, domestic demand and the return of tourism.

In a time of such uncertainty, jurisdictions that can offer investors relative stability, security and growth can be more attractive than ever.

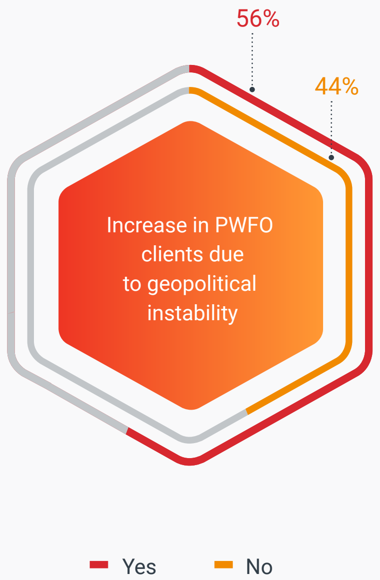
That applies not only to businesses, but also to private investors. Indeed, the GBCI found that over half of jurisdictions – 56% – that offer PWFO services predict an increase in high-net-worth individuals seeking a safe place to invest their wealth due to geopolitical instability.

This leads us neatly to the second key theme of this year's report.

Agreement that over the next five years jurisdiction will be...



Increase in PWFO clients due to geopolitical instability



2

Global compliance challenges

Sanctions imposed on Russian businesses and individuals by several states, including the UK, following Russia's invasion of Ukraine have added to the complexities around both business and PWFO compliance. As a result of the sanctions drive and continued fight against global terrorism and organised crime, jurisdictions have noted a tightening of global compliance regulations concerning, for example, ultimate beneficial owners (UBOs), persons with significant control (PSC), know your customer (KYC) and anti-money laundering (AML).

For instance, in Hong Kong, tightening due-diligence checks, KYC requirements and transaction monitoring have significantly increased the burden of client due diligence. This is alongside greater monitoring of Hong Kong-based corporate service providers' activities for clients, especially around payments.

This trend is likely to continue for all jurisdictions in light of geopolitical tensions, with only 13% of locations not expecting to see compliance regulations tighten.

UBO/PSC register statements

The GBCI found that the requirement to submit UBO and/or PSC information to a central register has increased slightly to 71% in 2023.

Although they mean more work, red tape and time, global compliance requirements can improve stability and security and lead to greater confidence around privacy for high-net-worth individuals.

This can make certain jurisdictions, like offshore centre Jersey, more attractive. Jersey has a register of beneficial owners and significant persons. These are people who directly or indirectly beneficially own or control entities such as companies, foundations and limited liability partnerships. Details of beneficial owners are not made public, but details of significant persons are. The jurisdiction has struck a balance between transparency and privacy.

Other jurisdictions appear to be following this trend, with 25% declaring that information on the UBO/PSC central register is accessible to the general public. That's down from 29% in 2022.

Jersey has also benefited this year from a weaker pound as the UK was hit by political volatility. The revolving doors at Number 10 and Number 11 Downing Street battered confidence in the currency, making it more attractive to investors from APAC whose currencies performed much more strongly.

TMF Group experts believe that, although issues like inflation can have a significant global impact, they also present opportunities for investors and businesses. Jersey can attract these investors due to its stable business environment and strong ecosystem of professionals.

In Singapore, another offshore jurisdiction, a strong regulatory framework and political stability are the key features that attract foreign investment. Singapore also offers attractive tax-incentive schemes that appeal to high-net-worth individuals looking to establish a family office

3

Environmental, social and governance considerations

Private wealth clients are increasingly focusing on more responsible management of their wealth. This may include socially responsible investment, paying what is considered a fair rate of tax, good corporate governance and increased philanthropy.

This rising trend has clearly prompted some clients to consider the wider impact of how and where to manage their wealth. Research from the 2023 GBCI indicates PWFO clients have increased investment into more environmentally friendly practices in 71% of jurisdictions over the past year.

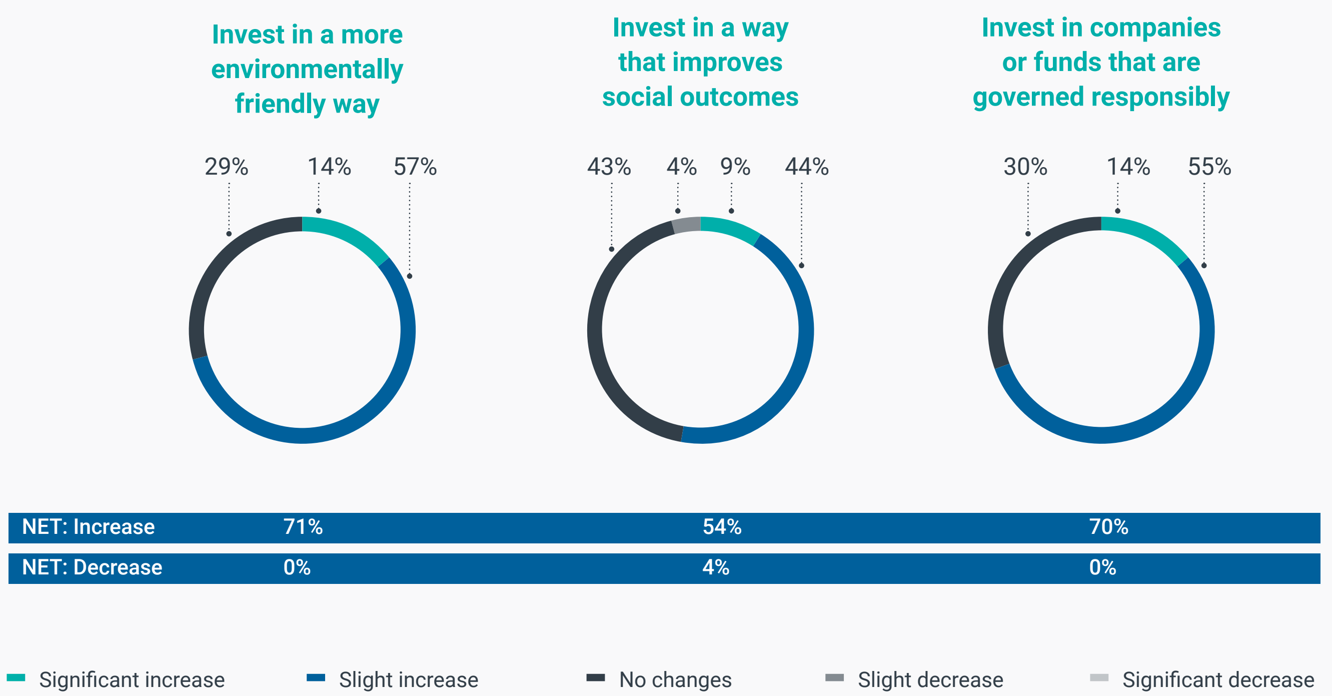
When it comes to investing in a way that improves social outcomes, there was a 54% increase, and investing in companies or funds that are governed responsibly saw a 70% hike.

TMF Group experts in jurisdictions that offer PWFO services note that, although ESG may currently have a more limited impact on how PWFO clients do business, new and expected ESG legislation will require clients to seek assistance with specialist providers.

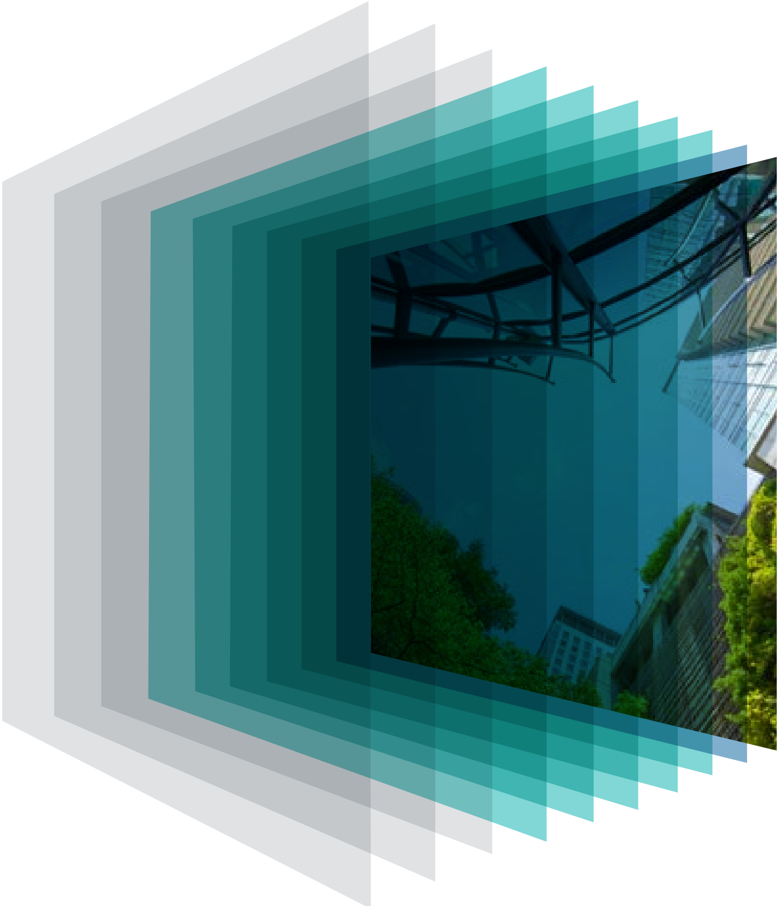
Over the past year, TMF Group experts report that 77% of jurisdictions with significant funds activity have seen an increase in fund manager interest in sustainable and socially beneficial funds, demonstrating the continuing interest in ESG for funds clients. In India, its experts report that priority players stress their ESG parameters, as they make the investments more lucrative for global investors.

Two-thirds (67%) of jurisdictions in the EU with significant funds activity have committed to the organisation's level 2 Sustainable Finance Disclosure Regulation reporting, implemented in 2022. This means asset managers and fund providers need to fulfil sustainability-related disclosure obligations, as well as complete mandatory reporting with the aim of boosting transparency.

Changes in private wealth and family clients in past year



NET: Increase	71%	54%	70%
NET: Decrease	0%	4%	0%



Outside the EU, there have also been steps towards ensuring transparency within the funds space. For example, in Hong Kong, an amended circular came into effect in January 2022 providing guidance to asset managers on enhanced disclosure expectations for funds that incorporate ESG factors as a key investment objective or strategy.

In addition, in one-third (31%) of funds jurisdictions, there is legislation that regulates the marketing of funds claiming to have a positive ESG impact, which aims to limit companies, especially large and listed ones, from 'greenwashing'.

A clear focus on ESG can also help make jurisdictions more attractive to clients, with Jersey being an early adopter of ESG principles and regulations.

With the rise of younger investors, both individually and within family offices, who have hopes of a more sustainable and equitable future, this is a trend that is set to continue within Jersey and elsewhere.

Indeed, the growing interest in ESG is mostly due to a 'human' demand from companies, consumers and private investors for a more ethical and sustainable way of working and living, rather than an enforced legal drive by governments.

An increasingly technological and digitalised world

New digital reporting requirements can create challenges for organisations as they work to update existing processes or take on new ones. Globally, the compulsory uploading of tax invoices electronically via the tax authority's system or portal is increasing. In 2020, it was compulsory in only 24% of jurisdictions for all companies to do this, a figure that has risen to 37% in 2023.

Family businesses are following this trend and becoming increasingly keen to utilise technology. This may involve using digital platforms to evaluate asset performance or increase the efficiency of reporting. However, although technology drives down the cost of delivery, PWFO clients will always require a personal relationship to make sure that their specific objectives are achieved.

The future of the offshore world

While offshore centres still receive negative commentary in some quarters, in others they are seen as playing an important role in generating and protecting wealth, ensuring the efficient deployment of capital across global markets.

Offshore jurisdictions have by design been less complex and offered a greater level of privacy and tax neutrality than their onshore equivalents. This year, those kinds of jurisdictions – the British Virgin Islands (BVI), the Cayman Islands, Curaçao, Hong Kong and Jersey – make up 50% of the 10 least complex jurisdictions for doing business. A TMF Group expert in Hong Kong states in the report: "Hong Kong remains a jurisdiction with strengths which are favourable for doing business. Its infrastructure enables the free flow of goods, capital, talent and information. Hong Kong is well known for its simple tax regime with low tax rates."

A BVI expert says: "The BVI is a pivot in international foreign direct investment that creates independence from set countries and their legislation and gives international businesses and private individuals loads of freedom to structure their activities and wealth. There is a well-organised, very smooth-running legal framework that aligns strictly with international standards set by the OECD, among others."

In the hunt for calm amid troubled waters, we can expect more demand for offshore jurisdictions in the months and years ahead.

Book in a health check today

The world has experienced a torrid 12 months but at TMF Group we want to do all that we can to simplify the path to investing and operating around the world.

Many clients have sought the expertise of TMF Group specialists to help them navigate the complexities highlighted in the GBCI. With our assistance, private wealth clients and family offices can overcome such hurdles and benefit from the advantages offered by select jurisdictions.

Every client is different. TMF Group experts are here to discuss with you your individual circumstances and personal aims.

Our business offers you a platform that gives you access to the specialised knowledge of local experts in 86 jurisdictions around the world. Together we can make an informed decision on which locations will be most appropriate in helping you to achieve your goals and guiding you through the complexities that may exist. Want to find out more?

Want to find out more?

Talk to TMF Group

Contact us

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WE MAKE A COMPLEX WORLD SIMPLE

TMF Group is a leading provider of critical administrative services, helping clients invest and operate safely around the world.

With more than 10,000 colleagues across 125 offices in 86 jurisdictions, all working to the same high standards of service and security, we provide our clients with local expertise where it is needed most. Our locations cover 92% of world GDP and 95% of FDI inflow.

We are a key part of our clients' governance, providing the accounting, tax, payroll, fund administration and legal entity management services essential to their success. We make sure rules are followed, reputations protected and operational compliance maintained.

Our global service model and technology platform put our clients in control of their portfolio of entities and global locations. The data insights we deliver keep them on top of emerging regulation, the status of their own activity and any points of risk.

We serve corporates, financial institutions, asset managers, private equity and real estate investors, and family offices. Our clients include the majority of the Fortune Global 500, FTSE 100 and top 300 private equity firms.

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