

Survey of Financial Institutions

GVA and productivity - 2016

Summary for Jersey's Finance sector in 2016

Gross Value Added (GVA)

- **Jersey's Finance sector, as measured by total GVA, declined by 2% in real terms in 2016**
- this latest annual decrease in total GVA was driven by a real-term decline recorded by the Banking sub-sector
- in contrast the combined Trust and company administration and Legal sub-sectors recorded a real-term increase in GVA
- in real terms, total GVA in 2016 was £670 million below the previous peak recorded in 2007
- total GVA in 2016 was £1.71¹ billion in current year values

Productivity

- **productivity, as measured by total GVA per Full Time Equivalent (FTE) employee, decreased by 4% in real terms in 2016**
- this latest annual decrease in productivity was driven by a real-term decline in productivity recorded by the combined Trust and company administration and Legal sub-sectors and the Fund Management sub-sector

Other measures

- total **expenditure on goods and services** was £820 million in current year values, a nominal increase of 15% compared with 2015, with over two-fifths of expenditure spent in Jersey
- total **expenditure on employment** was £780 million in current year values, essentially unchanged compared with 2015
- mean **employment costs** per FTE employee were £64,000 in current year values, a nominal decrease of 2% compared with 2015
- the mean **bonus payment** per FTE employee was £5,800 in current year values, a nominal increase of 5% compared with 2015
- the number of **local staff recruited directly from school and university** was 320 FTEs, a decrease of 40 compared with 2015

Introduction

The States of Jersey Statistics Unit has run an annual survey of Jersey's financial institutions since the mid-1990s. Topics explored by the survey during this period have included: gross value added, revenue, expenditure on employment, expenditure on goods and services, and recruitment of local school leavers and university graduates.

Throughout this report results are presented for Jersey's finance sector overall and also for individual sub-sectors: Accountancy, Banking, Fund management, Trust & company administration and Legal. Businesses are allocated to sub-sectors according to their main area of business using the Standard Industrial Classification (SIC) of economic activity.

¹ All GVA figures presented in this report are rounded independently to the nearest £10 million

Gross Value Added, current year values of income

Figure 1 and Table 1 show the total GVA of Jersey's financial services sector, broken down by sub-sector in current year values.

Figure 1 - GVA of finance sub-sector, current year values, £ million

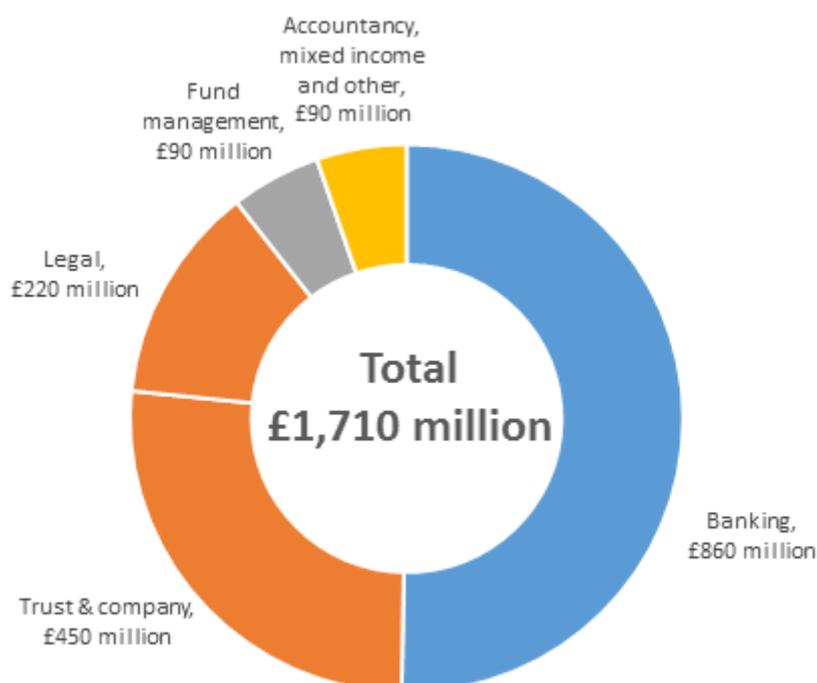


Table 1. GVA of finance sub-sectors in current year values, £ million

Sub-sector	2015	2016	Change
Banking	900	860	-4%
Fund Management	90	90	0%
Trust & company administration	410	450	+10%
Legal	220	220	0%
Accountancy, mixed income and other ²	90	90	0%
Total GVA	1,710	1,710	0%

In current year (nominal) values:

- total GVA for the Finance sector was essentially unchanged when compared with 2015
- the Banking sub-sector recorded a decrease of 4% in GVA in 2016 compared with 2015
- the Trust & company administration sub-sector recorded an increase of 10% in GVA compared with 2015
- the other sub-sectors saw GVA essentially unchanged compared with 2015

Businesses are allocated to sub-sectors according to their main area of business. Across calendar years, some businesses can move between sub-sectors or separate into multiple entities in different sub-sectors. This is particularly relevant for the Trust & company administration and Legal sub-sectors. In 2016, such movement resulted in an increase of approximately £20 million in recorded GVA for the Trust & company administration sub-sector, and a corresponding decrease of £20 million in the Legal sub-sector.

² Other includes companies classified as financial services but do not fall within one of the listed sub-sectors. This includes predominantly those operating in insurance as well as independent financial advisors.

Gross Value Added in real terms (constant year values of income)

The previous section presented measures of Jersey's Finance sector in terms of current year values of income. A more informative perspective of economic performance across time is provided by considering constant year values of income (i.e. expressed "in real terms"), by deflating the estimates of GVA using the underlying rate of inflation.

Figure 2 shows how these figures have changed since 1998 with all figures presented in constant 2013 values.

Figure 2 - GVA of finance sub-sectors in real terms, constant 2013 values, £ million

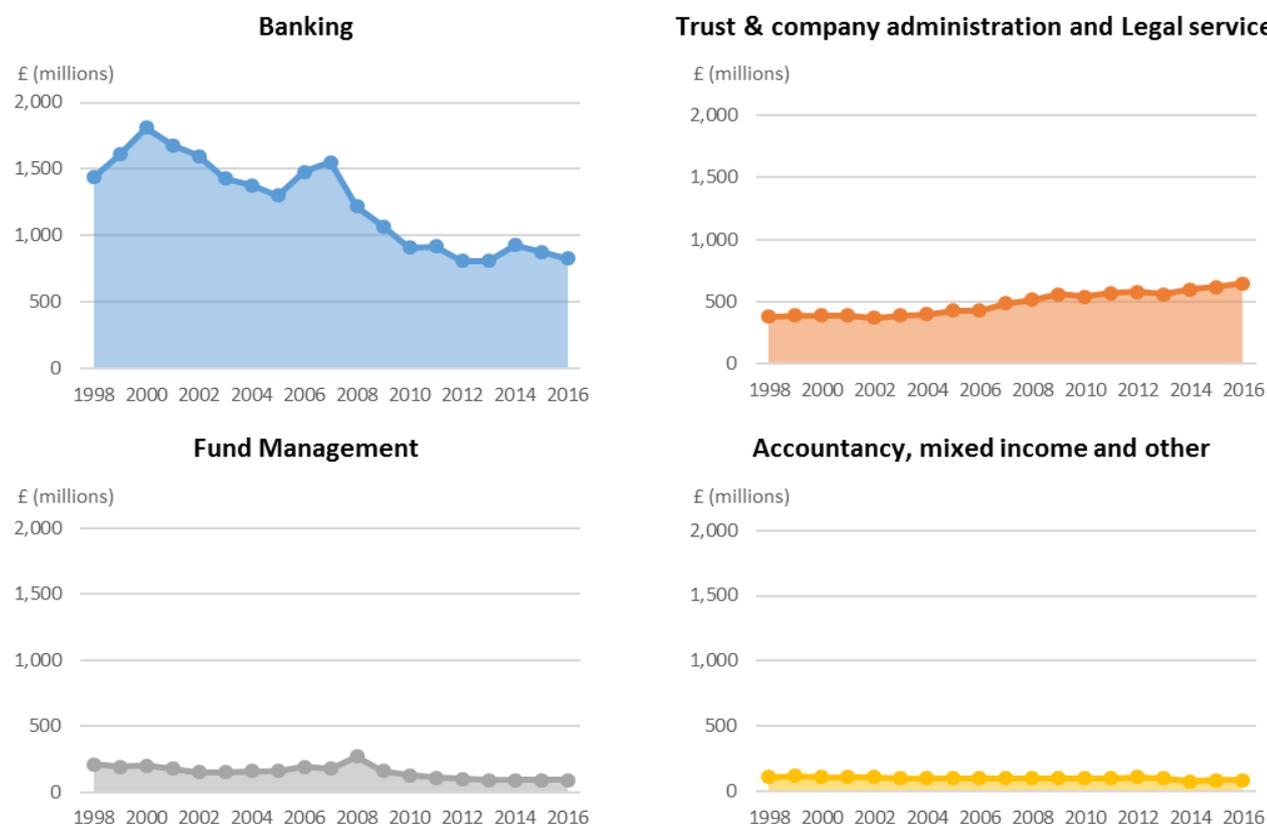


Table 2. GVA of finance sub-sectors in real terms, constant 2013 values, £ million

Sub-sector	2015	2016	Change
Banking	880	830	-6%
Fund Management	90	90	0%
Trust & company administration	400	430	+8%
Legal	220	210	-5%
Accountancy, mixed income and other	90	90	0%
Total GVA	1,680	1,650	-2%

In real terms:

- total GVA for the Finance sector decreased by £30 million in 2016 compared with that recorded in 2015, corresponding to an annual real-term decrease of 2%
- the level of total GVA of the Finance sector in 2016 was £670 million below the previous peak in total GVA seen in 2007
- this latest annual decrease in total GVA was driven by a real-term decline of 6% recorded by the Banking sub-sector
- in contrast, the combined Trust and company administration and Legal sub-sectors recorded a real-term increase of 3% in GVA

Productivity

Labour productivity is one of the main drivers that influence national living standards, as greater labour productivity means a greater output of goods and services can be produced from a given set of labour inputs. Labour productivity is defined as:

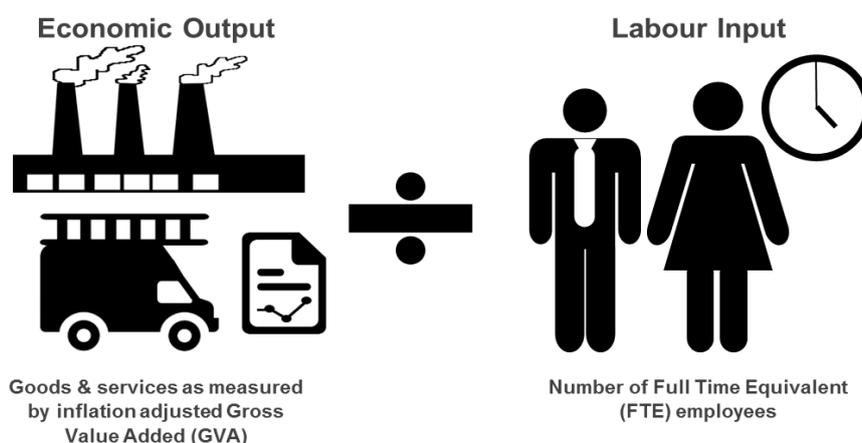


Table 3 details the labour productivity of Jersey's financial services sector, broken down by sub-sector in current year values and showing the annual real-term change.

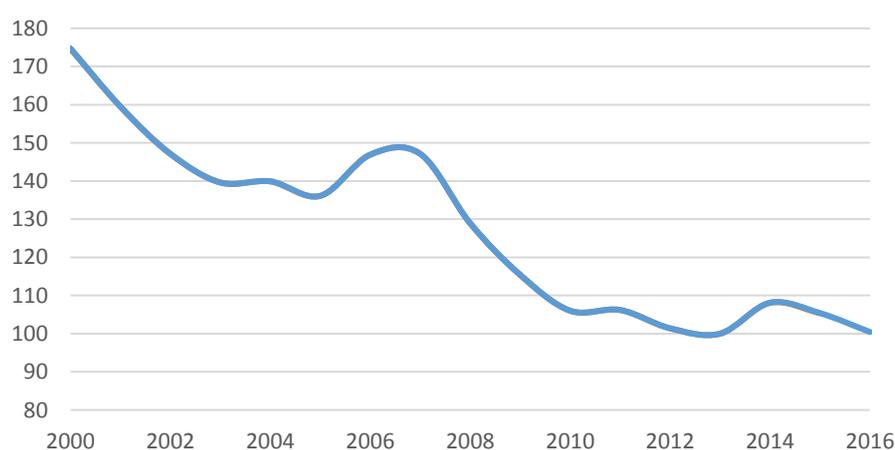
Table 3. GVA per FTE of finance sub-sectors, current year values, and real-term change, £ thousand

Sub-sector	2016	Annual real-term change
Banking	203	+1%
Fund Management	180	-13%
Trust & company administration	93	-11%
Legal	132	+11%
Accountancy (excluding mixed income and other)	71	+1%
All Finance	136	-4%

Productivity for the Finance sector as a whole decreased by 4% in real terms in 2016. This latest annual decrease in productivity was driven by a real-term decline in productivity recorded by the combined Trust and company administration and Legal sub-sectors and the Fund Management sub-sector.

Since 1998, there has been an overall decline in labour productivity in Jersey's finance sector, particularly since the economic downturn of 2007, but this trend has continued (albeit at a slower rate) in recent years. Figure 3 shows how productivity has changed in real terms since 1998.

Figure 3. GVA per FTE of Finance sector in real terms, 1998-2016, index numbers (2013=100)



Revenue sources

The total revenue generated by Jersey's financial services sector in 2016 was estimated to be £2.53 billion.

Revenue by activity type

In the rest of this report businesses are allocated to sub-sectors according to their main area of business using the Standard Industrial Classification (SIC) of economic activity. In order to provide a potentially more useful breakdown based on the actual activities being performed, respondents were asked to estimate the amount of revenue generated from various different business activities.

Figure 4. Revenue by activity type for Jersey's Financial Services sector, 2016

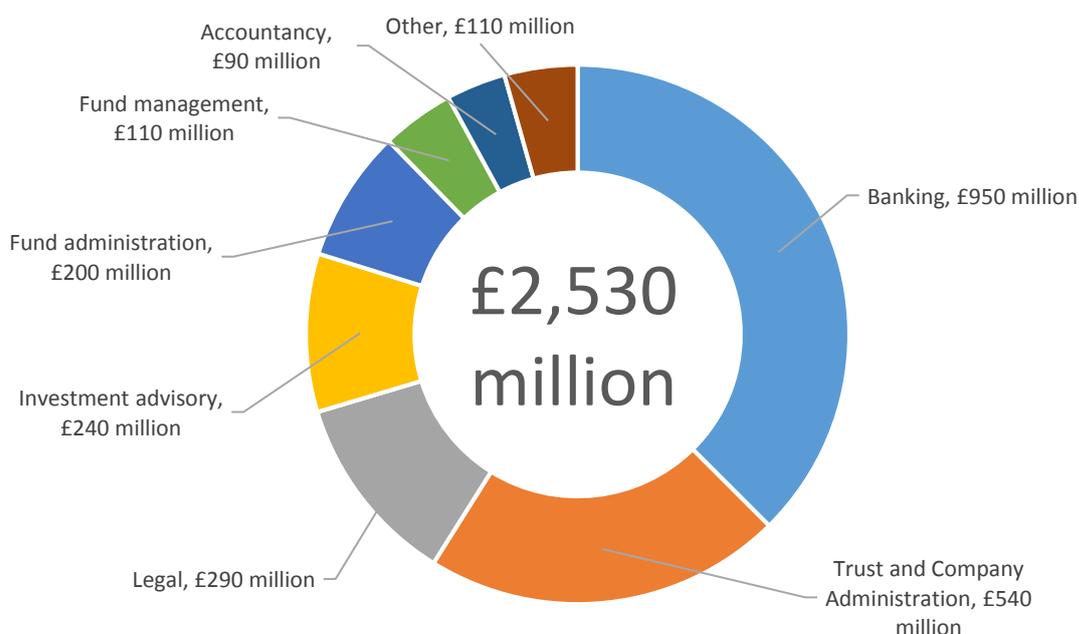


Table 4. Revenue by activity type for Jersey's Financial Services sector, 2015 & 2016, £ million

Activity type	2015	2016	Change
Banking	970	950	-2%
Trust & company administration	450	540	+20%
Legal	280	290	+4%
Investment advisory	210	240	+14%
Fund administration	150	200	+33%
Fund management	130	110	-15%
Accountancy	100	90	-10%
Other	90	110	+22%
All Finance	2,380	2,530	+6%

Compared to 2015 there were notable increases in revenue generated through Trust & company administration and Fund administration activities.

Revenue by source

Respondents were asked to estimate revenue that originated from sources both on and off the Island. In 2016 it is estimated that 55% (£1.40 billion) of all revenue generated by the Jersey Financial services sector originated from outside of the Island.

Other Measures

Net Interest Income

Table 5 shows the estimated Net Interest Income (NII) of Jersey's Banking sub-sector for each year from 2005 to 2016 for Jersey operations only.

Table 5 – Net Interest Income (NII) in Banking (£ millions), 2005-2016

Year	NII from Banking
2005	790
2006	1,010
2007	910
2008	1,040
2009	730
2010	640
2011	660
2012	730
2013	760
2014	780
2015	740
2016	630

NII figures have been rounded to the nearest £10 million.

The amount of Net Interest Income generated by Banking in Jersey peaked in 2008 at £1,040 million. During the subsequent period to 2010 the Net Interest Income of the Banking sub-sector decreased by more than a third, representing a fall of some £400 million in two years.

In 2016 Net Interest Income represented two-thirds (66%) of all revenue generated by Banking activity and a quarter (25%) of all revenue generated by the Finance sector.

Expenditure on goods and services

In 2016, the total expenditure of Jersey finance companies on goods and services was estimated at £820 million (see Table 6), representing an increase of 15% compared with 2015, with the majority of this increase occurring in the Trust & company administration sub-sector.

Table 6 – Total expenditure on goods and services in 2016 (£ million)

	Expenditure in Jersey	Total expenditure
Banking	170	410
Fund management	40	140
Trust & company administration	110	200
Legal	30	40
Accountancy	20	30
All	370	820

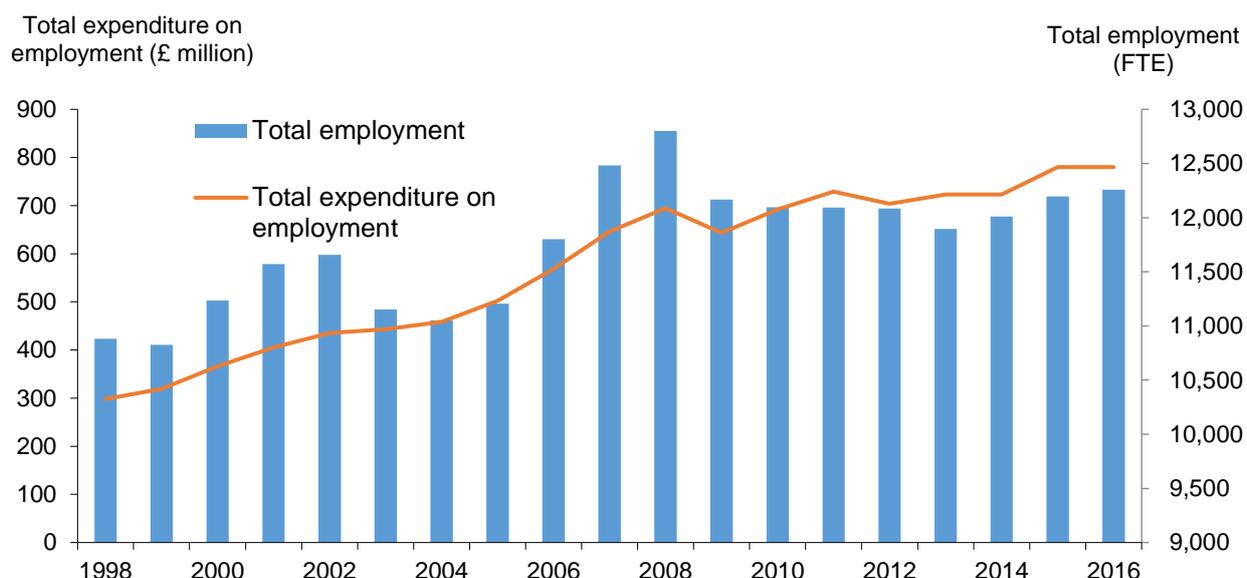
All numbers have been rounded independently to the nearest £10 million.

Of the total expenditure on goods and services, over two-fifths (45%) was spent in Jersey, a slightly higher proportion to that recorded in 2015.

Total expenditure on employment

In 2016, total expenditure on employment³ was essentially unchanged when compared with 2015.

Figure 5 - Total employment and total expenditure on employment, 1998-2016



Following ongoing growth from 1998 to 2008, a fall in total expenditure on employment was seen in 2009, corresponding to a decrease of more than 8% on an annual basis. This fall was largely due to a decrease in the total number of staff employed and also due to reduced bonus payments in that year.

In the two-year period 2010 to 2011 there was an increase in the total expenditure on employment; this was followed in 2012 by a slight drop in such expenditure and a recovery in 2013.

As Table 7 shows, Banking accounted for almost two-fifths (37%) of total expenditure on employment in the sector, whilst Trust & company administration accounted for a similar proportion (37%).

Table 7 – Employment costs in 2016, by sub-sector

	Total employment costs, (£ million)	Mean employment costs per FTE, (£)	Mean bonus payment per FTE, (£)
Banking	290	69,000	7,500
Fund management	50	94,000	16,800
Trust & company administration	290	61,000	4,800
Legal	100	58,000	3,100
Accountancy	50	52,000	2,200
All	780	64,000	5,800

Total employment costs have been rounded independently to the nearest £10 million.

Mean employment costs have been rounded independently to the nearest £ thousand.

Mean bonus payments have been rounded independently to the nearest £ hundred.

It should be noted that both total and mean employment costs do not solely reflect salary but also include bonus payments, employer social security contributions and employer contributions to a pension scheme.

In 2016, average (mean) employment costs across the Finance sector overall were estimated at £64,000 per FTE employee, essentially unchanged when compared with the previous year (2015).

The average (mean) bonus payment across the Finance sector was estimated to be £5,800 per FTE employee in 2016, an increase of 5% compared with 2015.

³ Excluding the "Other" category of firms (insurance, independent advisors etc.), as these were not previously recorded as part of the Survey of Financial Institutions

Staff recruitment

Table 8 shows the number of local staff recruited directly from school and university into Jersey's finance sector⁴ for each year since 2005.

Table 8 - Local staff recruited directly from school and university; 2005 - 2016

Staff recruited	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
School	40	80	100	150	70	50	70	50	110	90	140	140
University	150	150	140	180	150	150	130	160	200	300	220	180
<i>School & University</i>	<i>180</i>	<i>220</i>	<i>230</i>	<i>330</i>	<i>220</i>	<i>200</i>	<i>200</i>	<i>220</i>	<i>310</i>	<i>390</i>	<i>360</i>	<i>320</i>

Staff numbers are FTEs and have been rounded independently to the nearest 10.

In 2008 the recruitment of local staff directly from school and university rose to around 330 FTE employees. The number of such staff recruited then decreased in 2009 and remained at around 200 FTEs each year from 2009 until 2012, before rising to 390 FTEs in 2014.

In 2016 the number of local staff recruited directly from school and university (330 FTEs) was 30 fewer than in 2015.

Compliance

Companies were asked to report the number of employees engaged in compliance activities. In total, almost 610 FTEs were engaged in compliance in 2016², representing around 5% of all staff employed in the Island's Finance sector.

⁴ Excluding the "Other" category of firms (insurance, independent advisors etc.).

APPENDIX

Table A1 - GVA of finance sub-sectors in real terms, 2002-2016, index numbers (2013=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	^(p) 2016
Banking	197.5	176.5	170.4	160.5	182.7	191.4	150.6	132.1	112.3	113.6	100.0	100.0	114.8	108.6	102.5
Fund management	166.7	166.7	177.8	177.8	211.1	200.0	300.0	177.8	144.4	122.2	111.1	100.0	100.0	100.0	100.0
Trust & company and Legal	66.1	69.6	71.4	76.8	76.8	87.5	92.9	100.0	96.4	101.8	103.6	100.0	107.1	110.7	114.3
Trust & company									100.0	105.6	111.1	100.0	108.3	111.1	119.4
Legal									85.0	90.0	90.0	100.0	105.0	110.0	105.0
Accountancy, mixed income and other	110.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	110.0	100.0	100.0	100.0	80.0	90.0	90.0
All Finance	143.6	133.7	130.6	128.1	142.0	149.5	136.8	122.2	108.7	108.9	102.9	100.0	109.0	108.4	106.5

^(p) = provisional

Table A2 - GVA of finance sub-sectors in real terms, 2002-2016, constant 2013 values, £ million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	^(p) 2016
Banking	1,600	1,430	1,380	1,300	1,480	1,550	1,220	1,070	910	920	810	810	930	880	830
Fund management	150	150	160	160	190	180	270	160	130	110	100	90	90	90	90
Trust & company and Legal	370	390	400	430	430	490	520	560	540	570	580	560	600	620	640
Trust & company									360	380	400	360	390	400	430
Legal									170	180	180	200	210	220	210
Accountancy, mixed income and other	110	100	100	100	100	100	100	100	100	100	110	100	80	90	90
All Finance	2,230	2,070	2,030	1,990	2,200	2,320	2,120	1,890	1,690	1,690	1,600	1,550	1,690	1,680	1,650

^(p) = provisional

APPENDIX

Table A3 – Productivity (GVA per FTE) of finance sub-sectors in real terms, 2002-2016, index numbers (2013=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	^(p) 2016
Banking	166.9	164.6	160.6	156.2	161.9	165.5	132.4	118.0	109.8	113.4	101.2	100.0	121.8	115.6	116.8
Fund management	121.6	127.2	136.7	148.3	176.4	143.3	199.2	191.8	171.4	115.0	107.9	100.0	102.8	99.0	86.5
Trust & company and Legal	90.4	90.6	92.2	93.7	92.9	95.8	97.5	97.8	94.8	98.8	100.5	100.0	97.6	101.0	96.1
Trust & company									99.0	103.8	104.8	100.0	97.1	102.0	90.8
Legal									87.1	89.5	92.5	100.0	98.7	100.9	112.4
Accountancy (excluding mixed income and other)	96.8	99.1	98.3	101.9	92.7	99.2	92.4	96.0	96.5	92.5	101.5	100.0	89.0	88.9	90.1
All Finance	147.1	139.6	139.9	136.1	146.9	147.1	128.9	115.4	106.0	106.2	101.4	100.0	108.1	105.4	100.4

^(p) = provisional

Table A4 - Productivity (GVA per FTE) of finance sub-sectors in real terms, 2002-2016, constant 2013 values, £ thousand

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	^(p) 2016
Banking	279	275	268	261	270	276	221	197	183	189	169	167	203	193	195
Fund management	244	255	274	297	353	287	399	384	343	230	216	200	206	198	173
Trust & company and Legal	93	93	95	96	95	98	100	100	97	101	103	103	100	104	99
Trust & company									97	102	103	98	95	100	89
Legal									98	101	105	113	112	114	127
Accountancy (excluding mixed income and other)	79	81	80	83	76	81	75	78	79	75	83	81	73	72	73
All Finance	191	181	182	177	191	191	167	150	138	138	132	130	141	137	131

^(p) = provisional

Table A5 – Components of GVA, 2002-2016, index numbers (2013=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	^(p) 2016
Compensation of employees	83.6	83.6	80.8	86.3	90.4	98.6	104.1	106.8	104.1	105.5	98.6	100.0	98.6	106.8	105.5
Gross operating surplus	197.6	179.3	174.4	165.9	187.8	195.1	165.9	136.6	113.4	112.2	107.3	100.0	119.5	109.8	107.3
GVA	143.9	133.5	131.0	128.4	141.9	149.7	136.8	121.9	109.0	109.0	103.2	100.0	109.0	108.4	106.5

^(p) = provisional

Table A6 - Components of GVA, 2002-2016, constant 2013 values, £ million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	^(p) 2016
Compensation of employees	610	610	590	630	660	720	760	780	760	770	720	730	720	780	770
Gross operating surplus	1,620	1,470	1,430	1,360	1,540	1,600	1,360	1,120	930	920	880	820	980	900	880
GVA	2,230	2,070	2,030	1,990	2,200	2,320	2,120	1,890	1,690	1,690	1,600	1,550	1,690	1,680	1,650

^(p) = provisional

NOTES

1. Definition of terms

GVA the sum of gross operating surplus (including the mixed income of sole traders) and compensation of employees. GVA is evaluated separately for each sector of the economy and is specified in terms of basic prices, i.e. excluding taxes on products and production but including subsidies.

2. Response

The overall response rate to the 2016 round of the survey was 53% with respondent firms covering over three-fifths (63%) of total eligible FTE manpower for the sector.

Table N1 – FTE coverage

	FTE coverage
Banking	93%
Fund management	52%
Trust & company and Legal	49%
Accountancy, mixed income and other	42%
All	63%

3. Deflators

A GDP deflator (in essence, a measure of inflation in the whole economy) is normally used to deflate national accounting aggregates. In the absence of such a measure for Jersey, RPI(X) provides an appropriate proxy deflator and RPI(Y) during periods which include the introduction or change in the rate of consumption taxes (a Goods and Services Tax, GST, was introduced in May 2008 at 3%; the rate of GST was increased to 5% in June 2011). For years prior to 2008 RPI(X) has been used as the deflator and RPI(Y) from 2008 onwards.

4. Methodology revisions

Prior to the 2009 round of the survey, companies were allocated to sub-sectors according to their main area of business activity using the Standard Industrial Classification (SIC) of economic activity. In 2009 and 2010, a new approach was adopted whereby companies were asked to report separate information for each business area in which they were involved, so that information on each activity undertaken could be separately assigned to the corresponding sub-sector.

Due to the extra burden placed on Jersey's financial institutions as a result of this approach, a return to the original methodology, whereby companies are allocated to sub-sectors according to their SIC code, was implemented in 2011.

In order to present a consistent historical series it was necessary to reanalyse data collected in the 2009 and 2010 rounds of the survey; these revised results were first presented in the 2011 report.

Statistics Unit

28 June 2017