



The Era of Bank Secrecy is Over: What Now?

At the G20 Summit in London recently, the leaders of the world's largest economies declared that "the era of banking secrecy is over." As the world moves towards greater transparency, will the U.S. gain in a future private banking environment that, once recovered, may actually resemble a level playing field? IPSA solicited feedback from several senior private bankers in South Florida for their candid perspective on the recent activity and the possible implications on the private banking community in the U.S.

The global economic crisis has brought increased pressure on tax havens as the U.S. and Europe set out to recover lost tax revenues. However, when Switzerland's largest bank, UBS, agreed in February 2009 to pay a US\$780 million fine to settle criminal charges brought by the U.S. following an 18-month investigation into collusion by some UBS private bankers to assist U.S. clients with tax evasion, it sparked a flurry of activity by tax havens to ease some of their bank secrecy rules. Along with Switzerland, other tax havens such as Andorra, Liechtenstein, Luxembourg, and Monaco agreed to new transparency standards established by the Organization for Economic Cooperation & Development (OECD). Bermuda, the Cayman Islands, Costa Rica, Guernsey, the Isle of Man, and Malaysia signed tax information exchange agreements, and other countries are expected to follow suit.

For the Swiss, the fact that their competitive advantages are in jeopardy has many worried. "They are absolutely shell-shocked," said a former Swiss banker who now works in South Florida. "They are being squeezed by the U.S. and European authorities." While the Swiss have built a long tradition to service the wealthy and substantive changes to banking rules won't happen in the short term, "the door is open," said the banker, "and the international community will not let them close it."

Another senior banker who oversees Latin America for a European institution said that for too long Swiss bankers have been complacent in relying on the secrecy value proposition. "You never find a Swiss banker in their office after five o'clock. This is going to force them to revolutionize their approach."

But more transparency isn't exactly a good thing, said two other bankers. "The initial intent is good but this could open up a can of worms," said a long time international banker, who worries the U.S. may have to comply with international requests for tax information from Venezuela and other not-so-friendly governments. Added another banker, "Wealthy foreigners place their funds in secrecy not to avoid taxes but for personal safety." Once that aspect is threatened, funds may seek other safer venues, and not necessarily the U.S.

Attracting new private banking clients is very challenging for the U.S. today. "We've been beaten up by [the scandals of] Madoff and Stanford Financial. There are few banks in the U.S. that inspire a lot of confidence with investors today," said one of the bankers. "We're standing on a weak link now," said another banker. "Our financial system is in shambles. It isn't easy to attract money. Investors are worried by [the scandals]."



While bankers, investors, and advisers try to figure this out, the few remaining traditional tax havens may benefit. The Republic of Panama was cited as a possible short term beneficiary well positioned to gain as a safe haven in the hemisphere. Other jurisdictions not known today may also surface to offer high net worth individuals a valuable service that will remain in very high demand.

Not so, said the former Swiss banker: "The reputational risk to work in tax havens is too great." He and others believe that the long term outlook for the U.S. private banking community seems very promising. He said the world is moving more towards transparency, adding "the U.S. has to gain clients in Latin America," as a result.

"This is major."

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4/17/2009