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Economic Benefits of the Financial Services Industry in the Cayman Islands

February 2009

Commissioned by:

*Cayman Islands Bankers Association
Cayman Islands Company Managers Association
Cayman Islands Compliance Association
Cayman Islands Fund Administrators Association
Cayman Islands Law Society
Cayman Islands Society of Professional Accountants
Insurance Managers Association of Cayman
Society of Trust and Estate Practitioners – Cayman Branch
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Executive Summary

The Cayman Islands is widely recognized as one of the most sophisticated offshore centres for financial services in the world. Cayman's infrastructure, stability, and conducive regulatory system have fostered the development of a cluster of sectors related to financial services. This cluster provides a complete suite of services to investors and companies throughout the world.

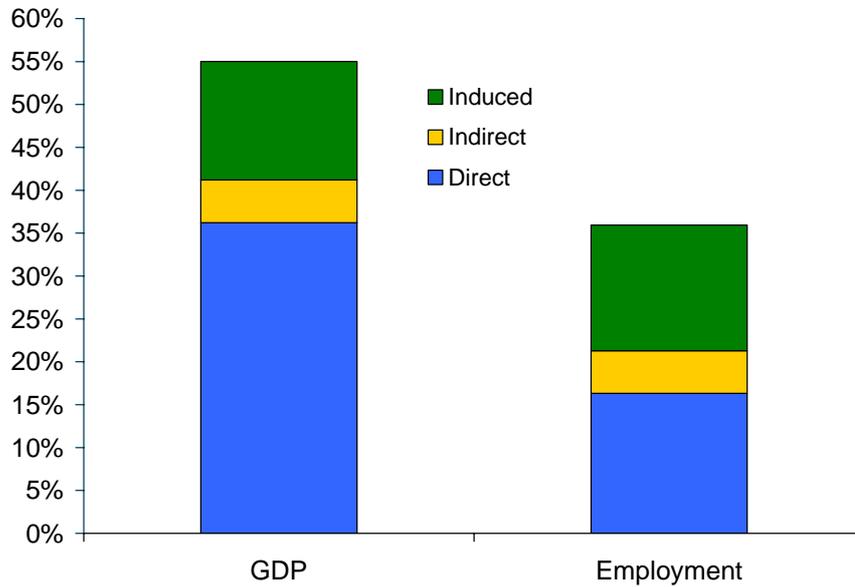
To date, no formal assessment of the economic importance of financial services in the Cayman Islands has been undertaken. (A study of the importance of banking only was conducted in 2006.) This study, commissioned by a consortium of associations, seeks to understand the complete economic contribution of the financial services industry (FSI). The definition of financial services is understood to include a cluster of inter-related sectors. These sectors include banking, insurance, legal services, estate & trust, company management, fund administration, accountancy, and related regulation and support (including CIMA, the Cayman Stock Exchange, the Cayman Islands Development Bank, and the Cayman Islands National Insurance Company).

Although this expands the boundaries of the core "financial services" industry, it better reflects the reality of the sector's importance to the Cayman Economy. For example, the vast majority of law firms, company managers, and accounting firms in Cayman focus on financial services. It is estimated that some 95% of their business is directly related to financial services. And insurance companies provide an array of financial services extending beyond insurance alone. The interconnectedness and overlap of services make each of these sectors an integral part of the overall financial services economy in the Cayman Islands. On this basis, Oxford Economics has determined:

- Financial services generated **CI\$ 1.2 billion in GDP** in 2007, including direct, indirect, and induced impacts. This represents **55% of the Cayman economy** based on the latest ESO estimates of total GDP.
- Financial services directly employed 5,723 persons in the Cayman Islands in 2007. Including downstream impacts, **financial services generated employment of 12,603**—representing 36% of all employment in the country. Nearly 60% of these employees are Caymanian.
- Financial services generated **personal income of CI\$ 687** million in 2007, including direct, indirect, and induced impacts.
- Financial services directly generated CI\$ 204 million in government revenues in 2007, or **40% of all government revenue**.
- Over **31,000 visitors** came to the Cayman Islands last year as financial services clients, vendors, or conference participants last year, staying 100,000 nights and spending CI\$ 20 million. An additional CI\$4 million was spent by companies to host and entertain these visitors.

Total FSI Impacts

share of economy



The financial services industry also provides a range of non-quantifiable or “catalytic” benefits to the Cayman economy.

- **Real Estate investment** – 20% of respondents indicated that FSI activity encouraged real estate development
- **Training & Education** – companies spent over CI\$ 4 million for employee training & education in 2007 ranging from on-the-job training to professional certification and degree completion.
- **Philanthropy** – the industries contributed CI \$2 million to local organizations, funding community events and local charities. A limited review of published programs revealed CI\$ 460,000 in scholarships which are offered to Cayman students. Financial Services Industry employees volunteered over 59,000 hours to local organizations and programs such as Junior Achievement.

1. Introduction

The financial services industry is integral to the Cayman economy. It is the largest employer and generator of GDP in the country. Further, financial services supports and drives other sectors of the economy, encourages investment and improves the quality of that investment, provides a secure home for domestic savings and access to capital markets for major businesses, as well as providing high paying job opportunities for Caymanians.

Current economic data for the Cayman Islands do not quantify the GDP impact of financial services. Further, a holistic picture of financial services in Cayman should include a cluster of related and interdependent industries.

The basis of this analysis is primarily a survey of financial service-related companies. The sponsoring organisations encouraged participation in an online and confidential survey which asked companies about their primary and secondary business activities as well as their employees, revenue (including its repatriation), wages, business-to-business purchases, and community contributions. A copy of this survey is included as an appendix to this report. A sample of 107 companies completed the survey, representing over 3,500 employees, or 70% of all financial services-related employment. The sponsoring organizations also provided total employment estimates for their respective sector which was constrained by the latest ESO Labour Force Survey results. Ratios of employment relative to the sample for each industry were used to project the survey results.

It should be noted here that the results of this survey are largely consistent with data produced by the Economics and Statistics Office, while providing significant additional detail.

Overall, we find that:

- Considering its full range of impacts, 55% of Cayman GDP is attributable to the financial services industry, making it the country's single most important industry.
- Financial service industries support approximately 12,603 jobs in the Cayman Islands, 36% of total employment. Nearly 60% of these employees are Caymanian.
- The job opportunities in the financial services sector are among the best-rewarded jobs in the country, yielding significant economic benefits as FSI-generated incomes are spent across a broad spectrum of the economy.

The rest of the main body of this report considers in detail the contribution that the financial services industry makes to the Cayman economy in terms of gross domestic product (GDP), employment, income, and taxes.

The economic contribution has four components:

Direct impacts – the output created and jobs supported by firms related to financial services. For the purposes of this study this includes a cluster of inter-related sectors. These sectors include banking, insurance, legal services, estate & trust, company management, fund administration, accountancy, and related regulation and support (including CIMA, the Cayman Stock Exchange, the Cayman Islands Development Bank, and the Cayman Islands National Insurance Company).

Indirect impacts – these are the effects that occur in the wider supply chain of the financial services industry as these firms purchase goods and services from suppliers in the Cayman Islands. These impacts are felt in real estate, retail trade, utilities, and other suppliers. Care has been taken not to double-count the sales among the firms within the financial services cluster.

Induced impacts – these are the impacts that arise from the spending by those people employed in the financial services industry and its supply chain. In both the indirect and induced impact analysis, import leakages are accounted for.

Catalytic impacts – the provision of financial services in the Cayman Islands also facilitates the growth and productivity of other industries. These ‘spillovers’ or ‘catalytic effects’ are not always quantifiable but have been assessed from the perspective of the industry.

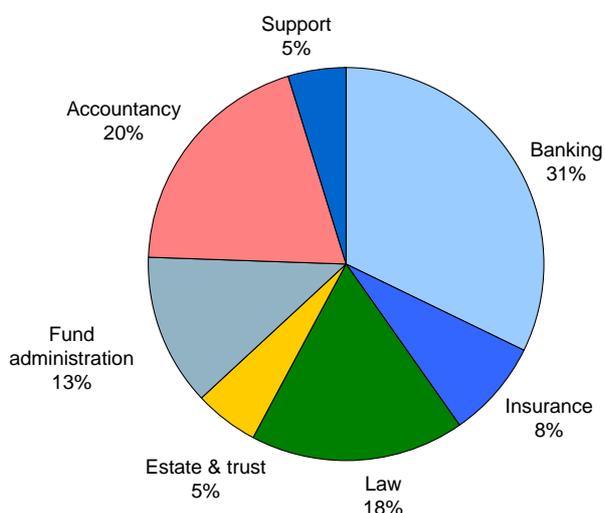
Below, we present each of these effects in turn.

2. Direct impacts

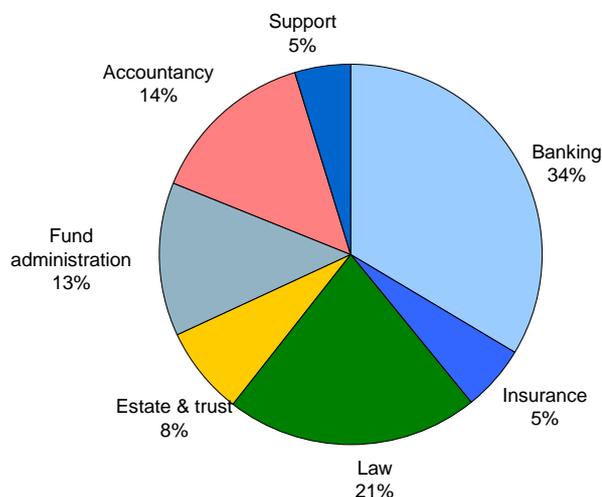
The Cayman Islands provides a strong cluster of financial services including banking, estates and trusts, legal services, insurance, fund administration, and accounting. These sectors are concentrated around core financial services and have thus been defined as part of the direct impact.

Financial services directly represent CI\$ 776 million in GDP. This is 36% of the country's economy¹. Banking, accountancy, and fund administration represent the largest components of FSI GDP. It is important to note that overlap exists between these various sectors as many firms provide various financial services. Therefore industry designation is based on a company's primary business activity.

FSI Direct GDP Distribution



FSI Direct Employment Distribution



Financial service industries also sustain more employment than any other economic activity in the Cayman Islands. 5,723 jobs were directly supported by financial services in 2007, representing 16% of all employment². This figure can be compared to the aggregate of 7,532 jobs within the financial services and business services sectors as reported by the ESO. The ESO figure includes real estate and renting services which accounts for much of the difference. It should be noted that Oxford Economics has also included financial services regulation and support within the Cayman Islands Monetary Authority, the Cayman Stock Exchange, the Cayman Islands Development Bank, the Cayman Islands National Insurance Company and part of the Finance and Economics Portfolio.

According to the 2007 ESO Labour Force Survey, 71% of employees in the financial service industry (as narrowly defined) are Cayman Island citizens. Within the expanded definition of financial services including its related and overlapping sectors, 59% of all employees within the financial services industry are Caymanian.

¹ ESO reports 2007 total GDP of CI\$2.14 billion

² ESO reports 2007 total employment of 35,079 and

The nature of employment within the financial services industry generates larger secondary impacts (indirect and induced) than exist within other sectors. There are two reasons for this. Firstly, financial services do not require significant imports of goods and services as operating inputs. Therefore, costs are concentrated in local wages and taxes—with relatively low import leakages. Secondly, downstream spending within the local economy is greater for financial services employee than for the rest of the economy. Other industries benefit disproportionately from the spending of financial services employees.

These secondary impacts are assessed in detail in the following section.

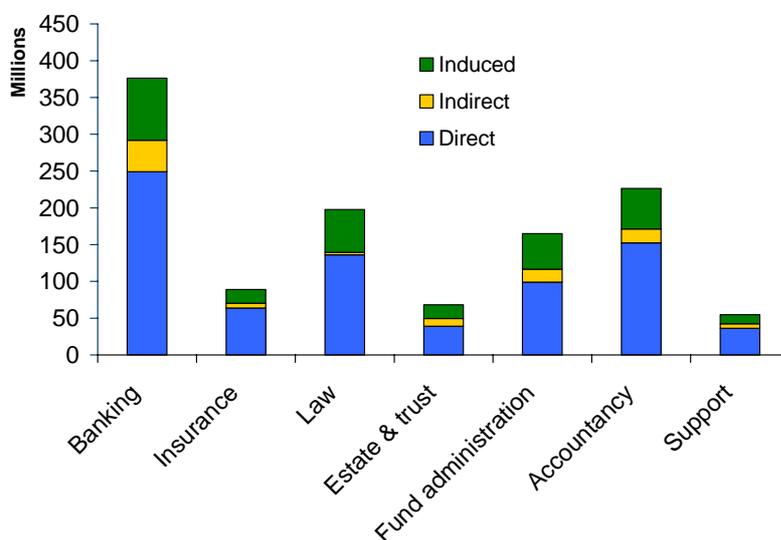
3. Indirect and induced impacts

To understand the full economic impacts of financial services in the Cayman Islands, the linkages and income effects must also be considered. Specifically, financial service companies purchase goods and services from local entities outside of the financial service cluster, generating indirect impacts. In addition—and even more important—employees spend their financial service-generated income in the Cayman economy, benefiting a range of other sectors via induced impacts. Real estate, utilities, education, transportation, telecommunications, and health care sectors all benefit as recipients of this flow of economic activity.

By using an input-output model of the Cayman Islands³, we calculate the linkages of each component of the financial services sector to other sectors, being careful to net out purchases within the financial services group as well as purchases made from suppliers outside of the country. Imports are also excluded from any impacts of consumer purchases.

When including the full range of impacts, the financial services industry generated CI\$ 1.2 billion in GDP, representing 55% of the economy. This includes CI\$ 776 million in direct GDP, CI\$ 106 million indirectly, and CI\$ 316 million through induced effects. The economic contribution of the 31,000 visitors to the Cayman Islands on account of financial service is included in the induced impacts.

FSI GDP Impact by Sector



This analysis indicates that for every dollar of GDP within financial services, another 55 cents is generated through the supply chain and incomes that are spent within the local economy.

³ The model used was based on Input-Output analysis of Bermuda and adjusted to reflect known totals for the Cayman Islands. The main assumption was that the relationships of industries to one another and to foreign trade is similar in both countries.

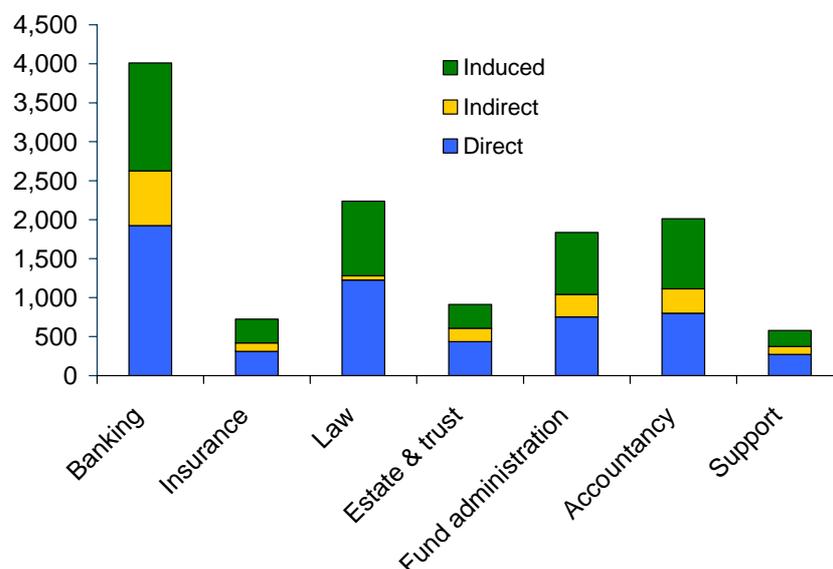
Banking, accountancy, and fund administration represent the largest contributions to FSI GDP, followed by law and insurance services. It should be noted that the indirect and induced impacts by sector are “driven” by that sector but accrue to sectors outside of financial services.

| FSI GDP Impact (CI\$, 2007) | | | | |
|-----------------------------|--------------------|--------------------|--------------------|----------------------|
| | Direct | Indirect | Induced | Total |
| Banking | 248,948,898 | 42,818,699 | 84,501,471 | 376,269,068 |
| Insurance | 63,797,650 | 6,720,367 | 18,635,833 | 89,153,851 |
| Law | 136,202,871 | 3,345,415 | 58,365,642 | 197,913,928 |
| Estate & trust | 39,140,966 | 10,570,236 | 18,566,895 | 68,278,097 |
| Fund administration | 98,850,907 | 17,661,956 | 48,500,790 | 165,013,653 |
| Accountancy | 152,317,519 | 19,100,914 | 54,782,388 | 226,200,822 |
| Support | 36,232,186 | 6,231,862 | 12,383,777 | 54,847,825 |
| Travel | | | 20,530,996 | 20,530,996 |
| TOTAL | 775,490,997 | 106,449,450 | 316,267,793 | 1,198,208,240 |

In addition to the 5,723 jobs directly in the financial services cluster of industries, another 1,744 jobs are generated within the local supply chain. The induced impacts are particularly significant for employment given the relatively high incomes within the financial services sector. As a large portion of these incomes are spent within the local economy, another 5,137 jobs are sustained. This implies that for every direct financial services job, another 1.2 jobs are generated.

In total, 12,603 jobs are sustained by financial services, comprising 36% of all employment in the Cayman Islands.

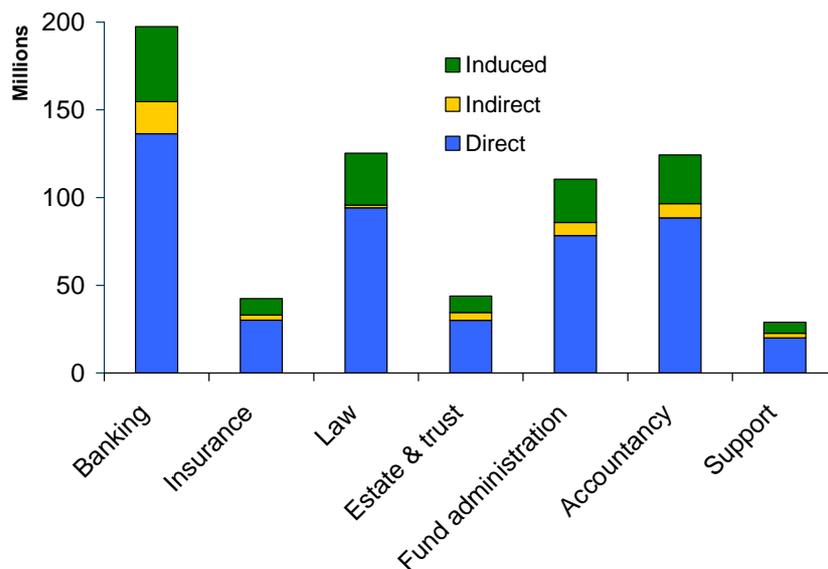
FSI Employment Impact by Sector



| FSI Employment Impact (2007) | | | | |
|------------------------------|--------------|--------------|--------------|---------------|
| | Direct | Indirect | Induced | Total |
| Banking | 1,924 | 702 | 1,385 | 4,010 |
| Insurance | 310 | 110 | 305 | 725 |
| Law | 1,227 | 55 | 956 | 2,238 |
| Estate & trust | 435 | 173 | 304 | 912 |
| Fund administration | 753 | 289 | 795 | 1,838 |
| Accountancy | 800 | 313 | 898 | 2,011 |
| Support | 274 | 102 | 203 | 579 |
| Travel | | | 291 | 291 |
| TOTAL | 5,723 | 1,744 | 5,137 | 12,603 |

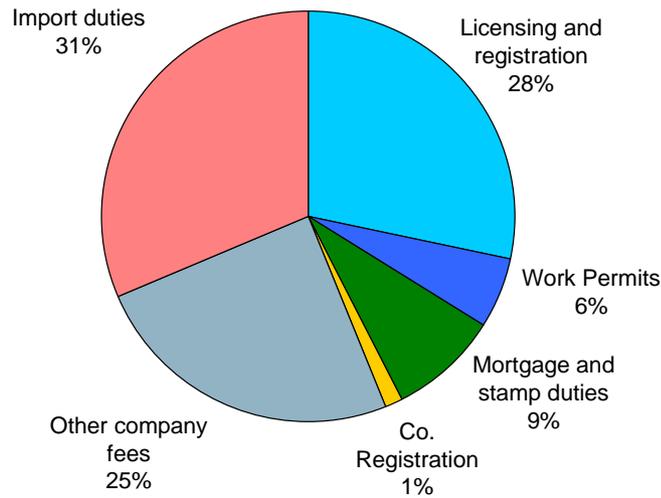
Financial services generate substantial personal income in the Cayman Islands including CI\$ 477 million to those directly employed within its companies. Employees within the FSI supply chain received CI\$ 45 million in personal income in 2007. And the induced impacts reached CI\$ 160 million for a total of CI\$ 687 million in personal income, including salaries, benefits, bonuses, and dividends.

FSI Personal Income Impact by Sector



Financial services also generate significant government revenue. In 2007, financial services generated CI\$ 205 million in government revenue. This was 40% of all government revenue⁴.

FSI-Generated Government Revenue



| FSI Government Revenue | |
|-----------------------------------|--------------------|
| CI\$, 2007 | |
| Licensing and registration | 58,241,000 |
| Banks and trust licenses | 24,112,000 |
| Mutual fund license and reg. | 20,650,000 |
| Law licenses | 1,239,000 |
| Traders licenses* | 3,934,000 |
| Security investment business | 1,600,000 |
| Insurance licenses | 6,706,000 |
| Work Permits | 11,274,502 |
| Mortgage and stamp duties | 17,705,790 |
| Co. Registration | 2,385,218 |
| Other company fees | 51,000,000 |
| Import duties | 63,994,251 |
| Total | 204,600,762 |

* Includes accounting licences

⁴ ESO reports total government revenues of CI\$513 million in 2007

4. Catalytic effects

The catalytic impacts of the financial services and related industries represent the ways in which the economic performance of other industrial sectors is boosted by the activities of the financial services and related industries, other than via the standard analytical direct, indirect and induced impacts set out above. It is difficult to quantify the magnitude of these effects. For some industries, they are likely to be negligible or even zero. But there are good reasons to believe that the financial and related services do generate such catalytic or “spillover” effects in the Cayman Islands. Some of these impacts tend to be qualitative, or “soft”, in nature; for example, the ways in which the industry provides support for other sectors of the economy, or the benefits it provides Caymanians. Others are more quantifiable such as training expenditures and philanthropic activities. As a part of this report we surveyed the members of the sponsoring associations in part to ascertain the range and magnitude of these effects.

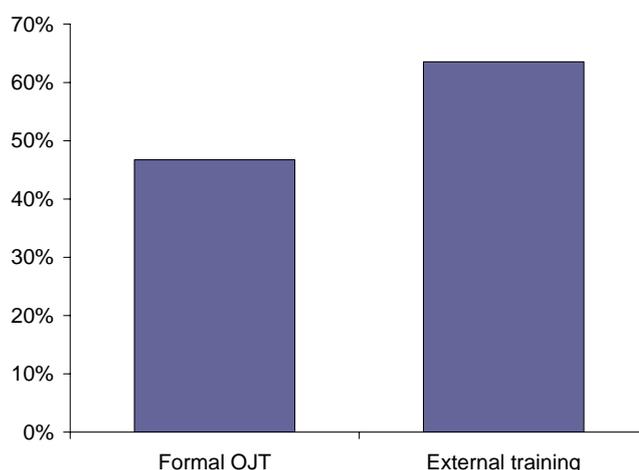
Our analysis of the 107-firm sample reveals that the industries’ effects are substantial. First the more quantifiable effects can be seen in education/training and community activities. Over 60% of firms surveyed provide external training to employees and nearly half provide formal on-the-job training. Training often includes industry certification and educational reimbursement programs. Of 75 firms providing budget information, over CI\$3 million was spent on training and education in 2007. From this, we estimate that nearly CI\$4.3 million was spent on training for the industry in total.

Many of the firms in the industry also contribute to local charities, scholarship programs and community events. Of the firms surveyed, nearly 70% contributed either time or financial assistance to such endeavours. Over 59,000 hours of volunteer time was donated to organizations and mentoring programs. In addition some firms indicate that they encourage their clients, with success, to donate to local charitable organizations.

Over 25 separate scholarships are also offered to Cayman students, with a value of CI\$ 460,000⁵.

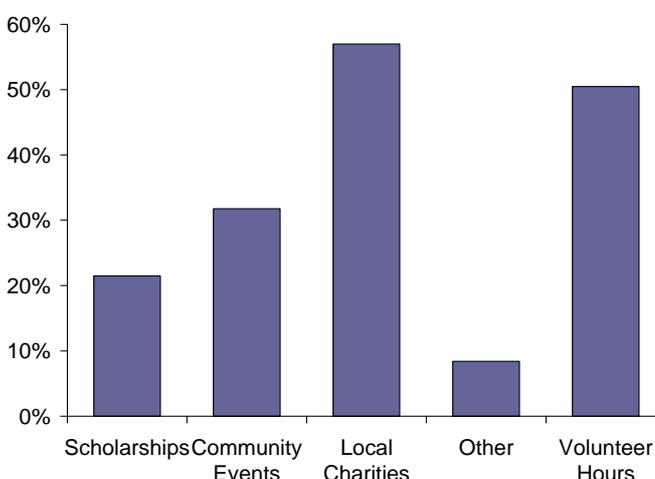
Training & Education

% of respondents



Philanthropic Activities

% of respondents



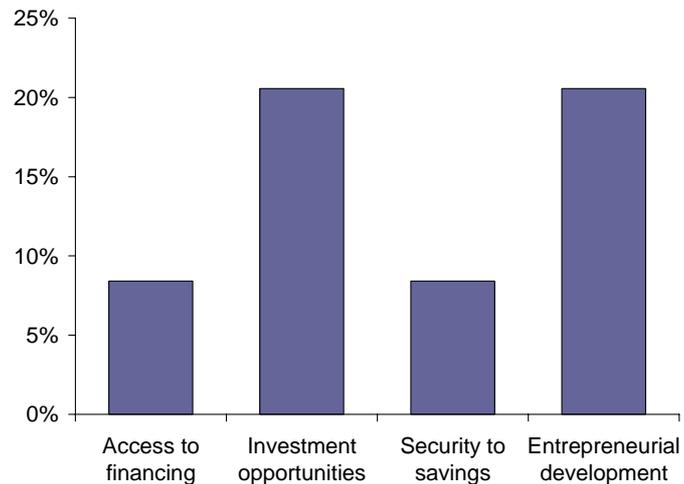
⁵ Source: Oxford Economics, Cayman Islands Chamber of Commerce

Although not quantifiable within the scope of this analysis, the survey revealed several other important ways that financial services benefit the Cayman Islands.

Roughly 20% of respondents indicated that the financial services industry in the Cayman Islands improves residents' investment opportunities and fosters entrepreneurial development.

Benefits to residents

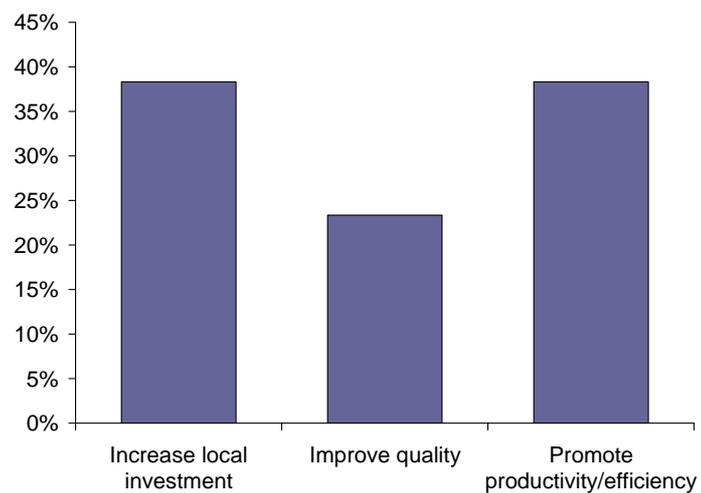
% of respondents



Nearly 40% of respondents stated that FSI business activity increases investment within the Cayman Islands and promotes overall economic productivity.

Promoting Local Business

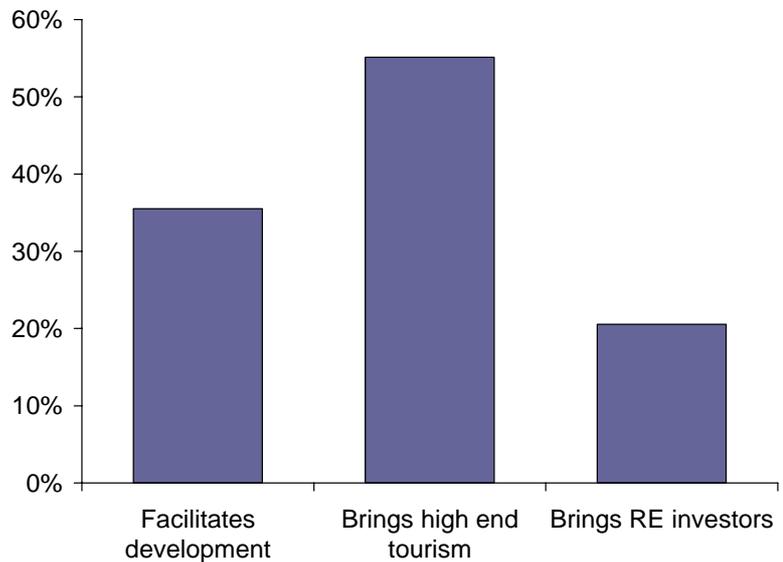
% of respondents



Finally, respondents indicated that financial services benefits overall economic development, improves the quality of visitors, and drives high-end real estate activity.

Support of other sectors

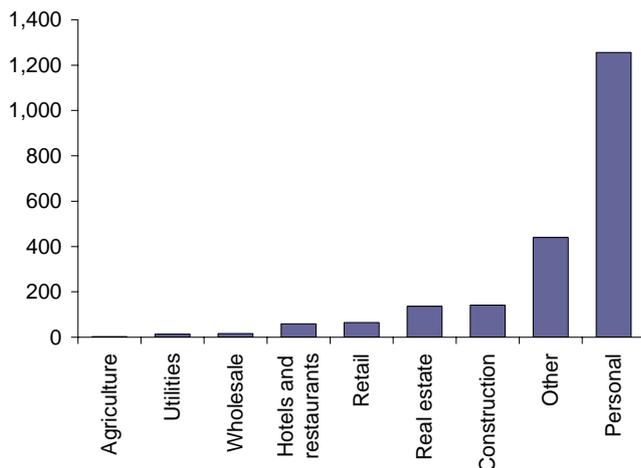
% of respondents



This is evident in data from the Cayman Islands Monetary Authority on the loans made to Cayman households and businesses. CI\$ 2.1 billion was lent by Cayman banks in 2006. CI\$ 1.3 billion of this was extended to households while CI\$ 800 million was loaned to businesses.

Loans and advances to CI residents

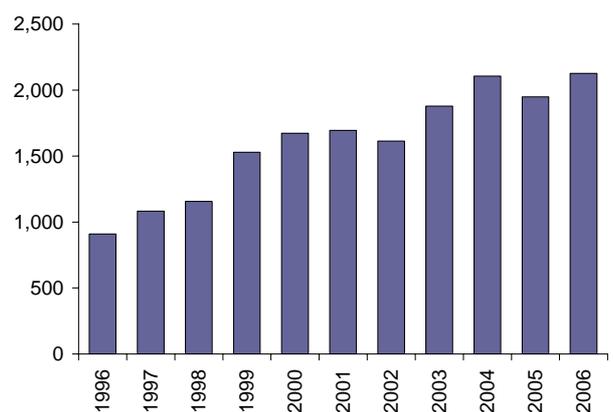
CI\$ (millions)



Source: CIMA

Loans and advances to CI residents

CI\$ (millions)



Source: CIMA

Appendix: Survey of Financial Service Industry Companies

The Economic Impact of Financial Services in The Cayman Islands

To the membership of:

CAYMAN ISLANDS BANKERS ASSOCIATION

CAYMAN ISLANDS COMPANY MANAGERS ASSOCIATION

CAYMAN ISLANDS FUND ADMINISTRATORS ASSOCIATION

CAYMAN ISLANDS LAW SOCIETY

CAYMAN ISLANDS SOCIETY OF PROFESSIONAL ACCOUNTANTS

INSURANCE MANAGERS ASSOCIATION OF CAYMAN

STEP CAYMAN

CAYMAN ISLANDS INSURANCE ASSOCIATION

The above trade associations ('the Associations') have contracted with Oxford Economics to assess the economic importance of financial services and its associated activities to the Cayman Islands. This survey will take about 5 to 10 minutes and is designed to enable Oxford Economics to assess the direct and indirect benefits of the financial services and related industries. All answers should be for the most recently available fiscal year and in Cayman Island dollars where applicable.

This survey is completely anonymous and confidential. No data from any individual firm will be reported or made available to any person or entity outside of Oxford Economics. Data will only be reported at an aggregated industry level. Oxford Economics is operating under a non-disclosure agreement with all Associations in this regard.

Direct Economic Benefits

1. What type of Cayman license do you possess?

- Class A (Bank or Insurance)
- Class B (Bank or Insurance)
- Trust
- Insurance Managers
- Company Managers
- Fund Administrator

Other (please state):

Not applicable

2. What is your primary business activity?

Banking

Insurance (captive)

Insurance (non-captive)

Legal Services

Estate & Trust Services

Company Management

Fund Administration

Accountancy and Audit

Other (please state):

3. What is your secondary business activity?

Banking

Insurance (captive)

Insurance (non-captive)

Legal Services

Estate & Trust Services

Company Management

Fund Administration

Accountancy and Audit

Other

Not applicable

4. What percentage of your gross annual revenue in 2007 was generated by this secondary business activity? %

5. How many people do you employ in the Cayman Islands? persons

Approximately what percentage of these employees are Caymanian? %

6. What is your annual gross revenue (CI\$)?

Select below or enter gross revenue: CI\$

- | | |
|--------------------------------------------|----------------------------------------------|
| <input type="checkbox"/> <\$1 million | <input type="checkbox"/> \$75-\$100 million |
| <input type="checkbox"/> \$1-\$5 million | <input type="checkbox"/> \$100-\$150 million |
| <input type="checkbox"/> \$5-\$10 million | <input type="checkbox"/> \$150-\$200 million |
| <input type="checkbox"/> \$10-\$20 million | <input type="checkbox"/> \$200-\$300 million |
| <input type="checkbox"/> \$20-\$50 million | <input type="checkbox"/> \$300-\$500 million |
| <input type="checkbox"/> \$50-\$75 million | <input type="checkbox"/> Over \$500 million |

7. What were your total labour costs in 2007 (including benefits, bonuses, dividends, drawings etc.) of your employees in the Cayman Islands?

Select below or enter cost: CI\$

- | | |
|--------------------------------------------|----------------------------------------------|
| <input type="checkbox"/> <\$1 million | <input type="checkbox"/> \$75-\$100 million |
| <input type="checkbox"/> \$1-\$5 million | <input type="checkbox"/> \$100-\$150 million |
| <input type="checkbox"/> \$5-\$10 million | <input type="checkbox"/> \$150-\$200 million |
| <input type="checkbox"/> \$10-\$20 million | <input type="checkbox"/> \$200-\$300 million |
| <input type="checkbox"/> \$20-\$50 million | <input type="checkbox"/> \$300-\$500 million |
| <input type="checkbox"/> \$50-\$75 million | <input type="checkbox"/> Over \$500 million |

8. What are your annual expenses related to CI\$

facilities (rent, mortgage expenses)?

9. What are your annual expenses for utilities?

Telecommunications: CI\$

Energy, Water, Sewerage: CI\$

10. What are your annual expenses on office equipment and office supplies? CI\$

11. What percentage of your gross annual revenue is repatriated to non-Cayman entities? %

12. What taxes and fees were directly paid to the government by your company (CI\$)?

License Fees: CI\$

Work Permit Fees: CI\$

Property Taxes/Mortgage Fees: CI\$

Real Estate Stamp Taxes: CI\$

Company Registration: CI\$

Other: CI\$ Please specify:

Indirect Economic Benefits

13. What proportion of your business is provided to resident Caymanians or local businesses?

- <10%
- 11%-20%
- 21%-40%
- 41%-60%
- 61%-80%

81%-100%

14. What is the estimated proportion of your clients who also conduct business with the following sectors in the Cayman Islands (outside of your own sector)?

| | 0% | 1-25% | 26-50% | 51-75% | 76-100% |
|-------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Banks | <input type="checkbox"/> |
| Insurance | <input type="checkbox"/> |
| Legal | <input type="checkbox"/> |
| Trust/Estate | <input type="checkbox"/> |
| Mutual/Hedge Fund | <input type="checkbox"/> |
| Accountancy/Audit | <input type="checkbox"/> |
| Company Managers | <input type="checkbox"/> |
| Other | <input type="checkbox"/> |

15. Please provide estimates of international client visits to your offices in 2007:

How many clients visited you in 2007? persons

What was their average travel party size? persons

What was their length of stay? days

What percentage used hotels? %

What percentage met with other companies besides your own while in Cayman? %

How many of your clients are property owners in Cayman? %

What were your company's expenditures on client entertainment in the Cayman Islands in 2007? CI\$

16. How many employees, partners and vendors from offices outside of the Cayman Islands visited your offices in 2007?

Visits?

0

Average travel party size?

0

persons

Average length of stay?

0

days

What percentage used hotels?

0

%

Catalytic Economic Benefits

17. In what ways does your business support other sectors (e.g. tourism, real estate, construction)?

- Facilitates hotel and related real estate development
- Brings high-end visitors to the Cayman Islands for tourism
- Brings high-end real estate investors to the Cayman Islands

Other (please describe):

18. What sort of training and education programs do you provide?

- Formal on-the-job training programs
- Formal external training
- Informal on-the-job training

Other (please describe):

What was your annual budget for training & education in 2007?:

CI\$

19. What philanthropic and community contributions did your company make in 2007?

- Scholarships Amount: CI\$
- Community events Amount: CI\$
- Local charities Amount: CI\$
- Other Amount: CI\$

20. How many hours did your company's employees contribute to volunteer activities in the Cayman Islands in 2007? hours
e.g. Junior Achievement, mentoring programs etc.

21. In what ways does your business benefit residents of the Cayman Islands?

- Provides access to debt
- Provides investment opportunities
- Provides greater security to savings
- Facilitates entrepreneurial development

Other (please describe):

22. In what ways do your services support the local economic activity of your customers? (please check all that apply)

- Leads them to increase their investments in the Cayman Islands

- Leads them to improve their investments in the Cayman Islands
- Promotes business productivity/efficiency

Other (please describe):

Thank you for completing the survey.

Please press the Submit button.

Submit

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