



# Cook Islands Finance

*Financial Services from  
the Heart of the South Pacific*

## **STRATEGIC PLAN 2020** **THE NEXT FIVE YEARS**

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STABILITY

INNOVATION

SERVICE

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## Abbreviations

<b>Act</b>	Financial Services Development Act 2009
<b>AML/CFT</b>	Anti Money Laundering/Combatting the Financing of Terrorism
<b>ANZ</b>	ANZ Banking Group Limited
<b>BCI</b>	Bank of the Cook Islands Limited
<b>BSP</b>	Bank of South Pacific Limited
<b>CFT</b>	Combating the Financing of Terrorism
<b>CRS</b>	Common Reporting Standard
<b>CSB</b>	Capital Security Bank Cook Islands Ltd
<b>DLT</b>	Distributed Ledger Technology
<b>EU</b>	European Union
<b>FATCA</b>	Foreign Account Tax Compliance Act
<b>FATF</b>	Financial Action Task Force
<b>FHTP</b>	Forum for Harmful Tax Practices
<b>FINTECH</b>	Financial Technology
<b>FIU</b>	Financial Intelligence Unit
<b>FSC</b>	Financial Supervisory Commission
<b>FSDA</b>	Financial Services Development Authority
<b>FSI</b>	Cook Islands Financial Services Industry
<b>FTRA</b>	Financial Transactions Reporting Act 2017
<b>FX</b>	Foreign Exchange
<b>GDP</b>	Gross Domestic Product
<b>ICA</b>	International Companies Act 1981-82
<b>IT</b>	Information Technology
<b>KPIs</b>	Key Performance Indicators
<b>LTCs</b>	Licensed Trustee Companies
<b>MFEM</b>	Ministry of Finance and Economic Management
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>TTS</b>	Territorial Tax System

## Section 1 EXECUTIVE SUMMARY

*The Cook Islands financial services industry ("FSI") has a key role to play through the next 5 years and beyond in the post COVID-19 Cook Islands economy. The resilience of the FSI over the past 30 years and its ability to consistently contribute to the economy, despite many domestic and international challenges, make it an obvious cornerstone of the country's future.*

The Financial Services Development Authority ("FSDA") is tasked with encouraging, promoting and developing the FSI. This Strategic Plan is designed to meet that objective and set a path that enables the industry to move forward towards a common vision through objectives and goals driven by the FSDA.



## KEY MESSAGES

### THE KEY MESSAGES TO TAKE FROM THIS STRATEGIC PLAN ARE

Over the 5 years of the Strategic Plan the overall performance targets are:

**\$13.5 million increase in the FSI's dollar contribution to real GDP;**

**75 new jobs in the FSI.**

The vision for the FSI is one of an industry that is economically beneficial, socially responsible and which enhances the Cook Islands reputation as a relevant, compliant and progressive international financial centre. The FSI must be able to respond to the needs of a global client base whilst at the same time support the position, capabilities and strategy of a developing country.

There is real optimism that the FSI can reach this vision and targets set given the solid foundation it has to develop and grow from and the opportunities that are available to it.

The development and growth envisaged within the FSI will lead to increased employment opportunities for Cook Islanders and increase the industry's contribution to the Cook Islands economy.

### TO MAXIMIZE THOSE OPPORTUNITIES RETURNS THERE NEEDS TO BE

**Greater partnering and collaboration** between all FSI stakeholders and a real commitment to make this vision a reality. Those stakeholders being the FSDA, FSI service providers, Government and regulatory bodies, the Financial Supervisory Commission ("FSC") and namely the Financial Intelligence Unit ("FIU").

**Tax reform** to ensure the survival of the Licensed Trustee Companies ("LTCs") and the offshore finance sector but that will also benefit the country. Such tax reform will require implementing a form of territorial based tax system ("TTS") or at least measures to mitigate the effect of removing tax exemptions for offshore structures and their owners, as required by the European Union ("EU") and the OECD's Forum for Harmful Tax Practices ("FHTP").

The introduction of new participants, business lines and products and services into the FSI.

**THE FSDA IS COMMITTED TO TAKING THE LEAD IN DRIVING THE OBJECTIVES AND GOALS SET OUT IN THIS STRATEGIC PLAN TO MOVE THE FSI TOWARDS THE COMMON VISION.**



## Section 2

# INTRODUCTION

*The FSDA is a statutory body created by the Financial Services Development Act 2009 (the "Act") to encourage promote and develop the Cook Islands financial services industry so as to achieve sustained growth in a manner which is economically beneficial, socially responsible and reputable. (Section 14 (1) of the Act).*

*The "financial services industry" is defined in section 2 of the Act to mean the business carried on pursuant to the:*

- Banking Act 2003 (now repealed, replaced by Banking Act 2011)
- Captive Insurance Act 2013
- Foundations Act 2012
- Insurance Act 2008
- International Companies Act 1981-82
- International Partnership Act 1984
- International Trusts Act 1984
- Limited Liability Companies Act 2008
- Trustee Companies Act 1981-82 (now repealed, replaced by Trustee Companies Act 2014)

Other than the Banking Act 2011 and the Insurance Act 2008, the business carried on pursuant to the above statutes is limited to the LTCs. The FSDA's focus has from its inception in 2009 been on the encouragement, promotion and development of the business of the LTCs, commonly referred to as the offshore industry. The offshore industry, by virtue of the requirements of the statutes it operates under, does not operate in the domestic market and targets international business and non-Cook Islands resident clients.

Given the global political push for international standards for transparency in tax matters and the removal of preferential and harmful tax regimes, the FSI must consider a future where there is no onshore/offshore separation but simply a financial services sector that caters for both domestic and international markets, where new entrants and new services are encouraged to broaden the opportunities available for local businesses to develop and grow.

This Strategic Plan has been formulated by the Board of the FSDA, which contains representatives from the Trustee Companies Association and the Bankers Association, in consultation with FSI participants and the Commissioner of the Financial Supervisory Commission, the regulator of the FSI. It documents the FSDA's mission, vision and values, as well as the objectives and goals for developing and growing the FSI over the next 5 years and the performance targets sought.

The Strategic Plan assesses where the FSI currently sits in domestic and international terms and where it should aim to be given its strengths, the challenges it faces, the opportunities it is presented with and given the combined efforts and resources of its stakeholders.

The FSDA sits in a unique position as the representative of both Government and the FSI and as such will take the lead in driving the objectives and goals set out in this Plan to move the FSI in the direction envisaged.

## Section 3

# OUR MISSION, VALUES AND VISION

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## OUR MISSION

The FSDA's primary objective, or mission, as set out in the Act, is to encourage, promote and develop the FSI in the Cook Islands. It seeks to do this through developing and coordinating the overall vision for the FSI, the provision of targeted investment to support this vision, providing specialist industry knowledge and insight and supporting the FSI with marketing and administrative services.

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## OUR VALUES

The business carried on within the FSI over many years has been underpinned by its integrity, resilience, commitment to deliver high quality service, innovation and expertise. These values are essential to the credibility and reputation of the FSI and must be maintained moving forward to guide and motivate the actions and attitudes of the FSI and the FSDA.

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## OUR VISION

The vision for the FSI is one of an industry that is economically beneficial, socially responsible and which enhances the Cook Islands reputation as a relevant, compliant and progressive international financial centre. The FSI must be a financial services industry that can respond to the needs of a global client base whilst at the same time support the position, capabilities and strategy of a developing country.

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## Section 4

# THE CURRENT POSITION

Consultation with a number of the current FSI participants, many of whom have been involved in the industry for more than 20 years, highlights perceived areas of strength and weakness of the FSI as well as the challenges and opportunities it is currently presented with and will face going forward.

It is essential to understand the current industry environment, domestically and globally, to understand what needs to be changed and developed in order to deliver the desired growth.

## STRENGTHS

**Asset protection trust laws and the ability to have new laws passed in a timely manner** - The offshore industry has been, and continues to be, supported by the asset protection trust laws enacted in 1989. The quality of those laws and the ability of the industry to have laws passed in a timely fashion in response to client demand has been a feature of the offshore industry.

**Independent judiciary** - The Cook Islands High Court and Court of Appeal are adjudicated by experienced New Zealand judges who apply Cook Islands law.

**Maturity of the FSI** - the FSI has been a significant contributor to the Cook Islands economy for 40 years. It has shown resilience in that time to various global and local financial crises and has developed a level of experience and expertise that provides confidence to clients and their advisors.

**Political stability** - Since its independence in 1965 the Cook Islands has remained a politically stable country. It has democratic elections held every 5 years with 2 main parties being relatively centrist. There is no

threat of military coup or social revolution.

**Complies with international standards and best practice** – The Cook Islands has a well-regulated, internationally compliant FSI, evidenced by its signing and ratifying of the Convention for Multilateral Convention on Mutual Administrative Assistance in Tax Matters; enactment of laws to implement automatic exchange of financial information; membership of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes as well as its BEPS Inclusive Framework; and its outstanding 2018 Mutual Evaluation Report in regards to its AML/CFT regime and compliance with FATF standards.

**High quality services** – the FSI has focused on providing the highest quality administrative services evidenced by client relationships that have existed for over 25 years.

**Location** – the Cook Islands provides a convenient time zone for doing business. It can conduct same day transactions with North America and Asia.

reliable, capacity and speed is limited.

**Government confidence in and support of FSI** – over the years the Government and FSI's vision for the FSI may not have been aligned. Therefore the commitment given to industry by Government at the 2019 Offshore Industry Forum was well received. It is essential that industry builds on that commitment.

**Participants in the FSI** – competition encourages growth and development. Additional financial sectors are required to broaden the base and diversify the financial services offering and new participants are required in each sector to increase competition and efficiency.

## WEAKNESSES

**Diversification** – the FSI needs greater diversification in both geographic markets and the business lines and services it offers. For example, 85% of LTCs revenue is derived from USA clients with over 80% being asset protection trusts and 3 of the 4 licensed banks are focused on domestic banking.

**Innovation** – the FSI has become stagnant due to lack of new entrants and business lines into the industry but also the lack of innovation and creativity within the sectors.

**Technology restrictions** – currently the Cook Islands does not have the infrastructure or platform to maximize the opportunities available to the FSI through financial technology. Connectivity is not

The FSI, with FSDA and Government support, must look to build on its strengths, capitalize on opportunities, recognize its threats and mitigate its weaknesses.

The following highlights what the FSI regards as its most notable strengths and weaknesses, opportunities and threats.

## THREATS

**Tax initiatives of international organisations** – amending tax laws to meet the requirements of the European Union ("EU") and OECD in regards to preferential and harmful tax regimes, without appropriate and timely changes to domestic tax laws, will see the offshore industry struggle to survive. The Cook Islands offshore industry is extremely susceptible to the ongoing taxation initiatives of and demands for change that have been and will be made by the EU and the OECD's Forum for Harmful Tax Practices ("FHTP").

**International bank de-risking** – the FSI is helpless to the de-risking policies of major financial institutions and organisations seeking to reduce their exposure to financial crime. The actions being taken include ceasing bank accounts and correspondent relationships where accounts are owned and funds are attributed to persons from certain jurisdictions. Due to the relatively small size of the FSI and the volumes and values of transactions, the Cook Islands is an easy target when de-risking occurs.

**Competitors** – Internationally financial services is an extremely competitive and rapidly evolving industry. Jurisdictions competing with the offshore industry introduce new products and services but more significantly duplicate Cook Islands asset protection laws which has been a point of difference for LTCs.

**Ownership of FSI participants** – A significant number of participants in the FSI are foreign owned and therefore part of the business plans and models of international or regional organisations. The FSI is therefore largely subject to the decisions and interests of non-Cook Islanders.

**Cyber security** - the FSI is continually under threat from hackers seeking to steal and publish confidential client and financial information. Such theft compromises client confidence and trust. 2 LTCs have been subjected to this in recent years.

## OPPORTUNITIES

**Manatua cable** - the cable has been laid and installed in Rarotonga and is due for connection later in 2020. It is expected that the cable will transform internet connection speed, capacity, resilience and affordability.

**Restructure tax system/laws** – in light of the tax law changes already made to appease the EU/OECD, and with demands for further similar changes to other statutes expected, the Cook Islands could change its tax system to one that is territorial based ("TTS") to not only ensure the continuation of its offshore industry but also to potentially develop and grow new services and sectors into the Cook Islands economy for the future.

**Financial technology ("fintech")** – use new technology available to improve and automate the delivery and use of financial services. Participants in FSI can integrate fintech into their business operations as well as existing product/service offerings or seek to establish new ones based on the new technology. New participants and sectors will arise through the opportunities fintech presents.

Active fintech areas include: distributed ledger technology ("DLT"); cryptocurrency and digital cash; cybersecurity.

**Encourage more interaction and partnering between onshore and offshore sectors** – reduce or remove the onshore/offshore separation within the FSI. Seek ways for all participants to work together to improve product/service offerings to clients in economically beneficial manner. Such interaction may become less problematic with a merger of the onshore and offshore jurisdictions resulting from the implementation of a TTS.

**Advance and leverage off the Cook Islands "Green" reputation** - develop and deliver the Green image through marketing and product/service offering.

**Attract young Cook Islanders into FSI** – diversification of the FSI and the introduction of new entrants, technologies and products and services provides an opportunity to target young qualified Cook Islanders to work in the Cook Islands.

## Section 5

# OUR STAKEHOLDERS

*The success of the FSI depends on the positive interaction, cooperation, support and contribution of a number of different parties that have a real interest in its development and growth.*

### Cook Islands Government

The Minister responsible for the FSDA is the Minister of Finance and the Deputy Prime Minister, the Hon. Mark Brown. The Government, through MFEM, provides an annual appropriation to FSDA for it to carry out its primary objective and the goals it sets to achieve that objective. Government views that appropriation as an investment in the FSI with the revenue it generates from statutory fees and taxes being the Government's return on that investment. Government has confirmed its support of the FSI but expects new ideas and innovation to drive growth and an increased return on its investment.

### FSI Service Providers

The website of the FSC provides a list of current licensed participants in the FSI. (<https://www.fsc.gov.ck/cookIslandsFscApp/content/business-contacts>)

#### LICENCED TRUST COMPANIES

Two of which are managed trustee companies with no physical presence in the Cook Islands; Those LTCs are:

- Alpha Trust (Cook Islands) Limited
- Asiaciti Trust Pacific Limited
- Cook Islands Trust Corporation Limited
- Metis Global (Cook Islands) Limited
- Ora Fiduciary (Cook Islands) Limited
- Portcullis (Cook Islands) Limited
- Southpac Trust Limited
- Trustees and Fiduciaries (Cook Islands) Limited

#### LICENSED BANKS

- ANZ Banking Group Limited ("ANZ")
- Bank of South Pacific Limited ("BSP")
- Bank of the Cook Islands Limited ("BCI")
- Capital Security Bank Cook Islands Ltd ("CSB")

With ANZ, BSP and CSB being licensed to carry on domestic and international banking business; BCI carries on domestic banking business only.

The Cook Islands also has laws to license money changing and remittance businesses. Such businesses are regulated and supervised by the FSC. Currently 3 licenses have been issued. Money remitters are not covered by the Act's definition of FSI.

#### LICENSED INSURERS

- Tower Insurance (Cook Islands) Limited ("Tower")
- Chubb Insurance New Zealand Limited
- BSP Health Care (Fiji) Limited
- Federal Pacific Insurance Limited
- Sovereign Assurance Company Limited

Tower is a licensed Cook Islands company the other licensees are external insurers that have established branches in the Cook Islands. The licensed insurers primarily carry on domestic insurance business being home, contents, asset and business related. There is some life insurance but mainly simple term life coverage.

#### LICENSED CAPTIVE INSURANCE COMPANIES

That carry on captive insurance business pursuant to the Captive Insurance Act 2013.

Those companies are:

- Maritime Mutual Insurance Association Limited
- Meitaki Limited
- Ovation Risk Limited
- Pacific Catastrophe Risk Insurance Company

### Clients of FSI Service Providers

Clients of the LTCs and their advisors, who often act for the clients, are predominantly from the USA. Up to 85% of LTC business is derived from the USA. (FSDA's 2018 LTC survey).

The clients of 3 of the 4 licensed banks (BCI, ANZ and BSP) are predominantly Cook Islands residents. ANZ and BSP may have overseas clients with domestic accounts but do not provide services to clients of LTCs. CSB has both international and domestic banking licenses, with the significant part of its business being international. A number of its clients are also clients of the LTCs. Clients of the licensed insurers are almost always resident Cook Islanders.

### Government Regulatory Bodies

The FSC is an independent body responsible for the supervision of regulated financial entities and financial services in the Cook Islands. It is the licensing authority for all FSI service providers.

The FIU coordinates the implementation of the Cook Islands AML/CFT regime. It regulates and supervises compliance of all Reporting Institutions in the Cook Islands, as stipulated by the Financial Transactions Reporting Act 2017 ("FTRA"). The FSI service providers are Reporting Institutions pursuant to the FTRA.



## Section 6

# STRATEGIC OBJECTIVES

*How we intend to reach the stated vision is the heart of this Strategic Plan. Long term, continuous strategic areas within and key to the success of the FSI have been identified to enable us to connect the FSDA's mission to the vision. Goals and initiatives will be put in place around and between the strategic areas, designed to move them forward by providing specific performance targets over the short (1-12 months), medium (2-4 years) and long (5 years plus) terms.*

### Objective 1 - Positioning

It is important the FSI establishes the image or identity of the industry as a whole, domestically and internationally, that it wants stakeholders and third parties to identify it with.

The image of the offshore industry has dominated the international perception of the FSI, and locally a lack of understanding of the business of the offshore industry and various negative headlines has influenced its domestic image.

The image projected of the FSI, both domestically and internationally, must be positive and strong. It should draw from existing strengths developed and evidenced over the 30 plus years the FSI has been in operation.

This Strategic Plan will take those strengths to establish a market position or identity for the FSI to take it into and through the next 5 years. The positioning of the FSI both domestically and internationally will be founded on the goals and objectives set for the next 5 years.

#### POSITIONING FACTORS

- **Location** - The Cook Islands is in the heart of the South Pacific, its location and remoteness is perceived by some as an advantage (especially in the asset protection context), but a hindrance to others (hard to get to, isolated, exposed to natural disasters, lack of communication etc.). Modern technology (the move to fintech, connecting to the Manatua cable) and having regular travel links to US/NZ/Australia should assist alleviate some of these concerns. We need to continually develop the message that the Cook Islands is a sound, reputable, safe jurisdiction for someone to have their wealth

owned/managed/administered from.

- **Sovereignty** - As are many other jurisdictions, the Cook Islands is subject to the demands of international groups and organisations (e.g. OECD/EU/FATF). Due to its size it may lack international political and economic influence, but as a sovereign state it can write its own laws. The Cook Islands has demonstrated its desire and ability to respond to international trends through the development and implementation of appropriate law and policy.
- **Compliant** – The Cook Islands must and will meet international standards and best practice in the provision of financial services. In the current environment, clients expect this. The Cook Islands has continuously evidenced its willingness to meet international standards on exchange of financial information, harmful tax practices and combatting financial crime.
- **Innovative** – the Cook Islands has in the past shown itself to be innovative. It must now seek new opportunities and business lines where it can again showcase its ability to be innovative, nimble and ahead of its peers. This will largely depend on the support of Government and its ability and willingness to amend or introduce new laws and regulation and invest in the taking of new products/services to market.
- **Expertise** - The experience and expertise accumulated and provided for over 30 years should give comfort to clients and their advisors that the FSI is reliable, stable and ready to meet the particular needs of clients.

#### POSITIONING STATEMENT

Based on the above factors the following positioning statement serves to identify the FSI and establish or reinforce its brand and how it should be perceived by stakeholders and third parties.

*"The Cook Islands - A mature financial services centre with a proven record of stability and independence in providing innovative and bespoke solutions for holding, managing, protecting and investing wealth. Experienced and qualified professionals provide high quality service in a regulated and progressive business environment. Providing financial services from the heart of the South Pacific"*

This positioning statement tends to be more focused towards the international market. Domestically, residents will not have access to the offshore industry but will need local banking and insurance services.

Residents therefore need to receive a positive message emphasizing the FSI's stability and reliability in providing quality services and products to residents with the best interests of the Cook Islands as its focus.

### Objective 2 - Products and Services

The ongoing success and viability of the FSI depends on being able to meet the needs of its clients, both domestically and internationally. This will be dependent on continuing to provide the current suite of products and services available with the highest level of service, improving those products/services where applicable, whilst introducing new products and services in line with demand, competitors' offerings and advancements in technology.

Whilst each current participant in the FSI can contribute to this growth, the growth and development of the FSI overall will be dependent on:

- The introduction of new entrants into those sectors currently operating in the FSI i.e. banking, insurance, LTCs. This will, amongst other things, improve competition amongst service providers leading to better quality services and competitive pricing, increase the awareness and profile of the jurisdiction and the perception of its substance.

It is essential the FSI connects with the local community and increases its interaction through participation in local activities, providing access to industry information including an introduction to the businesses and the people who are part of the FSI. The FSI needs to establish a local identity emphasising:

- The FSI provides excellent employment opportunities for Cook Islanders especially qualified lawyers, accountants, administrators, IT and marketing people.
- The FSI is environmentally friendly, it does not negatively impact infrastructure and is building goals within its members to contribute positively to the environment.
- The FSI provides diversification away from tourism which is essential for the Cook Islands continued growth and development.

In light of this, and given the contribution the FSI has made and can continue to make to the economy, it should seek increased recognition within and contribute to the National Sustainable Development Plan and the goals it sets for the benefit of the country.

- The introduction of new product/service offerings within the existing sectors, e.g. Insurance: provision of more complex and higher value life insurance products for international clients, e.g. Variable Life, Universal Life, Private Placement insurance products; Banking: robo banking, investment products; LTCs: new trust/company structures. This provides opportunities to exhibit the ability to innovate and be nimble in moving to adapt to and take advantage of gaps in the market.

- The introduction of new business lines into the FSI, e.g. asset management, fund administration, cryptocurrency/DLT, FX trading. Diversification within and expansion of the FSI will provide; existing participants the opportunity to expand and modernize their businesses, the opportunity to attract new participants and employment opportunities for Cook Islanders, and the opportunity to generate significant growth and increase the economic value of the FSI.

### Objective 3 - FSI Service Providers

The current participants in the FSI consist of 8 LTCs, 4 licensed banks, 5 licensed insurers and 4 licensed captive insurers.

For FSI growth, new service providers are required within those industries and new business lines are required within the FSI to introduce new service providers, products, technologies and ideas.

Existing participants will need to develop digital and fintech capability within their businesses to provide more efficient and modern services. New business lines and services should be encouraged that use the type and level of technology required to deliver such services.

Service providers within the FSI should explore opportunities to engage and partner with other service providers to exploit synergies and leverage off client bases and knowledge and technology platforms. For example, obvious synergies exist between LTCs and the services offered by banks and insurance companies. Banks and LTCs could prima facie benefit from LTCs opening and operating onshore bank accounts for their clients. The ongoing de-risking policies of international financial institutions and the fragility of correspondent banking relationships presents initial obstacles to this happening but through increased partnering and collaboration there will be opportunities for development.

An important step will be the coordination of strategy and action by stakeholders, led by the FSDA in most circumstances, in the development of legislation around the emerging opportunities. These will include the use and transfer of virtual assets, e.g. cryptocurrency issues and exchanges, and the development and regulation of DLT (blockchain). These will be essential for the future of the FSI where the integration of such technology into financial services offerings globally is increasing at a rapid rate.

Such legislation could be used to drive forward existing providers businesses as well as attract new providers and give rise to new product/services. For example, decentralized data storage for FSI participants own data as well as the potential for international operations establishing a decentralized data hub in the Cook Islands.

Another example is within the foreign exchange industry where recent interest suggests opportunities exist around the licensing of foreign exchange business and activity.

Diversification within and expansion of the FSI is essential to its growth and economic value.

grow the FSI in a proactive and progressive manner with a common sense approach to the regulation of the new and innovative commercial opportunities that will arise.

The Cook Islands is, as are many other countries, subject to the pressures exerted by international governmental organisations for global standards and international

best practice for the automatic exchange of financial information between countries and the combatting of financial crime, including tax evasion. This has resulted in recent years in the Cook Islands implementing the OECD's Common Reporting Standard ("CRS") into its domestic law as well as FATCA, the USA's CRS equivalent.

The FSI has established an AML/CFT regime to meet the FATF's international standards and which equals any in the Asia Pacific region. The 2018 Mutual Evaluation Report issued by the FATF on the Cook Islands AML/CFT regime was an outstanding success for the country and its financial services industry.

Most recently the Cook Islands has amended its International Companies Act 1981-82 ("ICA") to remove the exemption from Cook Islands taxes for international companies in response to demands from the EU which considered such exemptions a preferential and harmful tax practice.

Not to comply with the international standards being set would result in the Cook Islands being placed on international blacklists and being sanctioned which would have a detrimental impact on the Cook Islands and its economy.

The international standard most threatening to the FSI and in particular the offshore industry, is the

initiative being undertaken by the EU and FHTP to have countries remove tax regimes that they consider harmful and preferential. The Cook Islands has already removed tax exemptions contained in the ICA and is currently in dialogue with the FHTP concerning the International Trust, International Partnership, Limited Liability Company and Foundation regimes. As with international companies, each of these structures is exempt Cook Islands taxation and are only available to non-Cook Islands residents. One of the attractions of the Cook Islands offshore industry is that the structures established and administered are tax neutral to the owners. The beneficial owners do not incur Cook Islands taxes on the assets and operations, all of which (except in some instances of bank accounts) are located outside the Cook Islands but will be subject to taxation in their home jurisdiction. The removal of the tax exemptions will subject the income of the Cook Islands structures to Cook Islands tax. In the absence of double tax treaties or other tax minimization measures, that income will also be subject to tax in the beneficial owners' home jurisdiction.

The implementation of a TTS, on corporate income at least, or other suitable tax measures to mitigate the impact of double taxation on clients income, is essential to the survival and development of the offshore industry.

### Objective 5 - People

The FSI has always been an employer offering Cook Islanders the opportunity to pursue a professional career in the Cook Islands as well as overseas. The FSI provides Cook Islanders the opportunity to obtain and use qualifications in law, accounting, administration, IT and marketing. Opportunities are not limited to the more traditional professions associated with financial services, being law and accounting.

Decreases in the number of employees in the FSI in recent years, has largely been due to some LTCs reducing their operations in the Cook Islands. Diversification within the FSI will expand the number and nature of the

employment opportunities available. With new lines of business, professionals from outside of the Cook Islands, including experienced and qualified Cook Islanders living abroad, may be required to establish new businesses, technologies and products/services with the requirement of passing knowledge and skill to young Cook Islanders in the Cook Islands.

The FSI should actively promote and market itself to Cook Islanders as an industry that can provide qualified Cook Islanders a professional career in the Cook Islands.

### Objective 4 - Law and Regulation

The FSI is regulated by the FSC. The FSC's stated vision is to be a financial regulator that is supportive of the growth and development of the FSI. The Cook Islands must and will continue to meet international standards and best practice in the provision of financial services. In the current environment, clients expect this. However, the opportunity is there for the FSI to build a collaborative relationship with the FSC to develop and

## Section 7 THE GOALS

FROM THE STRATEGIC OBJECTIVES THE FOLLOWING GOALS ARISE:

### Objective 1

Establish the market position/identity/image for the FSI to take it into and through the next 5 years, both domestically and internationally.

### Objective 3

Service providers within the FSI to explore opportunities to engage and partner with other service providers to exploit synergies and leverage off client bases and knowledge and technology platforms.

### Objective 4

The implementation of a TTS, on corporate income at least, or other suitable tax measures to mitigate the impact of double taxation on international clients' income.

### Objective 2 & 3

The introduction of new entrants/products/services in line with demand, competitors' offerings and advancements in technology;

- The introduction of new entrants into the FSI both existing and new sectors;
- The introduction of new product service offerings within the existing sectors;
- The introduction of new business lines into the FSI.

### Objective 4

Foster a productive and proactive working relationship between the FSI, the FSC and Government to develop and grow the FSI in a progressive manner.

### Objective 5

FSI to be recognised in the Cook Islands as an environmentally friendly industry that can provide qualified Cook Islanders a professional career in the Cook Islands. FSI service providers must make it a priority to employ young Cook Islanders and pass on knowledge and expertise.

Table 1 sets out the action points and time frames for working towards and reaching these objectives.

## Section 8 KEY PERFORMANCE INDICATORS

PERFORMANCE INDICATORS WILL BE SET TO MEASURE PERFORMANCE AND SUCCESS IN THE EXECUTION OF THE STRATEGIC PLAN AND THE MOVEMENT TOWARDS THE STATED VISION. THE INITIAL KPIS ARE SET OUT IN TABLE 1.

*As result of those KPIs being met, the 5 year performance targets set are:*

**\$13.5 MILLION  
INCREASE  
IN GDP, BEING  
A 50% INCREASE  
ON THE FSI'S 2018/19  
DOLLAR CONTRIBUTION  
TO REAL GDP OVER  
THE 5 YEARS OF THE  
STRATEGIC PLAN.**

The FSI's dollar contribution to real GDP for the 2017/18 financial year was \$30.5m, (MFEM Fiscal and Economic Strategy Update June 2019). The FSI's dollar contribution for the financial year 2018/19 is, at the date of this Strategic Plan, not available but expected to be at around \$27 million. Growth of 50% will be reflected in increased business revenues and an increase in employment numbers leading to an increased contribution to the economy.

**75 NEW JOBS  
IN THE FSI, BEING  
A 30% INCREASE  
IN EMPLOYMENT ON  
CURRENT NUMBERS**

An April 2020 survey conducted by the FSDA shows 257 FSI employees, with 198 in the banking sector, 36 in LTCs, 7 in the insurance industry, 4 in money remittance businesses and 12 in the FSC and the FIU.

It is anticipated that most employment growth will be outside the existing banking industry (given its high proportion of employees) through the introduction of new service providers and lines of business complimenting organic growth within existing service providers. Growth within the FSI will stimulate growth in other industries, e.g. legal, accounting, IT, which should result in increased employment in those industries. This will be monitored over the duration of the plan and factored into this employment target. The increased use of technology within the FSI may impact employee numbers negatively over the next 5 years but should encourage a more skilled, highly paid and qualified work force.

Success in achieving goals and carrying out action points is largely dependent on the investment in and resources available to the FSDA to carry out its objectives, as well as the interaction and cooperation between all stakeholders and their commitment to achieving the stated vision. As the Strategic Plan will need to be reviewed and revised on a regular basis, so will the KPIs.

The Strategic Plan is intended to be fluid. Priorities can be reset depending on demand, needs, investment and available resources.



## Section 9 KEYS TO SUCCESS

### COMMITMENT AND COLLABORATION

The success of the Strategic Plan, and therefore the FSI, depends on each stakeholder being committed to making it a success. Each has a vital role to play. Growth and development will largely depend on the support of Government and its ability and willingness to amend or introduce new laws and regulation and invest in the development of new products/services and getting them to market.

Industry participants will need to collaborate and leverage off each other's capability, especially in communications and marketing. Government and industry groups will need to work towards common goals, both taking responsibility.

FSI participants can present their product/service ideas to the FSDA to see what assistance is available in developing and taking those ideas to market. The FSDA has a procedure for this to happen. It will require the joint effort of the service provider(s), Government, FSC and FSDA to develop an idea into a product/service to take to market.

### COVID19

This Strategic Plan has been created and will be introduced in the midst of the global pandemic where all stakeholders will have been impacted, facing restrictions, reductions and disruption to normal business operations. This will therefore impact the contribution of some stakeholders especially in the short term, however the Strategic Plan is such that it can be implemented immediately, with action on each goal being commenced. The progress of those actions may be affected and time frames adjusted accordingly. However, over the 5 year period the same objectives should be achievable.

*Dated at Rarotonga this 26<sup>th</sup> day of May 2020*

*Dallas Young  
Chairperson*

*Financial Services Development Authority*

**Table 1**  
**Goals, Action Points and Time Frames**

STRATEGIC AREA	5 YEAR GOALS	ACTION POINTS			KPI
		1-12 month	2-4 years	5 year	
<b>OBJECTIVE 1 POSITIONING</b>	Establish identity for the FSI to take it into and through the next 5 years, both domestically and internationally.	Reinforce message through marketing: website, social media, newsletter, mail outs, articles, advertising, seminars, Industry Forum.			Positive reputation domestically/internationally.
<b>OBJECTIVE 2 PRODUCTS SERVICES</b>	Source new entrants/products/services in line with demand, competitors' offerings and advancements in technology.				
	a. New entrants into FSI, existing and new sectors.	Seek and explore opportunities as they arise.	<b>Pursue a new product/service idea each year.</b>		5 new entrants in place.
	b. New products/services within existing sectors.	Amend Banking Act re international licenses.  New trust product, draft and pass legislation, commence marketing.  FX/banking license combination, discuss with proposer.			5 new products/services.
c. New business lines into FSI.	Research market for onshore FX trading, legislative, regulatory requirements.  Explore potential for Cook Islands to be data storage hub for international organisations.	Crypto/DLT, research potential applications, legislative requirements.  Legislation and regulation in place promoting use of fintech.			FSI using fintech in business operations.  New product/service within crypto/DLT space.  Creation of new business line based on fintech.

STRATEGIC AREA	5 YEAR GOALS	ACTION POINTS			KPI
		1-12 month	2-4years	5 year	
<b>OBJECTIVE 3 FSI SERVICE PROVIDERS</b>	FSI service providers engaging and partnering with other service providers to exploit synergies and leverage off client bases and knowledge and technology platforms.	Open discussions with FSI Service Providers.			
<b>OBJECTIVE 4 LAW AND REGULATION</b>	Foster a productive and proactive working relationship between the FSI, the regulator and Government to develop and grow the FSI.	Ongoing.			
	The implementation of a TTS, or other suitable tax measures, to mitigate the impact of double taxation on international client's income.	Present report to Government highlighting need for tax change for offshore industry to survive.	Tax changes to be implemented.		TTS introduced.
<b>OBJECTIVE 5 PEOPLE</b>	FSI to be recognised as an industry that can provide qualified Cook Islanders a professional career in the Cook Islands.	Domestic FSI image promotion; Tereora college careers day; Connect with USP students.			

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