

The significance of the 2011 Financial Secrecy Index

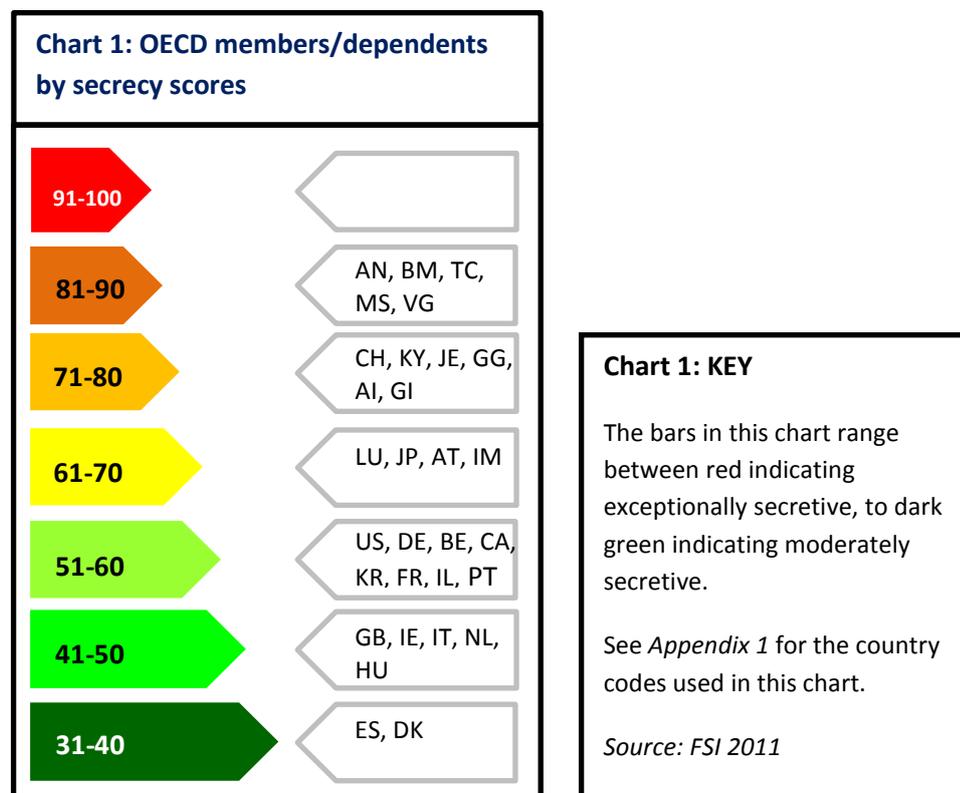
The Financial Secrecy Index turns the spotlight on the providers of international financial secrecy. In doing so it has important implications for how we understand and tackle the world of financial secrecy.

The politics of secrecy

Many of the jurisdictions listed in the FSI have commonly been described as tax havens, widely perceived to be “sunny places for shady people” – mostly small palm-fringed islands filled with sleazy law firms, motor yachts and brass plates of shell companies.

The FSI reveals a much richer and more complex political story: the world’s biggest players in the supply of financial secrecy are mostly not the tiny, isolated islands of the popular imagination - but rich nations. Most are members of the **Organisation for Economic Co-operation and Development (OECD)**, and many which are not OECD members can be considered ‘satellites’ of OECD countries such as [Britain](#).

OECD member countries and their various dependencies account for 84 per cent of the world market in offshore financial services. And, as *Chart 1* reveals, OECD member countries are clustered above the dark green (least secretive) bar on the secrecy spectrum.



This has enormous implications.

The G20 group of countries have given the Paris-based OECD responsibility for tackling tax havens (or secrecy jurisdictions as we often prefer to call them.)

Within the OECD, more important details emerge. The fact that **United States** is a top secrecy jurisdiction, both at a Federal level and on the level of individual U.S. states, is immensely significant with respect to the politics of financial secrecy and the possibility of tackling it.

Not only that, but half of the top 20 jurisdictions in the FSI are European Union member states or their dependencies: the Cayman Islands, Luxembourg, Jersey, Germany, British Virgin Islands, Bermuda, United Kingdom, Belgium, Austria, and Cyprus. The EU clearly has major political responsibility for tackling the problem. Domestic secrecy interests are fighting current European efforts to increase transparency.

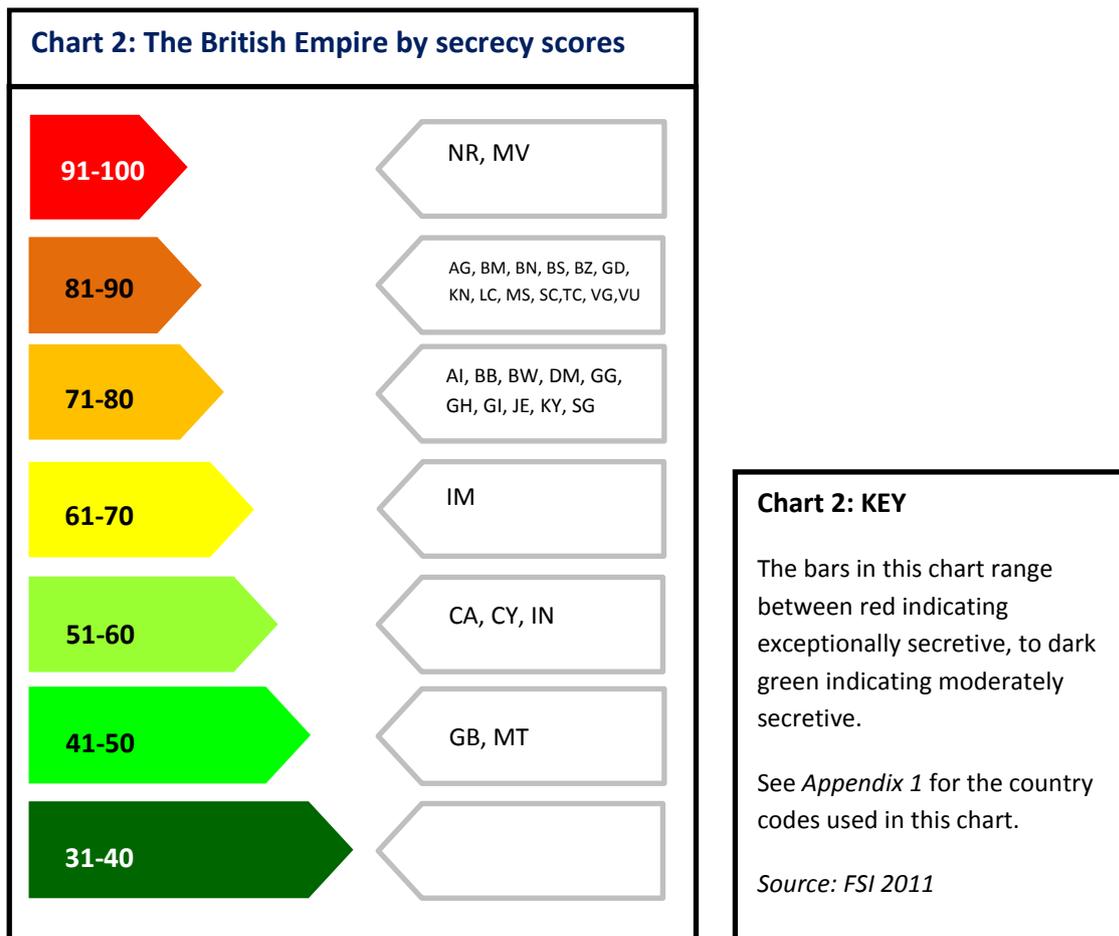
A third and extremely important major pole is **British**.

The British connection

Various OECD member states run satellite secrecy jurisdictions, **Britain's** network looms unusually large, accounting for about a third of the global market in offshore financial services. Ten secrecy jurisdictions on our list are either British Crown Dependencies (such as Jersey) or British Overseas Territories (such as the Cayman Islands or Bermuda) while many others are members of the British Commonwealth. These jurisdictions generally share British common law, deep penetration by British financial interests, typically use British-styled offshore structures such as trusts, usually have English as a first or second language, and mostly have their final court of appeal in London. They generally serve as a network feeding financial business into the City of London: in the words of [Mark Boleat](#) of the City of London Corporation, they “bring business into London that otherwise would not come.” Through capturing offshore business from countries around the world, this British network of secrecy jurisdictions has been, since the era of globalisation began in the 1970s, among the most important reasons for the reach and power of the City of London.

As *Chart 2* reveals, most of the British jurisdictions are clustered towards the top (more secretive) end of the secrecy spectrum, with the Maldives and Nauru sharing the dubious distinction of being exceptionally secretive.

Read our [report](#) about why the sun never set on the British Empire of secrecy jurisdictions, exploring the history and context for the UK and its satellite secrecy jurisdictions.



These power blocs - the OECD, the EU, the USA, and the British empire of secrecy jurisdictions - constitute formidable obstacles in the way of tackling tax havens. Despite the global fiscal and social crises, powerful interests in these countries ensure that they remain committed to protecting the interests of their powerful elites, via the secrecy that they provide. This is to the detriment of their broader populations, and to those of the wider world.

Is the era of banking secrecy over?

On April 2, 2009 the leaders of the world's most powerful nations met for the G20 summit in London and committed to tackling tax havens, [declaring](#) that "the era of banking secrecy is over." However, at the Seoul G20 summit in 2010 leaders [reaffirmed](#) their commitment merely to "continue our work to prevent and tackle corruption" and to "promoting propriety, integrity and transparency in the conduct of business affairs". This seems to be a retreat from their stronger 2009 statement.

Since 2009, progress towards tackling offshore secrecy has been extremely limited. Formal banking secrecy remains intact in 51 of the 73 countries included in the 2011 FSI, and recent deals initiated by the governments of Switzerland, on the one hand, and Germany and Great Britain, on the other, constitute serious threats to European efforts to tackle bank secrecy.

As we have mentioned [[click to “what is financial secrecy” on the home page](#)], the ‘banking secrecy’ mentioned by G20 leaders is only one part of the story. Serious tax evaders often hide their identities behind offshore companies, and 69 of the 73 surveyed don’t require details of company beneficial ownership to be made available to any public authority. Not a single one of the 73 makes real beneficial ownership information publicly available on the internet, as they should.

Similarly, offshore [trusts](#), foundations and other entities remain wholly secretive in all but one of the jurisdictions included in the 2011 FSI, and no progress has been made towards requiring their proper registration and disclosure of financial records, including payments to beneficiaries. Powerful countries have blocked attempts to make trustees responsible as ‘paying agents’ for cooperating with tax information exchange – a potentially highly useful tool for information exchange.

Across the range of indicators the FSI reveals that financial secrecy continues to thrive. Claims to the contrary are common – and must be treated with great scepticism.

There have been snippets of good news here and there.

The OECD has, admittedly, encouraged jurisdictions to sign [several hundred](#) so-called Tax Information Exchange Agreements (TIEAs) with each other, to encourage information-sharing. Still, an examination of the details of these reveals this effort to be little more than window-dressing (see box).

Box: the OECD’s Tax Information Exchange Agreements (TIEAs)

TIEAs are bilateral agreements between two jurisdictions to exchange information with each other. In theory, if a secrecy jurisdiction signs a TIEA with another country, that country can ask the secrecy jurisdiction for information about its own taxpayers with assets in the secrecy jurisdiction.

However, the OECD-styled TIEAs are hopelessly inadequate. They are full of loopholes, and to use them you must already, essentially, know the information you need before you can even ask for it! Developing countries have almost entirely been left out of the expanding network of TIEAs, and nearly half of the agreements published by OECD have been signed with Scandinavian countries, while many, many others were signed between tax havens. (See this [briefing paper](#) for details on the failings of the OECD TIEAs, and see our [dedicated web page on information exchange](#) for news and updates in this broad area.)

The OECD had pressured secrecy jurisdictions to sign TIEAs through a black, grey and white list of jurisdictions, depending on how many TIEAs a jurisdiction had signed. It is telling that the OECD’s black list was declared empty by April 7th, 2009 – just five days after the G20 statement. As of August 10, 2011, [only five jurisdictions](#) – all minnows – were on the grey list, with the rest claiming coveted ‘white list’ status.

One might argue that the expanding TIEA network is an improvement on the previous state of affairs, and on a narrow perspective it certainly is. However, on a broader perspective, the whole arrangement might be considered worse than useless. The granting of ‘white list’ status to so many secrecy jurisdictions which continue to hide oceans of dirty money behind their secrecy facilities sends a dangerous (and false) message that has seriously dented political will for real efforts to make global finance more transparent.

The OECD's [Global Forum](#) on transparency has a new peer review mechanism [launched in 2010](#) which has the potential to be a significantly stronger source of pressure on jurisdictions to amend particularly egregious legislation. It holds out some hope for progress, though it is too early to make decisive judgements on its impact.

Belgium agreed in 2010 to implement automatic exchange of tax information with EU member states, bringing it into line with all other EU members (bar Austria and Luxembourg) which share information with each other automatically, on a multilateral basis, through the so-called [EU Savings Tax Directive](#). Guernsey and the Isle of Man have also implemented automatic information exchange on the EU model with effect from July 2011. These are important steps towards the goal of recognising automatic information exchange as the effective global standard for international cooperation on tackling tax evasion.

Another small step forward was announced in April 2010, when a convention between the Council of Europe and OECD member countries, originally set up in 1988, was opened up for other countries to participate. This convention provides for mutual legal assistance in tax matters and is only in its early stages, currently lacking political commitment, but could eventually serve as a basis for member countries to replace many of the ineffective OECD-styled bilateral information-sharing treaties with a much stronger multilateral framework. (For more details, see Section 5.5. [here.](#))

Financial secrecy and global markets

Fair international trade has the potential to generate tremendous economic growth and spread benefits across global society – but it has failed to live up to its promise. Cross-border finance has been revealed, especially since the latest crisis, to be especially problematic. Secrecy is among the most important reasons for these giant failures: capital flows in ever greater volumes around the globe, but the necessary information about that capital is blocked.

Secrecy jurisdictions are at the heart of the global economy. The top 12 “dirty dozen” jurisdictions that the FSI identifies as the most important providers of financial secrecy hold a staggering four fifths of the share of the global market of trade in financial services. Over half of banking assets and liabilities are routed through secrecy jurisdictions¹, more than half of world trade passes (on paper) through them; virtually every major multinational company uses secrecy jurisdictions for a variety of unspecified purposes, and well over US\$10 trillion of private assets are held in offshore structures to evade and avoid taxes worldwide.

Secrecy jurisdictions are not a peripheral issue but one of the most important facets of globalised financial markets.

It has long been held that free market capitalism requires the free flow of information to reduce risk and strengthen efficiency. Investors, regulators, tax authorities, economists, civil society, and many other groups and classes of people require this information for markets to work effectively. The FSI, however, suggests that *secrecy* is at the heart of contemporary global financial capitalism.

¹ See Ronen Palan, Richard Murphy, Christian Chavagneux, *Tax Havens: How Globalization Really Works*, Cornell, 2010, p51. This figure uses BIS data and takes quite a broad view of offshore financial centres, including centres such as London.

Secrecy distorts markets by shifting investments and financial flows not to where they will be most productive, but to where they can acquire the greatest gains from secrecy, such as the ability to engage in tax avoidance and evasion, say, or to escape financial regulation or criminal laws. It hinders effective regulation and law-making of all kinds, and enables insiders to reap the gains from global markets while shifting the costs and risks on to the shoulders of others. The result of such distorted and corrupted markets is a world of steepening inequality, rampant crime and impunity for élites in rich and poor countries alike.

By identifying the providers of secrecy, the FSI turns the spotlight on the jurisdictions which prevent international trade and markets from benefitting the majority of the world's population.

Despite regular protestations to the contrary, secrecy jurisdictions played a central role in fostering the conditions for the latest global financial crisis. They have also served as the main cross-border transmission belts for shocks and contagion during the various stages of crisis. Read more on all this [here](#).

In addition, some secrecy jurisdictions such as the United Kingdom have themselves suffered from what might be termed the 'finance curse' because of its close economic resemblance to a widely studied phenomenon called the "Resource Curse" known to afflict mineral-rich countries. The results of the Curse in each case are higher inequality, state capture and overdependence on a single sector, lower long-term economic growth and worse human development outcomes. Read more about this here [[this example](#), from Jersey, illustrates the issue.]

The implications of all this are far-reaching for economists, investors, political scientists, policy-makers, activists and citizens attempting to understand, explain and change the world we live in.

Financial secrecy and corruption

In the field of international governance and transparency, the most famous ranking of corruption is Transparency International's Corruption Perceptions Index (CPI.) To a large extent the CPI is focused on bribe-taking in the public sector, and it ranks poor countries in Africa and elsewhere – predominantly the victims of an estimated US\$1 trillion-odd in annual illicit financial flows – as the 'most corrupt'. The FSI looks at these issues from the other side of the coin: it examines the countries which encourage and facilitate illicit financial flows by providing a secretive environment that blocks or hinders investigation by the relevant authorities.

To illustrate the point, consider this. Businesses looking to invest overseas find it useful to know that the CPI ranks Libya, say, as among the world's most corrupt nations from the perspective of officials demanding bribes. But this is of little help to ordinary Libyans, who want to know more: where their country's wealth has gone, how it left, and who helped it leave. This is where the FSI comes in.

We consider the former Libyan leadership to represent the demand side of corruption, while Zurich, London and other centres of international financial secrecy where Libyan money flowed behind walls of sophisticated offshore structures, are the suppliers of corruption services: the supply side.

The FSI ranking, by focusing on the supply side, provides a complementary view to the CPI. In doing so, it exposes the hypocrisy that lies behind some of the finger-pointing at “highly corrupt” developing countries, and provides a basis for a new wave of understandings about corruption in a global context.

Read more about corruption and financial secrecy [here](#), [here](#) and [here](#).

The intermediaries: enablers of illicit financial flows

Global financial secrecy requires a large infrastructure of lawyers, accountants, bankers, trust and company formation agents and other private actors, who make the whole system tick. In many secrecy jurisdictions expatriate professionals constitute a large part of the population. International rules seeking to tackle the problem of secrecy rarely target these private intermediaries, even in the rare cases where prosecutions can be brought against their clients.

Read more on our dedicated page about the intermediaries, [here](#).

Contact: info@taxjustice.net

Read more about secrecy jurisdictions:

Mapping Financial Secrecy. Our [detailed database and reports](#) on global financial secrecy, for those seriously interested in the details.

Secrecy jurisdictions and the global financial crisis. [This webpage](#) explores how secrecy jurisdictions or tax havens helped cause the global financial crisis.

Tax Justice Network Archive. An [A-Z archive](#) pointing to many different aspects of tax havens, tax and financial secrecy.

Illicit Financial Flows: Global Financial Integrity's groundbreaking January 2011 [report on illicit financial flows](#) out of developing countries.

Magnitudes: [links](#) to various studies estimating the size of the phenomenon of secrecy jurisdictions and related phenomena.

Information Exchange. See our [dedicated web page](#) containing an overview of information exchange issues, with ongoing news and updates.

Quotations. Some [choice quotations](#).

Tax Justice Focus – our [quarterly newsletter](#), organised by theme.

Treasure Islands – a journalistic account of the emergence of secrecy jurisdictions, or tax havens: the top-selling economics book published in the UK in the first half of 2011. For a more academic treatment, see Ronen Palan, Richard Murphy, Christian Chavagneux, [Tax Havens: How Globalization Really Works](#).

Watch out for the launch of Tax Justice Network's forthcoming project **Tackle Tax Havens**.

Appendix 1: Secrecy Jurisdictions by ISO codes					
	Jurisdiction	ISO		Jurisdiction	ISO
	Andorra	AD		Korea	KR
	Anguilla	AI		Latvia	LV
	Antigua & Barbuda	AG		Lebanon	LB
	Aruba	AW		Liberia	LR
	Austria	AT		Liechtenstein	LI
	Bahamas	BS		Luxembourg	LU
	Bahrain	BH		Macau	MO
	Barbados	BB		Malaysia (Labuan)	MY
	Belgium	BE		Maldives	MV
	Belize	BZ		Malta	MT
	Bermuda	BM		Marshall Islands	MH
	Botswana	BW		Mauritius	MU
	British Virgin Islands	VG		Monaco	MC
	Brunei Darussalam	BN		Montserrat	MS
	Canada	CA		Nauru	NR
	Cayman Islands	KY		Netherlands	NL
	Cook Islands	CK		Netherlands Antilles	AN
	Costa Rica	CR		Panama	PA
	Cyprus	CY		Philippines	PH
	Denmark	DK		Portugal (Madeira)	PT
	Dominica	DM		Samoa	WS
	France	FR		San Marino	SM
	Germany	DE		Seychelles	SC
	Ghana	GH		Singapore	SG

	Gibraltar	GI		Spain	ES
	Grenada	GD		St Kitts and Nevis	KN
	Guatemala	GT		St Lucia	LC
	Guernsey	GG		St Vincent & Grenadines	VC
	Hong Kong	HK		Switzerland	CH
	Hungary	HU		Turks & Caicos Islands	TC
	India	IN		United Arab Emirates (Dubai)	AE
	Ireland	IE		United Kingdom	GB
	Isle of Man	IM		Uruguay	UY
	Israel	IL		US Virgin Islands	VI
	Italy	IT		USA	US
	Japan	JP		Vanuatu	VU
	Jersey	JE			