

Survey of Financial Institutions 2014

Statistics Unit: www.gov.je/statistics



Summary

In respect of Jersey operations for the Island's financial services sector¹ in 2014:

- total **net profit** was £1,470 million², an increase of £290 million (25%) compared with 2013;
- the Banking sub-sector accounted for four-fifths (81%) of total net profit;
- net profit by sub-sector was:

○ Banking:	£1,192 million
○ Trust & company administration:	£ 140 million
○ Legal:	£ 81 million
○ Fund management:	£ 35 million
○ Accountancy:	£ 26 million
- the net profit for the Banking sub-sector increased by £262 million (28%) in 2014; increases were also recorded by the Trust & company administration and Legal sub-sectors of £17 million (14%) and £15 million (23%) respectively, with a small increase of £1 million (2%) also recorded by the Fund management sub-sector;
- in contrast the Accountancy sub-sector recorded a decrease in net profit of £1 million (4%);
- in nominal terms, the Gross Operating Surplus (GOS) of the Finance sector in 2014 was 22% higher than in 2013;
- net profit per full-time equivalent (FTE) employee, across all sub-sectors, was £124,000;
- total **revenue** was £2.39 billion, an increase of 2% compared with 2013;
- total **expenditure on goods and services** was £740 million, an increase of 4% compared with 2013; almost half of all such expenditure occurring on-Island;
- total **expenditure on employment** was essentially unchanged compared with 2013, at around £720 million;
- mean **employment costs** per FTE employee was £61,000, a decrease of 2% compared to 2013;
- the mean **bonus payment** per FTE employee was £4,900, a decrease of 14% compared to 2013;
- the number of **local staff** recruited **directly from school and university** was 390 FTEs; the number of local new recruits was 80 higher than in 2013 and was the highest number recorded since this survey began in the mid-1990s.

¹ "Financial services" refers to the activities of banks, fund managers, trust & company administrators, legal and accountancy firms operating in Jersey. Firms predominantly engaged in insurance and financial advisory services are not included in the analyses covered by this report.

² Monetary values presented in this report are expressed in current year values (i.e. in "nominal" terms); no adjustment is made to account for inflation.

Introduction

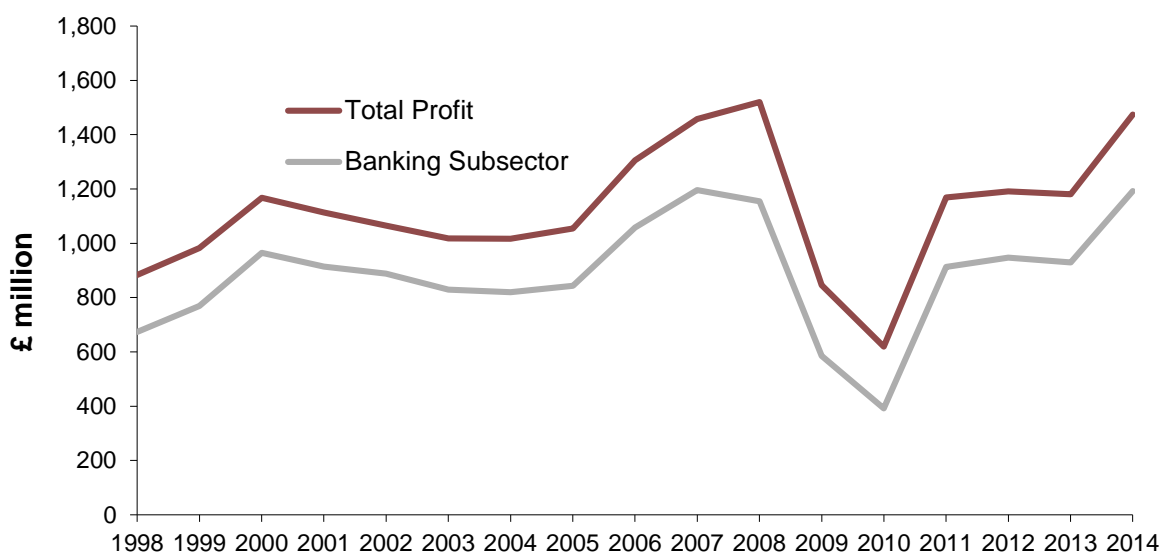
The States of Jersey Statistics Unit has run an annual survey of Jersey's financial institutions since the mid-1990s. Topics explored by the survey during this period have included: net profit on which Jersey tax is levied; revenue; expenditure on employment; expenditure on goods and services; and recruitment 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.

Total Net Profit

In 2014, the total annual net profit (on which Jersey income tax is levied) of Jersey's financial services sector was estimated to be £1,470 million. This latest estimate of total net profit is an increase of a quarter (25%) compared to 2013.

Figure 1 – Total net profit for all sectors and Banking sub-sector; 1998-2014



As observed in Figure 1, the total net profit of Jersey's finance sector is strongly influenced by movements in the net profit of the Banking sub-sector.

Historically, this figure shows that total net profit had previously peaked in 2008 at more than £1.5 billion. Total net profit then fell in each of the two subsequent years, declining by almost three-fifths between 2008 and 2010; calendar year 2010 recorded the lowest level of total net profit since this survey was introduced in the mid-1990s. In contrast to the preceding two years, 2011 saw total net profit almost double on an annual basis, to almost £1.2 billion.

The substantial increase in total net profit recorded in 2011 was driven by a small number of companies reporting large transfers of income from non-resident units to resident parent companies based in Jersey. Whilst acknowledging this as an underlying factor, a recovery and stabilisation in net profit has been observed since that time followed by the most recent increase in total net profit.

The national accounting measure Gross Operating Surplus (GOS) measures the economic activity of the Jersey operations of businesses in the Island; as such it is not susceptible to the fluctuation of income transfers from non-resident units. In nominal terms, the GOS of the Finance sector in 2014 was 22% higher than in 2013.

Net profit by sub-sector

In 2014, the Banking sub-sector accounted for four-fifths (81%) of the total net profit of Jersey's finance sector, a similar proportion to that recorded in each year since 2011 and to that observed from the mid-1990s up to 2008. In 2009 and 2010 the proportion of total net profit accounted for by Banking had declined to around two-thirds.

Table 1 – Net profit by sub-sector

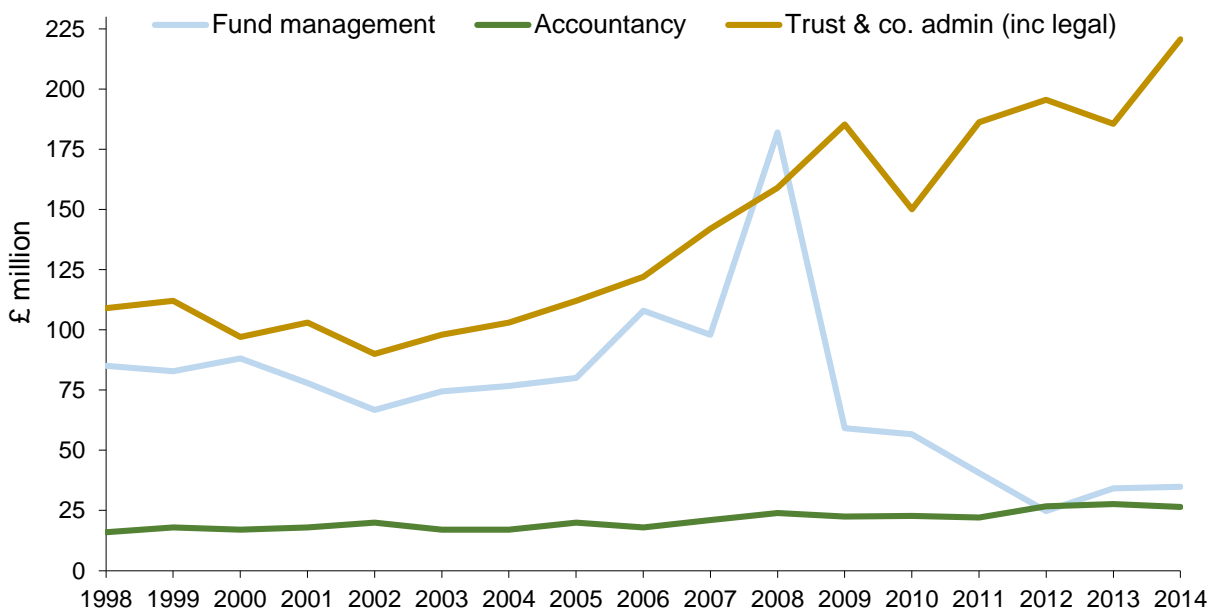
Net Profit (£ million)	
Accountancy	26
Fund management	35
Legal	81
Trust & company admin.	140
Banking	1,192
All sectors	1,470

Net profit for individual sub-sectors is shown to the nearest £1million; total net profit has been rounded independently to the nearest £10 million.

The net profit for the Banking sub-sector increased from £930 million in 2013 to £1,192 million in 2014, an increase of over a quarter (28%). The majority of banking firms that responded to the survey reported an increase in net profit compared to 2013. A significant factor within this increase was a small number of large firms which reported net losses in 2013 reporting positive profits for 2014.

Figure 2 shows net profits recorded by the Accountancy, Fund management and Trust & company administration (including Legal) sub-sectors.

Figure 2 – Annual net profit of the Accountancy, Trust & company administration (including Legal) and Fund management sub-sectors; 1998-2014



Overall, the estimated net profit of the Trust & company administration (including Legal) sub-sector increased in 2014, up by a sixth (17%) compared with that recorded in 2013.

Since 2009 it has been possible to analyse the Trust & company administration and Legal sub-sectors separately. Such analysis shows that in 2014 the net profit of the Trust & company administration sub-sector increased for the third consecutive year, up 14% on an annual basis, from £123 million in

2013 to £140 million in 2014. The net profit of the Legal sub-sector increased by almost a quarter (23%) from £66 million in 2013 to £81 million in 2014. This most recent performance is in contrast to the previous two years for which declines in net profit were observed by this sub-sector.

In 2014 the Fund management sub-sector recorded an increase in net profit of 2%, to £35 million in 2014. The sub-sector has seen increases in profit in both of the last two years, in contrast with each year of the four year period between 2008 and 2012 over which the net profit of the Fund management sub-sector fell by 86%.

The net profit of the Accountancy sub-sector in 2014 was estimated at £26 million, a decrease of 4% on an annual basis but at a similar level to the five year mean.

Net Profit generated by Fund administration and Investment advisory activity

The above analysis classifies all the net profit reported by a company according to its main area of activity. However, companies were also asked to disaggregate their total net profit into the various areas of financial activity which they undertake (i.e. into Banking, Fund management, Trust & company administration, etc). From this perspective, it is evident that some companies, particularly in the Banking and Trust & company administration sub-sectors, have diversified activities into other areas.

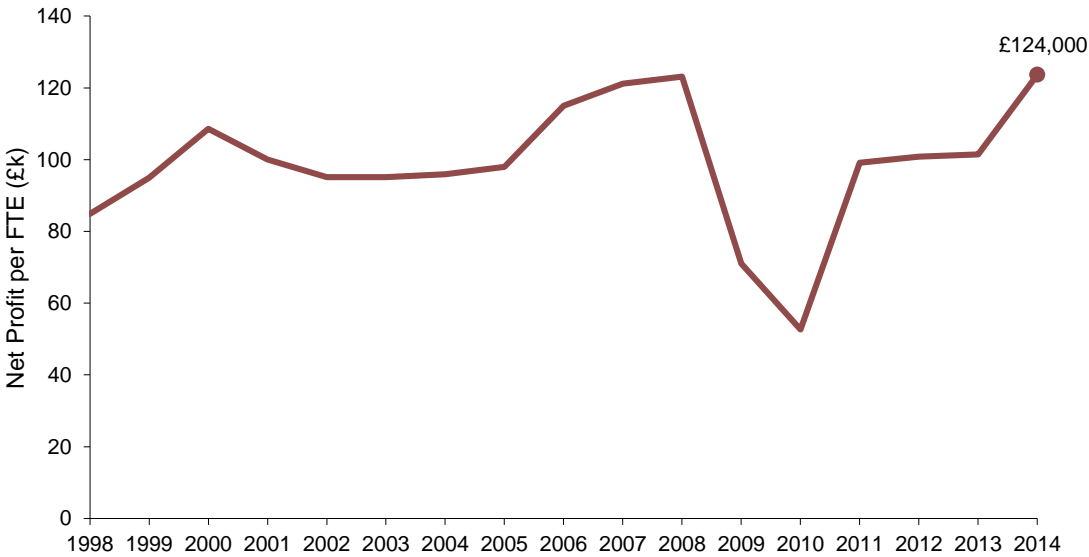
In addition to the sub-sectors already covered in this report, some companies also reported net profit from Fund administration and Investment advisory activities. In 2014 the net profit from Fund administration (across the Finance sector) was estimated to be £37 million (up from £31 million in 2013) and that from Investment advisory activities was £38 million (up from £36 million in 2013).

Net Profit per FTE

The mean net profit per FTE employee³ in the Finance sector over the period from 1998 to 2014 is shown in Figure 3.

The mean net profit per FTE employee across the Finance sector in 2014 increased by over a fifth (22%) from that recorded in 2013, to around £124,000 per FTE.

Figure 3 – Net profit per FTE employee: all sub-sectors



³ Employee numbers for each year are derived from the Manpower Survey. Part-time employees are assumed to be equivalent to 0.5 of a full-time employee.

During the period 1998 to 2002 the behaviour of net profit per FTE (Figure 3) was similar to that of total net profit (Figure 1), rising to a peak in 2000 after which net profit per FTE declined. Between 2003 and 2005, net profit per FTE increased slightly, driven by reduced employment, whilst during the period 2006 to 2008 net profit per FTE increased due to total net profit rising at a faster rate than employment. The falls in net profit per FTE in both 2009 and 2010, and the subsequent recovery, were driven by the changes in total net profit in those years.

The mean net profit per FTE employee in 2014 for each of the sub-sectors is shown in Table 2 and ranged from £27,000 per FTE in Accountancy to £262,000 per FTE in Banking.

Table 2 – Net profit and mean net profit per FTE employee in 2014, by sub-sector

	Net Profit (£ million)	Mean net profit per FTE (£)
Banking	1,192	262,000
Fund management	35	80,000
Legal	81	43,000
Trust & company admin.	140	34,000
Accountancy	26	27,000
All	1,470	124,000

*Net profit for individual sub-sectors is shown to the nearest £1million;
total net profit has been rounded independently to the nearest £10 million.*

Looking at each of the individual sub-sectors:

- in 2014, the mean net profit per FTE employee of the Banking sub-sector increased by over a third (36%) compared with the previous year;
- the Legal sub-sector recorded an increase of 13% in mean net profit per FTE in 2014;
- the Fund Management and Trust & company administration sub-sectors recorded smaller increases in mean net profit per FTE in 2014, up by 5% and 3% respectively;
- in contrast, the Accountancy sub-sector saw a fall in mean net profit per FTE in 2014, down by 9% on an annual basis.

Revenue

The total revenue generated by financial services companies in Jersey in 2014 was estimated to be £2.39 billion, an increase of 2% compared with 2013.

Table 3 – Total Revenue and Revenue per FTE employee in 2014

	Total (£ million)	Revenue per FTE (£ thousand)
Banking	1,270	280
Trust & company admin.	510	120
Legal	260	140
Fund management	250	560
Accountancy	100	100
All	2,390	200

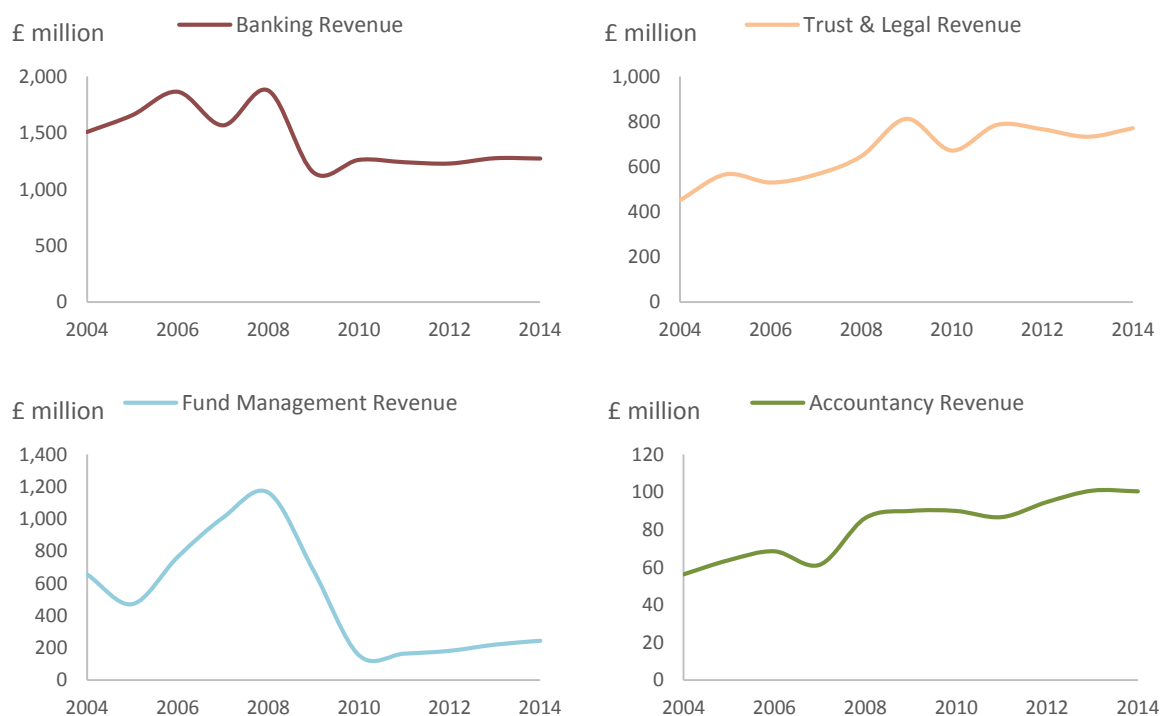
Revenue figures have been rounded independently to the nearest £10 million.

The revenue generated in this sector is predominantly fees/commissions and Net Interest Income (NII). In 2014 fees/commissions accounted for almost three-fifths (57%) of the total revenue of the Finance sector whilst Net Interest Income accounted for a third (33%).

Breaking down by sub-sector, Table 3 shows that Banking accounted for more than half (53%) of the total revenue of Jersey's Finance sector in 2014. The Fund management sub-sector recorded the largest increase in revenue in 2014, up by 11% compared with that in 2013, whilst the Legal sub-sector also saw an annual increase, of 8%.

The Banking, Trust & company admin and Accountancy sub-sectors all reported essentially unchanged revenue figures compared to 2013.

Figure 4 –Revenue by sub-sector 2004-2014



Net Interest Income

Table 4 shows the estimated Net Interest Income (NII) of Jersey's Banking sub-sector for each year from 2005 to 2014 for Jersey operations only.

Table 4 – Net Interest Income (NII) in Banking (£ millions) and as a percentage of Banking revenue; 2005-2014

Year	NII from Banking (£ million)	NII as a percentage of Banking revenue %
2005	790	66
2006	1,010	72
2007	910	59
2008	1,040	60
2009	730	58
2010	640	51
2011	^(r) 660	^(r) 53
2012	730	60
2013	760	60
2014	780	61

^(r) = Data Revised

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 and accounted for three-fifths (60%) of Banking revenue in that year. 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 the latest three years, Net Interest Income has returned to a level similar to that recorded in 2009 and has accounted for a similar proportion of Banking revenue as in that year (around three-fifths).

Expenditure on goods and services

In 2014, the total expenditure of Jersey finance companies on goods and services was estimated at £740 million (see Table 5), representing an increase of 4% compared with 2013.

Table 5 – Total expenditure on goods and services in 2014 (£ million)

	Expenditure in Jersey	Total Expenditure
Banking	160	390
Trust & company admin.	90	150
Fund management	50	110
Legal	30	60
Accountancy	20	30
All	350	740

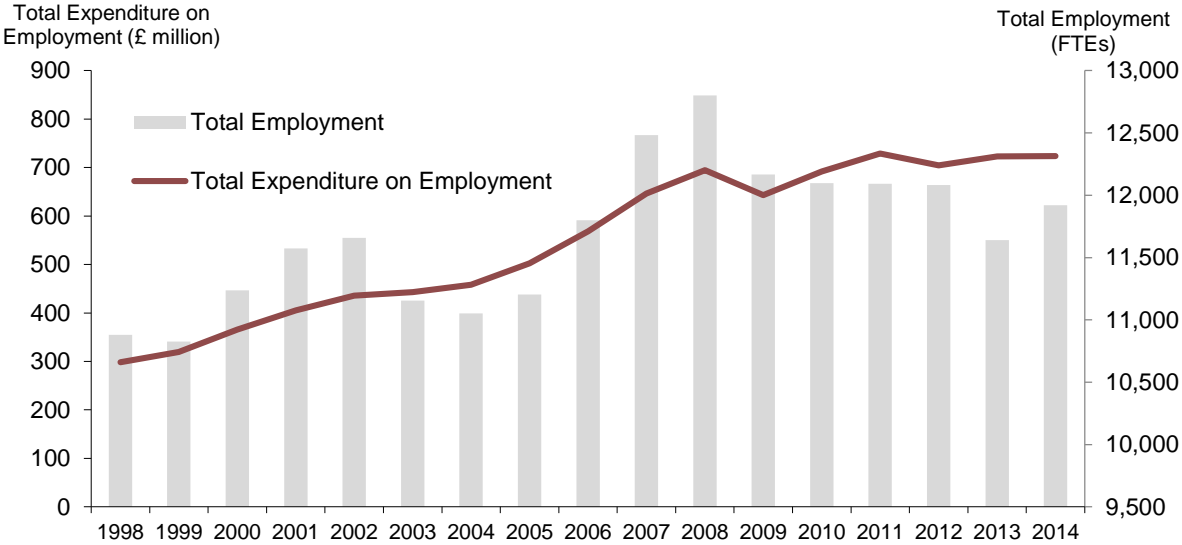
All numbers have been rounded independently to the nearest £10 million.

Of the total expenditure on goods and services, almost half (47%) was spent in Jersey, a greater proportion than recorded in 2013 (35%).

Total expenditure on employment

In 2014, total expenditure on employment was essentially unchanged when compared with 2013, at around £720 million.

Figure 5 - Total employment and total expenditure on employment, 1998-2014



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; however, this was followed in 2012 by a slight drop in such expenditure and a recovery in 2013. The 2014 figure is essentially unchanged from 2013.

As Table 6 shows, Banking accounted for almost a half (45%) of total expenditure on employment in the sector, whilst Trust & company administration accounted for almost a third (31%).

Table 6 – Employment costs in 2014, by sub-sector

	Total employment costs, (£ million)	Mean employment costs per FTE, (£)	Mean <u>bonus</u> payment per FTE, (£)
Banking	320	70,000	7,000
Trust & company admin.	220	54,000	3,000
Legal	100	51,000	2,000
Accountancy	50	46,000	2,000
Fund management	40	96,000	21,200
All	720	61,000	4,900

*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.*

In 2014, average (mean) employment costs across the Finance sector overall were estimated at £61,000 per FTE employee, a decrease of 2% compared with the previous year (2013).

Average (mean) employment costs were greatest in Fund management at £96,000 per FTE employee in 2014. In Banking and Trust & company administration average employment costs were £70,000 and £54,000 per FTE, respectively, whilst in the Accountancy and Legal sub-sectors average employment costs were £46,000 and £51,000 respectively.

The average (mean) bonus payment across the Finance sector was estimated to be £4,900 per FTE employee in 2014, a lower level (14% down) to that recorded in 2013.

In 2014, the average (mean) bonus paid to Fund management employees (around £21,200 per FTE) was about a fifth higher than in the previous year. Average bonuses paid in the other sub-sectors ranged from £2,000 per FTE in Accountancy and Legal, to £7,000 per FTE in Banking; in each of these sub-sectors average bonuses paid in 2014 were lower than those paid in 2013.

Staff recruitment

Table 7 shows the number of local staff recruited directly from school and university into Jersey’s finance sector for each year since 2004.

Table 7 - Local staff recruited directly from school and university; 2004 - 2014

Staff recruited	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
School	50	40	80	100	150	70	50	70	50	110	90
University	100	150	150	140	180	150	150	130	160	200	300
<i>School & University</i>	<i>150</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>

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 peaked at 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.

In 2013 there was an increase in such recruitment of around 90 FTEs to a similar level as seen in 2008. In the latest year, 2014, the number of local staff recruited directly from school and university (390 FTEs) was 80 higher than in the 2013 and was the highest number recorded since this survey began in the mid 1990s.

In 2014 around half the Finance industry directly from school and university were employed in the Trust & company administration sub-sector and a quarter were employed in the Accountancy sub-sector.

Compliance

Companies were asked to report the number of employees engaged in compliance activities. In total, almost 540 FTEs were engaged in compliance in 2014, representing around 5% of all staff employed in the Island’s Finance sector⁴.

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

Notes

1. Timing:

Survey forms for the period 1996 to 2002 were issued in June of the following year. However, due to the considerable widespread interest in timely results, since 2003 the survey forms have been sent out in March of each year.

2. Response:

The overall response rate to the 2014 round of the survey was 54% (see Table N1) with respondent firms covering around two-thirds (66%) of total eligible FTE manpower for the sector (i.e. excluding the "Other" sub-category of firms).

Table N1 – Response rate and FTE coverage

	Sampled	Respondents	Response rate	FTE coverage
Banking	32	27	84%	94%
Fund management	18	16	89%	55%
Trust & co. admin.	83	37	45%	53%
Accountancy	41	17	42%	39%
Legal	31	14	45%	41%
All	205	111	54%	66%

3. Methodology:

For each sub-sector, mean values per FTE were calculated from the respondent firms. These mean averages were then grossed up to estimates of totals using the appropriate sub-sector manpower data.

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.

Furthermore, in 2009 it became possible to report on the Trust & company administration and Legal sub-sectors separately⁵. In previous years, these sub-sectors had been combined due to the poor response from the Legal sub-sector.

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1st July 2015

⁵ Fund administration activities are included within the Trust & company administration sub-sector.

Table A1 - Summary for all sectors 1998 - 2014

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total net profit (£ million)	880	980	1,170	1,110	1,070	1,020	1,020	1,050	1,310	1,460	1,520	850	620	1,170	1,190	1,180	1,470
Mean net profit per FTE employee (£ k)	85	95	109	100	95	95	96	98	115	121	123	69	53	99	101	101	124
Total expenditure on employment (£ million)	300	320	370	410	440	440	460	500	570	650	700	640	690	730	700	720	720
Mean employment costs per FTE employee (£ k)	29	31	34	36	39	41	43	47	50	54	56	52	59	62	60	62	61

All numbers have been rounded independently.