

## Offshore financial centres

After reviewing financial relationships between the United Kingdom and Jersey,<sup>(1)</sup> the **Deputy Governor** discussed:

- **Offshore centres in international banking.** *'The new perception by the offshore centres that they have common interests . . . is certainly beneficial for the world financial community as a whole.'*

*The immediate effect of International Banking Facilities in the United States may not be very dramatic either for London or for Jersey. 'The establishment of the IBFs may actually increase the overall size of the offshore markets. . . . A major danger is, perhaps, that the establishment of IBFs in the United States may prompt similar developments in other countries, particularly Japan and Germany. This might lead to undesirable competition in fiscal laxity, and in that case some offshore centres might feel the draught more seriously.'*

- **The future of the euromarkets.** *'I am in little doubt that the risks attaching to international lending are increasing. . . . If risks are greater, then it is difficult to be entirely happy about returns which banks are securing on their international lending. . . . In this more difficult environment, banks need to be even more meticulous in the appraisal of individual risks. . . . Bank supervisors, for their part, have to set exacting standards of prudent behaviour. . . .'*

### International dimensions of banking supervision

. . . One of the most helpful developments in the last few years has undoubtedly been the creation of the Offshore Supervisors Group, on which Colin Powell, your Economic Adviser, has been a very important influence and of which he is currently the Chairman. The Bank of England can also perhaps claim some credit for the emergence of this group. As you doubtless know, Peter Cooke, who is in charge of banking supervision at the Bank of England, is also Chairman of the Supervisors' Committee of the Group of Ten countries plus Luxembourg and Switzerland. In this capacity he invited the offshore supervisors to a joint meeting with his Committee in 1980. The meeting was the first of its kind. It was generally regarded as very successful; and out of it sprang the Offshore Supervisors Group. The new perception by the offshore centres that they have common interests and that they will benefit from increased co-operation between themselves is certainly beneficial for the world financial community as a whole.

I will mention just a few of the conclusions of the Group that are likely to be particularly helpful. I have touched on the Group's support for the Basle Concordat. Then there has been the general acceptance of the principle of supervision based on the consideration of consolidated figures. The collection and analysis of consolidated figures is crucial for the effective supervision of banks engaged in international lending. It can greatly help a national supervisor to receive the necessary early warning of any

problems relating to banks under his jurisdiction but originating abroad.

But the supervisory authorities in the countries of the parent banks have a reciprocal responsibility to the offshore centres. The offshore centres may supply information about local activities, but receive little information in return. I know that this view of always being 'upstream' of a parent's centre can cause frustration and ill-feeling. And I know that offshore centres would welcome some advance warning if possible from parental supervisors when they are going to be approached by a new bank wishing to locate there. The exchange of views and consequent establishment of a co-ordinated view amongst the offshore centres may well help to clarify this problem, and to get a more satisfactory response than they may have received up to now. We have made progress but I am sure there is more that we can do.

There has also been recently a marked increase in the exchange of information between the offshore centres themselves. A co-ordinator has been appointed by the Offshore Supervisors Group to prompt all centres to exchange information on matters of general interest and concern, though clearly one would not expect it to include details of the business of individual banks. I find this a very encouraging development in view of the fact that offshore centres are after all, to a greater or lesser extent, competing with each other and with the centres where the parent banks are located to attract business and that their interests and concerns appear to be rather different.

(1) In a speech to the Jersey Bankers' Association on 2 March.

## Future of offshore banking

I now offer some views on the future of offshore banking. One imponderable here is the effect of the new International Banking Facilities (IBFs) in the United States, particularly in New York, which came into being at the end of last year in response to pressure to counteract the loss of banking business from the United States. New York now offers high-quality banking expertise without the inconvenience of doing business in more isolated locations. In so far as the New York IBFs attract business, this is likely to be, initially, largely at the expense of existing offshore centres, mainly those in the same time-zone. Additionally, it will no doubt deter other countries at present without any banking expertise from trying to set themselves up as additional centres.

I do not think that the immediate effect will be very dramatic either for London or for Jersey. On their side, the US authorities are moving cautiously in accepting IBF business and in countenancing rapid further expansion, since they are concerned at possible leakages into these markets from US domestic business and at a reduction of their ability to control the domestic money supply. IBFs therefore do not offer a full range of services. Overnight deposits, for instance, cannot at present be accepted. Furthermore, the costs of operating in the United States remain high, especially since banks remain subject to Federal taxes. And depositors may feel wary about banking there on grounds of secrecy or even of political risk. Thus, the freezing of the Iranian assets and the Freedom of Information provisions may well deter some potential customers. Finally, the establishment of the IBFs may actually increase the overall size of the offshore markets, increasing public awareness of the possibility of doing offshore business.

On this side of the Atlantic we will be helped by the fact that we can offer valuable assets: high-quality expertise, sophisticated related markets, proximity to major sources of customers in Europe and the Middle East, a time-zone distinct from those of the United States, favourable political and economic conditions, and—not least of all—a respected and trusted system of banking supervision.

Of course it is possible that the qualifications I have listed will only serve to delay the effects of the IBFs on offshore centres outside the United States and that in time there may be a loss of market share also for our centres. A major danger is, perhaps, that the establishment of IBFs in the United States may prompt similar developments in other countries, particularly Japan and Germany. This might lead to undesirable competition in fiscal laxity, and in that case some offshore centres might feel the draught more seriously.

However, I would not want to sound too gloomy. The existing offshore centres—and the Channel Islands in particular—make a major contribution to international banking. The scope for this contribution seems likely to continue to grow, and if the euromarkets continue to expand in the 1980s at anything like the rate at which they

grew in the 1970s, then even if our market shares were to decline this should still be compatible with satisfactory growth in absolute terms over the coming decade. Even if a number of new offshore centres do emerge—whether as IBFs, or in locations which at present have no banks—I am sure that there will still be plenty of room for us all to continue to provide banking services and, however international markets develop, I am sure that Jersey's closest financial links will remain with London.

## The future of the euromarkets

Let me finish by broadening the viewpoint of the issues I have been discussing so far, and looking briefly at the general future of the international euromarkets. I do not propose to offer a view on whether the expansion of international lending in the 1980s will be as brisk as it was in the previous decade. The natural caution of a central banker inclines me to suspect that there may be some moderation of growth, if only because international business already bulks quite large in the portfolios of many of the major banks in the world.

But I cannot fail to be impressed by the resilience and the adaptability of banks engaged in international lending. It is undeniable that the banks played a major and indeed indispensable role in the process of recycling the surpluses of oil producers, and it is not surprising that the public mind associates the growth of banks' international intermediation with it. But I invite you to recall that international lending was growing rapidly before the first oil shock, and that it continued growing as the oil producers' surpluses fell away between the first and second oil shocks. Now the wheel has come full circle again, and the latest figures I have seen, for the third quarter of 1981, show OPEC countries as net takers of funds in a market which continues to expand quite quickly. So I think it is clear enough that the growth of international business is by no means dependent, thank goodness, on a series of external shocks.

Nor does it seem to depend closely on the attitudes and objectives of banks from any particular country. There have been times when American, or Japanese, or German banks have for various reasons been relatively inactive. But there always seem to be other banks to come in to take up the running. Most recently, for example, Arab banks have been particularly active. Their contribution to total lending is still small, but it has been growing rapidly.

International banking is also showing itself to be resilient in the face of interruptions in the normal relationship between banks and borrowers. The number of reschedulings has been increasing, and the biggest rescheduling yet, that for Poland, is proving difficult to put in place.

There are, indeed, some underlying developments which must be promoting growth of international banking transactions. World trade continues to grow faster than world economic activity; capital in all its forms is patently more mobile internationally. Moreover, corporations and even individuals are learning to use offshore channels for a range of transactions which would previously have been put through domestic channels.

Yet I do not want to give you the impression that I am complacent about the future development of international banking. Indeed, I am in little doubt that the risks attaching to international lending are increasing. It would take me too far from the theme of this talk to offer detailed support for that proposition; in very broad terms, I base myself on an amalgam of the likelihood of a rather slow growth of the world economy and the near certainty of an increasing burden of debt in real terms. But I would like to draw out a few possible implications for your consideration.

The first is that if risks are greater, then it is difficult to be entirely happy about returns which banks are securing on their international lending; and particularly on some of their sovereign risk lending. I know that there have been some quite marked increases in spreads and fees over the past year or so. Yet it seems to me that there is still some way to go before the returns on international lending generally are commensurate with the risks.

The second is that we can all agree that the banks have been indispensable in enabling recycling to be carried out

relatively smoothly over the past decade. But I wonder whether it is right that the banks should be the institutions making the decisions on the financing of countries' balance of payments? I feel that this subject is properly the IMF's work, and as this becomes ever more central I would argue that we should seek and encourage a greater role for the IMF over the coming years.

And finally, I would stress that, in this more difficult environment, banks need to be even more meticulous in the appraisal of individual risks, and in ensuring that risks are carefully distributed. Bank supervisors, for their part, have to set exacting standards of prudent behaviour, and ensure that these standards are maintained.

My discussion has brought me back to supervision again. I have said quite a lot about supervision this evening, but not, I hope, too much. I have been giving a central banker's perspective of international banking, and effective supervision should always be one of the focal points in that perspective.