# CONTACT

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# Andreas Toutscher

## Regulation, reputation and return

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GUERNSEY'S BUSINESS MAGAZINE

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# Interview

Guernsey
Contact Magazine November/December 2014

## "Regulation, reputation and return"

Andreas Tautscher, Chief Executive of Deutsche Bank in the Channel Islands

Andreas' dual role at Deutsche Bank, where he is both chief executive (Channel Islands) as well as head of the organisation's financial intermediary business in Middle East, Africa and Latin America, means that he spends more than 50% of his life away from the island. The travelling is something he sees as absolutely key to his role albeit hard work and bringing the inevitable disruption to home life. Contact managed to catch up with him between trips to find out how the banking and trust divisions of Deutsche Bank are faring and to quiz him on how he sees the future panning out for Guernsey in the longer term.

'Our banking division is doing extremely well. In fact the Guernsey business has been one of best performing banking divisions in the group for the last two or three years. The success is in part down to a general growth in the market and also we have increased our market share by being extremely focused on our target markets. We direct all of our activity to the financial intermediaries – independent fund administrators, trust managers, multi-family offices – rather than dealing direct with private individuals. This strategy has been a big success story for us.

'The other side of the business is our global private client trust service where we are also enjoying a growth in business after a slightly slow couple of years.

With a strong business base in Asia and Latin America and less reliance on the UK and European markets the trust division undoubtedly suffered less than many of its competitors during the recent recession although wasn't wholly unaffected.

'We have a more global focus and have been operating in the Latin American and Asian markets for many years. Interestingly our business from these markets did level off at the peak of the crisis showing that, whilst we tend to regard the recession only affecting the UK and European regions, it did impact right across the globe.'

Having a well-established presence in these alternative markets has set Deutsche Bank a step ahead of other providers who are seeking to develop a profile and business base there.

'They are not easy markets to operate in. The cultural differences are considerable and businesses can't expect to move in and see exponential growth overnight. We started developing our trust presence in the Asian market for example about 15 years ago and it took six years and significant financial investment before we saw any real traction – despite the fact that we are a global brand. In Latin America it's even more problematic – less English spoken and none of the established European banks or UK law firms that you will find in Honk Kong or Singapore.'

Andreas is wholly supportive of the role undertaken by Guernsey Finance, which he regards as an essential element in the promotion of the island's finance sector. He also believes that funding is a real issue.

'Around 40% of our GDP is directly attributable to the finance sector and that's without including the indirect contribution made by ancillary support organisations. Many European economies look to re-invest between 2.5% and 3% to support their major industries, which would equate to something in the region of £10/£12 million. We spend a fraction of that.

'I realise that it's often challenging to show tangible results from the individual promotional activities that Guernsey Finance undertakes but that's the nature of certain types of marketing. Guernsey Finance's role is to build brand awareness and perception in a given market through its communications campaigns, as well as opening doors at political level, which we in the private sector wouldn't be able to do; the business community on the other hand, takes on the business development role, meeting prospective clients or intermediaries on a one-on-one-basis. The two areas of activity go hand in glove and are very much mutually-reliant.'

Andreas is very aware of the ever-increasing competition in the global finance market place. More jurisdictions are now embarking on aggressive marketing campaigns and things are much tougher than they were.

‘Some jurisdictions seem to have appeared from almost nowhere. When we first started operating in Singapore around 15 years ago, the trust sector there consisted of a handful of licensees. It has seen incredible growth since then and has developed into a jurisdiction where companies want to transact business. But it has no long history in the trust industry – 20 years ago there was relatively little there.’

On the much-mentioned topic of diversification, Andreas believes that the priority should first be to protect the industry that is generating the most revenue but at the same time create an environment where new businesses can thrive.

‘We need to encourage new industry where possible but it makes good business sense to retain and protect our major revenue streams that are generated by the finance industry. Using the often-cited marketing statistic, it costs around five times the amount of money to attract a new client than to retain an existing one and the same philosophy can be used here. There seems to be an atmosphere of excitement at political level around new business sectors, which is understandable, but any support to encourage diversification shouldn’t be at the expense of our major industry - which is finance.

‘The finance industry in itself is hugely diverse and that often gets forgotten. Aside from the four main sectors – banking, funds, fiduciary and insurance (and within each of these there are many different areas) – there is a network of companies servicing them. That is one of the main strengths of the island. We have analytics companies, independent risk management operations, technology providers building bespoke systems for the finance sector, top quality marketing providers…the list goes on. I spend much of my time in competitor jurisdictions and Guernsey’s support infrastructure compares extremely favourably with any other I have seen.’

Andreas regards the island’s low risk appetite as one of the key obstacles for new business and diversification.

‘There has been much discussion about the speed (or lack of) with which new legislation is introduced but I think the issue is broader than that. Guernsey’s success has created a complacency culture; it’s difficult for people to understand why things should change when the island has been doing so well.

‘We have to be careful not to develop an environment where we are only happy to support new businesses innovation that brings no risk. Innovation and risk go hand-in-hand and as an island we have to accept that some businesses will not work. We can't bullet proof against failure. It's totally unrealistic to expect new businesses to come with a guarantee of profit in the first 12 months and a need for a skills base that already exists locally. We need a 'can do' attitude and a willingness to take risks.

'If Mark Zuckerberg had arrived in the island 10 years ago saying he wanted to set up an online platform where people would post personal details and talk to their friends, most of us would have laughed him out of the room.'

With Guernsey's housing policy never far from the top of the public debate agenda, the topic of recruitment and staff retention is one on which Andreas has clear views.

'The dynamics of the local employment market are changing. Historically there was a high number of administrative roles within the finance sector that required little experience; these have diminished significantly due to technology, automation and outsourcing to cheaper locations. This trend will only continue and that's the reason there has been a drop in employment levels in finance. As a result these individuals need up-skilling and re-training in other areas.'

The fact that some skilled staff move away from Guernsey is also something that Andreas acknowledges as an issue but he doesn't necessarily see this trend as something that is wholly negative for the island.

'Some of these high calibre individuals have transferrable skills that are in great demand. We ourselves have a number of trust divisions around the globe headed up by people that have come from Guernsey. They are still spreading the Guernsey word and are a positive reflection of the quality of individuals the island produces.

'Skills travel and this is a trend to which people need to adapt. Nowadays, when we recruit young staff who are at an early stage of their career, their questions don't relate to the pension benefits on offer but focus on what opportunities they might have in the future to move to another Deutsche Bank office as part of their career progression. We have a number of staff who made it clear on joining that they would probably look to move on after five years and that's just the norm these days.'

Andreas is in favour of a much more flexible immigration/housing policy.

‘Skills needs change. To believe that every job the island creates can automatically be filled by a Guernsey resident is unrealistic. We need to bring in individuals who have developed specialist skills elsewhere in the major centres such as London and New York. Over time these skills permeate throughout local workforce just as they did 30 years ago.

‘I am not in favour of total open-door immigration, but we need to be far more flexible. The fear of a massive influx of people moving here if we remove some of our restrictions is in my view unfounded. If we want new business innovation and the continued success of the finance sector, we will need to attract new skills. London has thrived because it has attracted talent from around the world.

‘In reality, Guernsey doesn’t hold the same level of attraction for young people as a place to work for a part of their career as it once did. Their options are wider and so we have to work harder at explaining the valuable experience they can gain here working in a vibrant international finance centre.’

Looking ahead to 2015, Andreas is quite optimistic and said that he thinks that next year will be similar to 2014 with continued recovery. In the medium to long term, he does have some concerns.

‘Everyone has been talking about FATCA, son of FATCA and the AIFMD for years. But it’s over the next 18 months that their impact will be felt – affecting the trust and fund sectors. On top of that, the banking sector is facing the EU’s revised Capital Requirements Directive (CRD IV). This has had far less publicity than some of the other directives but it means that three of our four financial sectors will be impacted at the same time.

‘Guernsey’s finance industry has been doing an incredible amount of work in preparation for these regulations but there are always ‘unintended consequences’ when they are finally brought into force.’

Andreas refers to the ‘three rs’ that constitute the main issues that the finance industry will need to deal with for long-term success.

Regulation – the additional directives soon to come into force will inevitably add layers of administrative cost to doing business and all sectors are impacted;

Reputation – Guernsey must ensure that it is seen as a place where it’s easy to do business;

Return – margins are being squeezed; interest rates are extremely low; there is on-going pressure on management fees.

‘It is basically increasingly difficult to make money,’ said Andreas.

‘An organisation such as Deutsche Bank has the benefit of scale so we are able to absorb some of these additional cost layers. But for a new entrant it is very difficult and that’s where some of these niche service providers come in, offering due diligence, risk management etc.

‘Flexibility will be key to Guernsey’s long term success.’

Ends.