What lies beneath: evidence from leaked account data on how elites use offshore banking

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Introduction

Governments around the world struggle to observe what wealth their citizens hold overseas. This creates problems both for tax authorities (you can’t tax what you can’t see), but also corruption (you can’t observe that your president is actually a lot richer than he/she appears).

This information asymmetry is amplified by the presence of tax havens: jurisdictions with low tax rates, high levels of financial secrecy and legal systems that make it easy to set up "shell" companies - firms with little to no economic substance created for the purpose of holding assets.

These factors make tax havens a popular destination for offshore wealth and recent research suggests that much of this wealth is illicit in nature: deposits in havens increase when developing countries receive large aid disbursements or petroleum surges (Andersen et al 2017; Johannesen et al 2020), yet they fail whenever havens sign agreements to provide information to foreign tax authorities (Menkhoff and Miethe 2019).

Research question and contribution

Despite an explosion of research on the role of tax havens in both tax evasion and corruption, very little is known about the characteristics of clients of banks in tax havens.

This descriptive paper uses leaked data from an offshore bank to understand who stores their wealth in havens, how those with politically connects differ in their wealth and behavior, and how the use of shell companies affects our ability to accurately measure offshore wealth. It is the first study to explicitly use nanos data taken directly from a tax haven, making it possible to observe behavior that is normally partially hidden in aggregate statistics.

Data in detail

In late 2019, Phineas Fisher, a hacktivist, hacked into the Cayman National Bank, Isle of Man (CNBIOM) and copied several network bank files and provided the information to Distributed Denial of Secrets, a Wikileaks-style journalist collective, who posted them online. Included in the leak was transaction data for every account spanning 2008-2019. The jurisdiction of residence for every client and estimates of their net worth as calculated by the bank. Importantly, the leak not only included the location of companies (and trusts), but it also included information on the whereabouts of when their ultimate owners were based.

In total, for the period 2008-2019, the bank opened accounts for approximately 2,400 active clients (those who maintained non-zero deposit balances) of which 50% were companies, 33% were trusts and 16% were individual clients. At its peak, the bank maintained roughly 22,800 deposits. However, adding up the peak account balances of each of the clients over the 11 year period indicates that these 2,400 controlled up to $1.5b in assets over this period.

Also included in the leak were the bank’s internal documents on politically-connected persons (known as PEPs), individuals who were or had connections to people with politically power, which I used in the analysis. Also included were the bank’s internal documents on beneficial ownership (BO), which I used in the analysis to determine who the ultimate owners of the accounts were. Researchers often use data from the Bank of International Settlements (BIS) to measure offshore wealth. But the BIS’s Locational Banking Statistics only aggregate ownership based on the location of the “immediate counterparty.” If a person from Zambia owns a bank account in tax havens, and (iii) were more likely to send/receive money from accounts in tax havens. More politically-connected people were identified from countries that had scored worse on measures of corruption perceptions. The “political premium” that exists in other contexts appears to also exist in the offshore world. Systematic reporting on politically-connected accounts to regulators might limit the scope of abuse.

Conclusion and Next Steps

- This paper highlights that the average offshore client is rich, and that a significant amount of deposits are controlled by political elites who engage in behavior consistent with hiding their ownership of wealth.
- It also shows the degree to which this behavior - in particular the use of shell companies - complicates our ability to correctly measure offshore wealth. Changes in BIS reporting requirements would help correct for this mismeasurement
- Transparency policies, such as automatic-exchange-of-information (AEOI) on offshore deposits, as well as beneficial ownership (BO) registries, should help governments break through some of the information asymmetries that they face.

Next steps: this project will examine the impact of information exchange and other cross-border tax policies on the behavior of offshore clients.

**Figure 1**

The clients of offshore banks come predominantly from rich countries (Fig a), but those from poorer countries have higher levels of offshore wealth relative to GDP per capita (Fig b). Clients from poorer countries are more likely to hold wealth in the bank through a shell company or trust (those marked in green) than under their own names (marked in blue), highlighting the need for information exchange and other transparency policies that allow developing country governments to better observe hidden wealth.

**Figure 2**

Clients that bank had identified as being politically connected (i) controlled roughly 100-200x more in wealth, (ii) were more likely to be based in tax havens, and (iii) were more likely to send/receive money from accounts in tax havens. More politically-connected people were identified from countries that had scored worse on measures of corruption perceptions. The “political premium” that exists in other contexts appears to also exist in the offshore world. Systematic reporting on politically-connected accounts to regulators might limit the scope of abuse.

**Figure 3**

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