

## Implications of the Financial Secrecy Index

*The Financial Secrecy Index turns the spotlight on the providers of international financial secrecy. In doing so it has important implications for how we understand and tackle the world of financial secrecy.*

### Forget the motor yachts and sunny beaches

Most of the secrecy jurisdictions listed in the FSI have commonly been described as tax havens. As a result there is a tendency to think of the secrecy providers as “sunny places for shady people”, islands filled with dodgy law firms, motor yachts and brass plates of shell companies.

The FSI reveals a much bigger story.

The major players in the supply of financial secrecy – which is at the heart of the supply-side of global corrupt practices – are predominantly not tiny, isolated islands, but rich nations operating their own specialised jurisdictions of financial secrecy, often having close links to smaller “satellite” secrecy jurisdictions. The [implications](#) of this finding are enormous.

### Political implications

The European Union is a major power in international politics. Austria, Luxembourg, Ireland, and the United Kingdom (with its City of London secrecy jurisdiction) are important secrecy jurisdictions and EU member states. A little further down the rankings, Portugal (with Madeira), the Netherlands, Hungary, Belgium and Latvia are also included. With so many member states operating as secrecy jurisdictions, the EU clearly has major political responsibility for tackling financial secrecy.

The same applies to the US states of Delaware, Nevada and Wyoming. Few would deny that the United States is *the* predominant power in modern international politics. That major secrecy jurisdictions operate within the Union has implications for tackling the issues of financial secrecy and illicit finance.

Switzerland, Hong Kong, Singapore and the Cayman Islands are all at the heart of the international financial system (Cayman, whilst being a stereotypical “island in the sun” is also the world’s 5<sup>th</sup> largest banking centre and home to 80% of all hedge funds). Given the importance of international finance to global politics, such centres must be included within the ranks of important decision-makers.

Furthermore, many of the smaller secrecy jurisdictions should not be viewed in isolation from the bigger players. Of the 60 jurisdictions covered, the Isle of Man, Jersey, Guernsey, Anguilla, the British Virgin Islands, Bermuda, the Cayman Islands, Montserrat, the Turks & Caicos Islands, and Gibraltar are all Crown Dependencies or Overseas Territories of the United Kingdom. Many others, including Antigua, Bahamas, Barbados, Belize and Cyprus (and that just takes us up to C in the alphabet) are members of the British Commonwealth. Likewise, the USA has close ties to the US Virgin Islands and the Marshall Islands. The close ties between metropolitan financial centres like London and satellite territories like Cayman or the Channel Islands cannot be ignored.

## Economic and financial implications

The 12 jurisdictions identified by the FSI as the most important providers of financial secrecy hold a staggering 63 per cent share of the global market of trade in financial services. Financial services are at the heart of the global economy – and so too are secrecy jurisdictions.

This conclusion is reinforced when considering that over 80 per cent of international loans are routed through secrecy jurisdictions<sup>1</sup>, more than half of world trade passes (on paper) through these same jurisdictions, virtually every major European company and the majority of major American companies use secrecy jurisdictions for a variety of unspecified purposes, and \$11.5 trillion of private assets are held in offshore structures to evade and avoid taxes worldwide.

Yet these figures should come as no surprise. Financial secrecy thrives in the current environment. Of the 60 jurisdictions included in the FSI, 41 have formal banking secrecy, none has a central registry of trusts and foundations publicly accessible via the internet (a key requirement to prevent financial abuse), 54 are without public company accounts on record and 59 don't require beneficial company ownership to be disclosed on public record.

The economic implications of this are far-reaching. Secrecy jurisdictions are at the heart of the global economy: the supply of, and demand for, financial secrecy is not a peripheral issue but one of the most important facets of the globalised financial markets.

In turn, this raises questions about the fundamental nature of the present global economic system: it has long been held that capitalism requires the free flow of information to reduce risk and strengthen production efficiency. The FSI, however, suggests that *secrecy* is at the heart of contemporary global financial capitalism. The implications are far-reaching for economists, political scientists, philosophers, activists and policy-makers attempting to understand, explain and change the world we live in.

## The enablers of illicit financial flows

Secrecy jurisdictions are the enablers of illicit financial flows: the suppliers of corruption, crime and tax evasion [link to <http://www.the-american-interest.com/article.cfm?piece=466>] which keep the developing world poor. Yet the world's most important secrecy jurisdictions are revealed by the FSI to be rich nations and leading financial centres. The implications are enormous: the illicit financial flows which keep developing nations poor are predominantly enabled by rich developed nations and their satellites.

Not only do these rich nations enable illicit finance to flow, they are amongst the political and economic powerhouses of the world. This fact must be reckoned with when turning the spotlight on the secrecy suppliers in efforts to end the evil of illicit financial flows. This is a problem caused by the developed world: the developed world must fix it.

Contact: [info@taxjustice.net](mailto:info@taxjustice.net)

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<sup>1</sup> M.K. Lewis (1999) International Banking and Offshore Finance, in Hampton, M.P and Abbott, J.P. (eds) Offshore Finance Centres and Tax Havens, McMillanBusiness