HOW CAN BANKS TACKLE THE OFFSHORE CHALLENGE?

Angelo Venardos of Heritage Trust Group gives some insights about how banks can tackle the offshore challenge they face today.

"BVI tops the most stringent jurisdiction and at the bottom you have got places like Australia"

Angelo Venardos
Chief Executive Officer
Heritage Trust Group

E angelo@heritagetg.com

Tax havens are essentially offshore jurisdictions that are used to securely and often anonymously save, build and transfer wealth. Although it is difficult to ascertain when and how tax havens started, the Bank of International Settlements' statistics show that since the early 1980s, half of all international banking assets & liabilities were routed through offshore financial centres.

However, these offshore jurisdictions have been thriving at a cost which concerns banks & governments alike. Not only does it hurt the domestic economy but also the banks. The investible surplus is squeezed out which pulls down reinvestment, employment growth and tax revenues causing governments to demand more tax and make stricter regulations.

For banks, the troubles started recently with legislations being created demanding tighter capital adequacy norms. Monies sent abroad, even if only to a subsidiary of theirs in another jurisdiction, cannot generally contribute to the balance-sheet's strength for calculation of limits. Many international banks that have offshore units have tighter KYC norms causing investors to shy away.

Venardos says that banks are treading a thin line when it comes to diligently obeying cross-border regulations because they simply have to compete. Major international banks have saved-up funds in the name of "litigation provisions", which is their war-chest for surviving penalties levied for being unable to toe the line and do the right thing.

Provisions in 2013 for UBS were EUR 1.3 billion, Deutsche Bank was at 2.3 billion while Barclays was at 5.4 billion. The sheer size of the kitty shows what the banks anticipate. However, these reserves might not be enough. The top 5 international banks were fined more than 5 times in the last year, with fine sizes sometimes touching the billion dollar mark.

"Banks are caught in the middle of US foreign policy to stem flow of littered funds, initially because they threw away lot of billions of dollars cash in Iraq and now they are trying to get it back in Syria"

With reference to an article in the Financial Times in 2011, humorously and memorably titled "the London Laundry", Venardos talks about how money was laundered right in the heart of the then financial capital of the world. It was merely a matter of meeting the right "service providers" who would help them get a visa, structure their offshore assets, help them settle down and integrate into high society.

If these service providers were ever penalised, they'd hope they have a large enough litigations provision.

Offshore jurisdictions toe the line

As per Global Shell Games, a book written by J. C. Sharman and his colleagues, the Cayman Islands, Jersey & the British Virgin Islands (BVI) are more compliant with KYC norms as compared to Singapore, Hong Kong & Australia, in that order. Venardos points out that in September last year, even the Prime Minister of the United Kingdom (UK) confirmed that the BVI is not a tax haven.

In fact, the BVI has even supposedly lost revenue because Chinese companies aren't very comfortable incorporating their business in the jurisdiction anymore. Much of their discomfort is caused by the fact that major international banks have made it difficult for companies incorporated in the BVI to open accounts in Hong Kong.

The BVI was reported as having been a victim of its own success as business lost was picked up by the Seychelles and the Samoa islands. However, at the end of the day, offshore jurisdictions aren't harbouring dirty money any more than prominent international financial hubs like the UK and Australia

What really matters?

All the talk in the industry surrounding tax havens and legitimate offshore transactions, observes Venardos, boils down to two things. The first being the core ethical values of the business and transactions. The premise of any advice must be ethical. The second being the need to place the interests and needs of the client above your own while still objectively judging their motives & intentions.

The banking industry doesn't need to worry about losing business to offshore jurisdictions, nor does it need to penalise companies that are incorporated in those clusters. They only need to do the right thing, be a little vigilant about all the parties involved in transactions that they enter into and work towards playing ball with legislations that are enacted for their benefit.

Lastly, the banks need to lighten up their coffers and invest in ensuring they are compliant and careful in their business, because they're the people who control the resources of the world. The war-chest might come in handy when educating customers about their rights and violations thereof, which again, will go a long way for the company.