

# Can current offshore wealth management centres survive?

[blogs.lse.ac.uk/businessreview/2016/12/06/can-current-offshore-wealth-management-centres-survive/](https://blogs.lse.ac.uk/businessreview/2016/12/06/can-current-offshore-wealth-management-centres-survive/)

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Will all existing financial and wealth management centres survive? Are tax-free secrecy havens (the “offshore world”) a feature of the past? Is there room for entry of new locations looking to establish themselves or to diversify into offerings that have brought past success to their competitors? Or is being an offshore financial centre a dying business, with the shift being to onshore ones? Or a shift, perhaps, to those “mid-shore” enterprises that are making their way into becoming relevant to a new, transparent world?

The reality is that the world is fast changing and that not all offshore centres will survive. And this is probably a good thing. But there will be those that will both survive and thrive. What will it take for a centre to make it in the new world? And what is a mid-shore financial centre?

## **The failings of offshore centres and of the wealth management industry**

Laying blame for the challenges currently faced by offshore financial centres is not overly constructive. But there *is* blame to be laid, and unless there is recognition of the mistakes that have been made, these mistakes will continue. Those governing offshore centres have to stop making decisions based on what the financial industry says. A successful government listens to industry and their views, and takes these views into account when developing a strategy. But allowing legacy players focused on short-term profits to dictate strategy is simply wrong. And over and over, offshore centres have allowed industry to determine their fate.

Years of abuse of bank secrecy and other privacy regimes by the offshore corporate services industry, banks, trust companies and others have led to a regime change, and one which is now being dictated by the onshore governments whose tax and legal systems have been shown to have been compromised on an industrial scale. Had the offshore world taken leadership on the global problem of undeclared money and on the other regulatory failings of the industry, we would be in a very different position. Instead, the leadership of offshore centres not only listened to industry and the legacy players, but allowed them to fashion the strategy for the future – and in most cases, there was *no* effective strategy for the future.

On their own, together with other financial centres, or as part of a wealth management industry initiative, offshore centres had many opportunities to take leadership on issues that should have been obvious. How can privacy be maintained as a human right while ensuring that those who use offshore centres are not misusing them to break the law of their home country or of other countries, through tax evasion or otherwise? Instead of taking leadership on these issues, offshore financial centres took the easy route – they left it to others to take the lead on strategy, doing nothing to address their clearly unsustainable business practices. The users of offshore financial centres – trust companies, banks, corporate service providers and others, distracted by easy revenues, failed to take the lead, relying on losing arguments for their strategy of inaction.

*Level playing fields* was one of several mantras: we will change when others change as well – the US has limited liability companies and little information exchange – let them change first.

As it is now clear, there is no level playing field, and there never will be. This was always obvious, and those who thought otherwise were simply misguided. Offshore centres had a chance to take leadership – to develop strategies based on knowledge and training, and to focus on negotiating arrangements with other countries on a proactive basis – giving more than countries were asking for at a time when the offshore centre had something to negotiate. Today, they do not.

Offshore vs mid-shore and can offshore survive?

“Mid-shore” financial centres are those whose tax laws make them attractive as places in which to establish corporate structures, trusts, and other vehicles while also offering the advantages of being in an onshore location. An effective mid-shore jurisdiction has infrastructure and human resources in a broad range of areas, and benefits from having long embraced information exchange and effective tax treaties that reduce or eliminate withholding taxes.

Mid-shore jurisdictions are part of our world, not outside of it, and offer those using the jurisdiction bi-lateral and multi-lateral investment protection agreements and more. Special regimes and approaches are in place to attract particular business sectors.

Places like Singapore and Hong Kong are good examples of mid-shore centres – significant infrastructure available to support structures established in a transparent world – tax rates that are reasonable, and which in some cases have no application at all (such as the tax-free treatment of non-locally sourced income in the context of Hong Kong and Singapore), a wide network of tax and investment protection agreements and more. Luxembourg has long been strategic in developing particular products and services for specific elements of the investment industry, all through good collaboration between government and the private sector.

A focus on substance of structures and on real activity to support transfer pricing means that the locations of choice of the future will be locations where human resources are readily available to meet needs. Have the offshore centres invested in the education necessary to achieve this or have they simply allowed expatriates to exploit their lax regulatory regimes? Have governments of offshore centres *badly* let down their population by not investing in education in financial services, and leaving training to industry players more focused on teaching people how to sell than on teaching them how to think?

Onshore centres are increasingly making themselves attractive as “mid-shore” options. Here the UK with its low corporate tax rates and the US, with many regimes permitting tax and reporting free establishment of LLCs and trusts, are but two examples.

Offshore centres had as a main attraction simplicity and low cost. If, however, it is now virtually impossible to open a bank account for a company in an offshore centre, the simplicity fast goes away. If substance is now required for structures to provide the intended benefit, is it easier to put this substance in place in a mid-shore centre with the necessary infrastructure or in an offshore centre with little to provide in terms of personnel or otherwise? From a

cosmetic perspective, will running the structure out of the US look better to a foreign tax authority than if the structure is run from an island known for its tax haven status and sunny beaches?

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Notes:

- *This post is a modified excerpt from the author's book, [The Destructive Power of Family Wealth](#), published by John Wiley & Sons in November of 2016..*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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