

Key Data Reports

4: Number of banks, accountants and lawyers

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What is measured?

This report looks at the number of institutions allowed to undertake banking and financial intermediation in each secrecy jurisdiction surveyed¹, as well as the number of lawyers and accountants that offer their services in each such jurisdiction. Together these can be labelled “secrecy providers”².

The data used has usually been extracted from secondary sources such as the US-INCSR report³ (2008) or IMF and FATF⁴ assessments of the jurisdictions surveyed. This has been done to mitigate potential problems arising from a lack of inter-country consistency in the figures each jurisdiction might publish individually. If these sources did not contain the information we sought we also considered information that was available on private websites such as Lowtax.net.

While data on the number of credit institutions and banks in a secrecy jurisdiction is often readily available, that on the number of lawyers and accountants is often more difficult to secure even though lawyers and accountants, like banks, are subject to scrutiny within international anti-money laundering frameworks. The country reviews undertaken for the purpose of checking a country’s measures to prevent money laundering sometimes refer to the number of lawyers and accountants in a secrecy jurisdiction since, under anti-money laundering regulations, they are obliged to report suspicious transactions but this is, unfortunately, not always the case. This has meant that on occasion we have had to use other data in an attempt to assess the numbers of lawyers and accountants present in a jurisdiction. This has, however, proved to be problematic because of the difficulty in determining how to define the terms lawyer and accountant.

The FATF says that the terms lawyer, notary, other independent legal professional and accountant refer to sole practitioners, partners or employed professionals within

¹ See http://www.secrecyjurisdictions.com/PDF/SJ_Mapping.pdf (2-12-2009) for the basis for selection of the sample.

² See <http://www.secrecyjurisdictions.com/component/glossary/?id=171> for a definition of secrecy providers.

³ This stands for “International Narcotics Control Strategy Report”, an annual publication issued by the US-State Department (see Glossary for more details).

⁴ IMF stands for “International Monetary Fund” and FATF for “Financial Action Task Force” (see Glossary for more details).

professional firms. They do not refer to 'internal' professionals that are employees of other types of businesses, nor to professionals working for government agencies who may already be subject to measures that would combat money laundering. (FATF⁵).

Discrepancies in the way of counting lawyers and accountants though cannot be ruled out and may be rooted in more deep-seated differences between countries (for instance countries without a single profession of "accountant", etc.). Therefore, this data should be regarded with some caution as to its inter-country consistency. For instance, Switzerland reports just 929 lawyers, a number likely to be a significant underestimate when compared to the UK figure of 152,800 lawyers.

Similarly, the number of banks may not always be consistent across countries, not least because the term "bank" is defined differently by jurisdictions but the scope for discretion does in this case seem narrower than for the terms lawyer and accountant. As a consequence the number of reported banks is likely to fairly accurately report the number of credit institutions that are entitled to take deposits and to grant loans in the jurisdiction of concern. The specific source for each particular number can be found in the secrecy jurisdictions database⁶.

We tried to include the most recent and most reliable data, two criteria that were seldom at odds with each other. The data refers mostly to the years 2005 onwards, but on a few occasions dates back earlier.

Why is it important?

Having a large number of banks, lawyers and accountants in a jurisdiction is likely to generate two effects. Firstly, bankers, lawyers and accountants offer and support financial services and, by interaction and collusion, have the knowledge and means to handle and hide illicit financial flows⁷ if they so wish. Secondly, banks, lawyers and accountants active in financial services will have considerable power in any secrecy jurisdiction that is heavily dependent upon financial services (for discussion and explanation of this second effect, refer to Key Data Reports 2 and 3⁸)

⁵ http://www.fatf-gafi.org/glossary/0,3414,en_32250379_32236889_35433764_1_1_1_1,00.html; 26-8-09.

⁶ <http://www.secrecyjurisdictions.com/secrecyjurisdictiondata>; 1-12-09.

⁷ It is stressed that this does not mean they necessarily break the law in the jurisdiction in which they operate: illicit money is money that is illegally earned, transferred or utilized. Breaking laws anywhere along the way earns such funds the label. These cross-border transfers come in three forms: (1) the proceeds of bribery and theft by government officials; (2) criminal activities including drug trading, human trafficking, illegal arms, contraband and more; and (3) commercial trade mis-pricing and tax evasion. The illicit activity may well be elsewhere in the flow.

⁸ <http://www.secrecyjurisdictions.com/kdr>; 1-12-09.

There is another issue: if bankers, lawyers and accountants are present in high numbers a culture of constructive non-compliance can be created. In effect this means that the appearance of compliance is present but the rate of reporting of potential money laundering offences is low in proportion to the likely risk that they occur.

An example can be found in the UK Crown Dependencies. When the UK ran a form of offshore tax amnesty in 2007 for the customers of the branches of that country's five leading banks with branches in the Crown Dependencies the Times newspaper reported⁹ that:

HM Revenue & Customs has clawed back £400 million from people with offshore bank accounts after it granted a partial amnesty.

The holders of about 45,000 offshore accounts, many of which are in tax havens such as Guernsey and Jersey, owned up to unpaid tax bill

Despite this the number of reports of suspicious transactions from bankers, accountants and lawyers in the Crown Dependencies has been very low. According to the UK's Foot Review into British offshore financial centres¹⁰ suspicious transaction reports in the Crown Dependencies varied between 519 in Guernsey in 2008, to 918 in the Isle of Man and 1,404 in Jersey.

This low level of reporting occurred at a time when in Jersey 43% of all people from the European Union with interest bearing bank accounts in the island chose not to have their income arising from that source declared by their banks to their domestic tax authorities under the terms of the European Union Savings Tax Directive¹¹. It is likely that there is a broadly similar ratio in Guernsey and the Isle of Man.

This failure to declare means that in each such case the customer has given instruction to their bank to not disclose information which they, almost certainly, have obligation to declare on their personal tax returns. Despite this instruction, which given that the sole purpose of the European Union Savings Tax Directive is to prevent cross border tax evasion of this sort, it is clear that there is no mass programme in the Crown Dependencies of reporting these people as undertaking suspicious banking transactions involving potential money laundering (as tax evasion on interest not declared would be). If such programme was in place the number of transactions reported would be considerably higher than the number actually reported. In this context it is stressed that the mere suspicion of money laundering (proof is not required) places a legal obligation on banks in the Crown Dependencies to report a transaction to the authorities. It is apparent they are not doing this despite the fact that most reasonable people would think that a bank who is told by a

⁹ <http://www.timesonline.co.uk/tol/money/tax/article3008168.ece>; 2-12-09.

¹⁰ http://www.hm-treasury.gov.uk/d/foot_review_main.pdf chart 7.c and appendix D; 2-12-09.

¹¹ <http://www.gov.je/TreasuryResources/News/RententionTax2008.htm>; 2-12-09.

customer to not declare income received to their domestic tax authority to whom they have an obligation to declare it should suspect that customer may be tax evading.

This is clear indication of the problem that exists when large numbers exercise apparent non-compliance with regulation: in that situation a jurisdiction is likely to lack the resources to identify individual non-compliers within the mass, or to effectively pursue the non-compliers than can be identified, or to see much point in pursuing individual non-compliers if, due to weight of numbers, this pursuit will have negligible impact on the overall state of affairs. This situation is made worse when the secrecy jurisdiction is small and resource poor, as is true of many of them.

To oversimplify for purposes of illustration, the situations that might occur are as follows. Banks can and do engage in regulatory non-compliance by opening bank accounts without properly applying “know-your-customer” rules¹², by facilitating hidden transactions (arranging wire transfers, shipping “toothpaste diamonds”¹³, maintaining correspondent accounts with shell banks, etc.,) or by turning a blind eye to suspicious transactions such as large cash deposits.

Similarly, law firms may play a role in offering nominee services for shell companies, e.g. by providing nominee directors and shareholders or even nominee bank account holders. In addition they may act as trustees and play a pivotal role when it comes to the structuring of complex business transactions like mergers and acquisitions involving multiple jurisdictions, securitisations of debt (CDOs), and setting up special purpose vehicles that allow relevant financial information to be hidden from view. In addition, they may also fail to report suspicious transactions, maybe claiming legal privilege for not doing so.

Accountants can contribute to hiding financial flows by devising complex multi-jurisdiction business structures and aggressive tax avoidance schemes, and giving questionable annual accounts a seal of approval by auditing them with little scrutiny. As example in 2005 the Big 4-firm KPMG “...agreed to pay \$456 million to avoid criminal prosecution by the U.S. government over abusive tax shelters...” (Bloomberg¹⁴) whilst Professor Prem Sikka noted the following sequence of events in the Guardian newspaper¹⁵:

On February 27 2008, Carlyle Capital Corporation published its annual accounts¹⁶ for the year to December 31 2007. These accounts were audited by the Guernsey office of PricewaterhouseCoopers, the world's biggest accounting firm, which boasts revenues of \$25bn.

¹² See <http://www.financialtaskforce.org/2009/04/26/undue-diligence-how-banks-do-business-with-corrupt-regimes/>; 2-12-09.

¹³ <http://www.reuters.com/article/newsOne/idUSLJ59987220090819>; 26-8-09.

¹⁴ <http://www.bloomberg.com/apps/news?pid=10000103&sid=aplebPwsO81k&refer=us>; 26-8-09.

¹⁵ <http://www.guardian.co.uk/commentisfree/2008/mar/14/watchingthedetectives>; 2-12-09.

¹⁶ <http://www.carlylecapitalcorp.com/Financial%20Documents/2007/item10272.pdf>; 2-12-09.

Amid one of the biggest credit crises, the accounts claimed on page five that the directors were "satisfied that the Group has adequate resources to continue to operate as a going concern for the foreseeable future".

The auditors were satisfied, too, and on 27 February 2008 gave the company a clean bill of health (page 6).

Less than two weeks later, on March 9 2008, Carlyle announced that it was discussing its precarious financial position¹⁷ with its lenders. And on March 12, the company announced that it "has not been able to reach a mutually beneficial agreement to stabilize its financing"¹⁸.

The company says (page 24) that it paid \$2.5m in fees "principally ... to our independent auditors, our external legal counsel, and our internal audit service provider".

Yet In less than two weeks, the mirage of assurance offered by auditors vanished.

Accountancy firms are also likely to possess the knowledge and capacity to embed and thereby disguise secrecy products in a wider business context, thus masking cases of regulatory non-compliance and financial impropriety.

Consider, for example the case of a secrecy client wishing to set up the most basic secrecy jurisdiction "product": a shell company operating a bank account with a trust owning the company's shares. The shell company is run by nominee directors on behalf of nominee shareholders who act for the nominee trustee that owns the company's shares. Both, the nominee company directors and nominee shareholders could be provided by the same law firm that may also be the nominee trustee. The bank running the "company account" is likely to be a different entity, but if the client is introduced by a "respectable" law firm, safeguards for checking the identity of the account holder may be reduced or waived. The law firm may even use its own company accounts with the bank to facilitate moving funds from the client's resident country to the secrecy jurisdiction, or the bank itself may offer similar services through correspondent accounts helping to erase the client's money trail.

The whole structure works on behalf of the beneficial owner who will be 'elsewhere' in another jurisdiction, as far as the secrecy jurisdiction 'secrecy providers' (the lawyers, accountants and bankers actually running this structure) are concerned. The end result is that all three secrecy providers – banks, lawyers and accountants – work in conjunction to provide a secrecy product for their client. This secrecy product may enable illegal activity, such as tax evasion or money laundering. Because however each professional firm engaged in the process (bar that which created the whole arrangement) can concentrate only on the

¹⁷ <http://www.carlylecapitalcorp.com/News/Press%20Releases/2007/item10284.html>; 2-12-09.

¹⁸ <http://www.carlylecapitalcorp.com/News/Press%20Releases/2007/item10304.html>; 2-12-09.

particular aspect of the transaction that they are concerned with, and the whole structure is constructed with the intention of being as complicated as possible each can, as Senator Carl Levin has put it, let “my eyes glaze over” when it comes to reviewing the transaction as a whole and as such claim to fail to notice that it involves illicit financial flows. Senator Levin said in March 2009¹⁹:

Abusive tax shelters are usually tough to prosecute. Crimes such as terrorism, murder, and fraud produce instant recognition of the immorality involved. Abusive tax shelters, by contrast, are often “MEGOs,” meaning “My Eyes Glaze Over.” Those who cook up these concoctions count on their complexity to escape scrutiny and public ire. But regardless of how complicated or eye-glazing, the hawking of abusive tax shelters by tax professionals like accountants, bankers, investment advisers, and lawyers to thousands of people like late-night, cut-rate T.V. bargains is scandalous, and we need to stop it.

Stopping this process is harder if there are a high numbers of banks, lawyers and accountants in a secrecy jurisdiction because it is likely that they will have established trodden paths of effective collusion that allow them to “let their eyes glaze over” in order to attract as much business as possible, with correspondingly little regard to regulations, let alone sound ethical behaviour.

Even if government agencies in secrecy jurisdictions want to regulate finance more strictly, it will be a task of utmost difficulty to enforce regulation against the united opposition of bankers, lawyers and accountants, given the share of GDP these secrecy providers contribute, and their likely corresponding political influence (see KDRs 2 and 3)²⁰. In the end, secrecy jurisdiction governments become dependent on the cooperation of the secrecy providers so that whilst much regulation might exist on paper the secrecy providers rapidly figure out how to bypass it without being caught, a process often aided by the (understandable) reluctance of the authorities to enforce regulation. An exorbitant number of banks, lawyers and accountants per head of population is, therefore, likely to be a good proxy measure for the presence of corruption given the disproportionate and unrivalled level of influence these secrecy providers are likely to exert.

¹⁹ <http://levin.senate.gov/newsroom/release.cfm?id=308946>; 2-12-09.

²⁰ <http://www.secrecyjurisdictions.com/kdr>; 1-12-09.

What are the crimes that might be facilitated by an unusually high proportion of many banks, lawyers and accountants within a jurisdiction?

While it is difficult to suggest which crimes arise directly as a result of the presence of a large number of banks, lawyers and accountants the overall outcome of a dominant financial services sector in secrecy jurisdictions is likely to be an enhanced criminogenic environment in which financial regulations and transparency are undermined and kept at the lowest level so as to attract the maximum of foreign funds. The crimes thriving in such an environment comprise the entire spectrum of possible crimes: financial fraud, infringement of competition rules, non-payment of alimonies, bankruptcy fraud, hiding of the proceeds of corruption, organised crime (especially drug trafficking), illegal arms trading, trafficking in human beings, money laundering, the covering of illicit intelligence activity, tax evasion and more besides.

Results Overview

Table 1: Results Overview - Number of Banks	
Number of jurisdictions without data:	3
Number of jurisdictions with data:	57
Jurisdictions without data in alphabetical order:	
Marshall Islands, Nauru, US Virgin Islands	

Table 2: Results Overview - Number of Accountants	
Number of jurisdictions without data:	35
Number of jurisdictions with data:	25
Jurisdictions without data in alphabetical order:	
Anguilla, Antigua & Barbuda, Austria, Bahrain, Barbados, Belize, British Virgin Islands, Brunei, Cayman Islands, Cook Islands, Dominica, Gibraltar, Grenada, Israel, Lebanon, Liberia, Luxembourg, Marshall Islands, Mauritius, Nauru, Netherlands Antilles, Philippines, Portugal (Madeira), Samoa, Seychelles, St Kitts & Nevis, St Lucia, St Vincent & Grenadines, Switzerland, Turks & Caicos Islands, United Arab Emirates (Dubai), United Kingdom (City of London), US Virgin Islands, USA (Delaware), Vanuatu	
NB: Some of the jurisdictions enlisted here are likely to be among those with the highest number of accountants. Therefore, the graphs may well look different if data was available for all.	

Table 3: Results Overview - Number of Lawyers

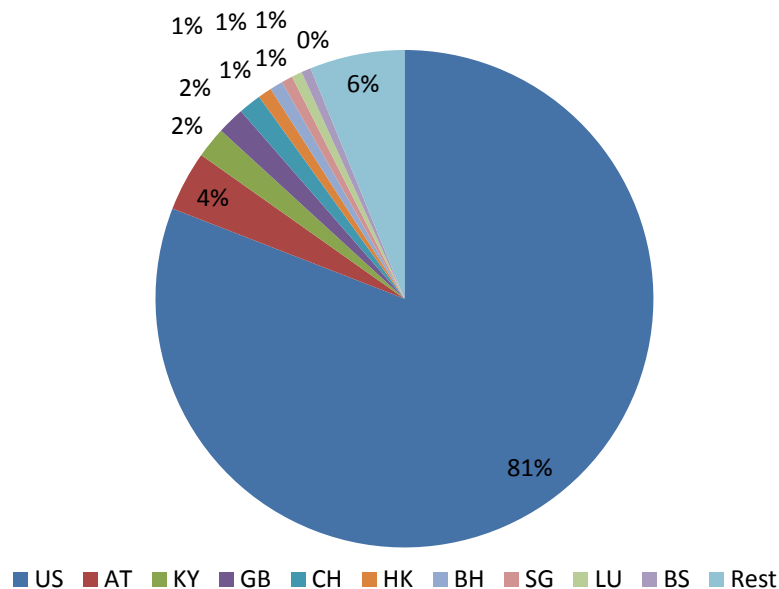
Number of jurisdictions without data:	35
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Number of jurisdictions with data:	25
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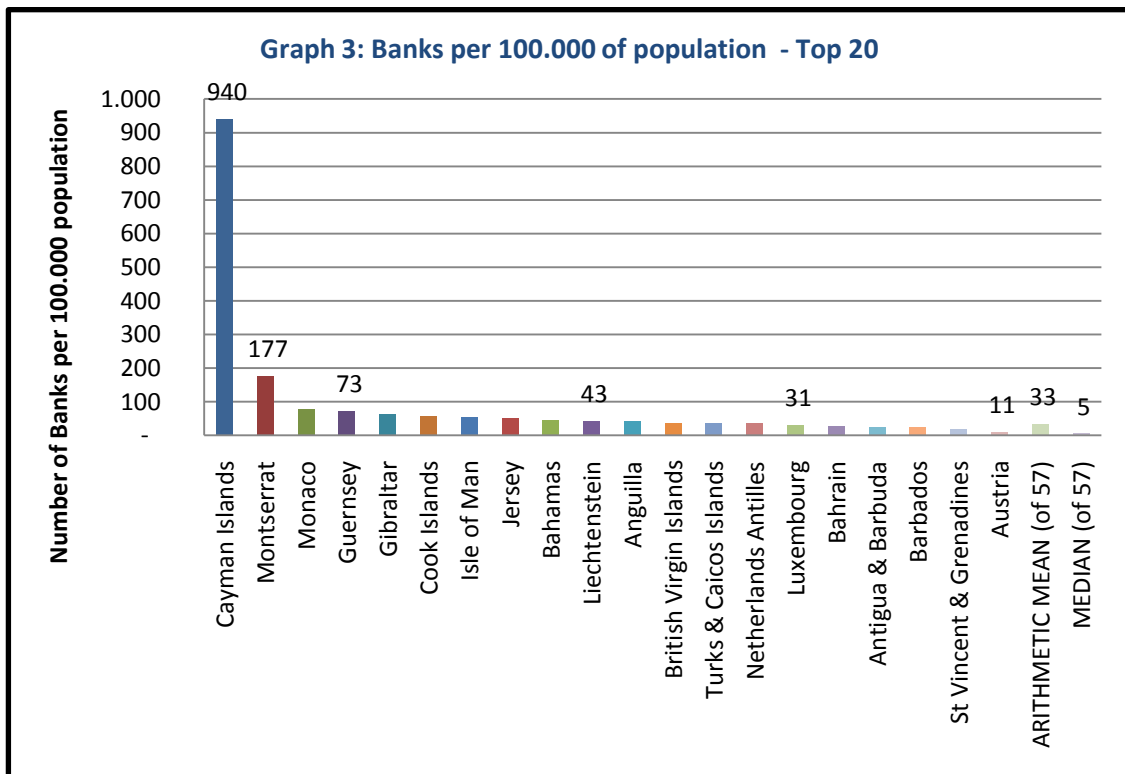
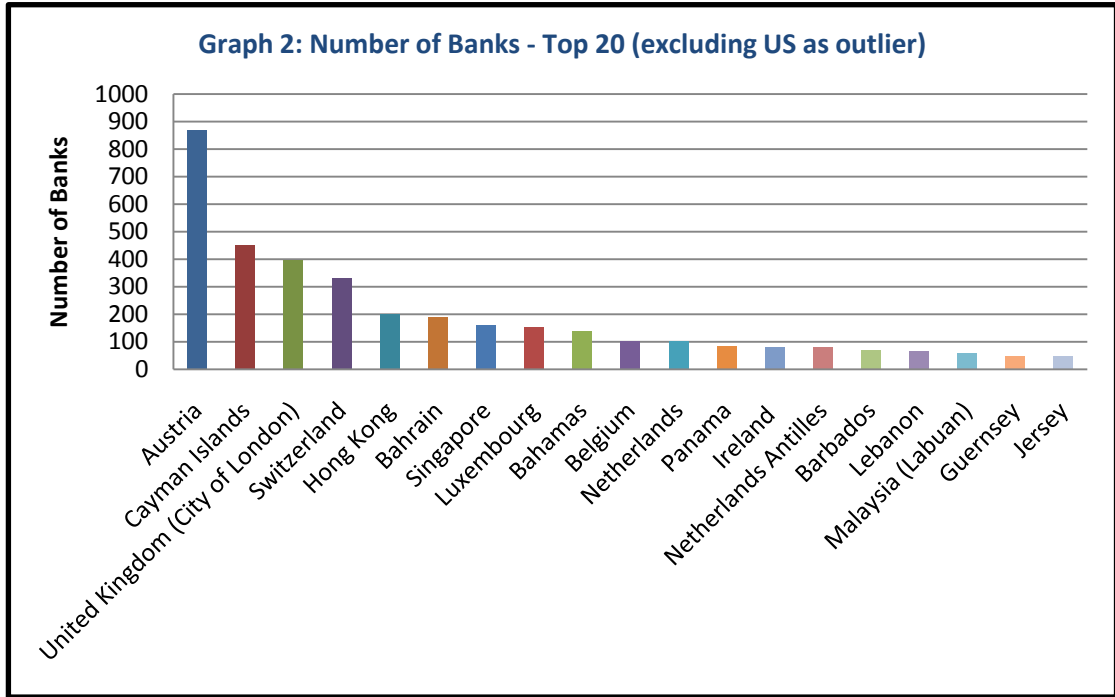
Jurisdictions without data in alphabetical order:

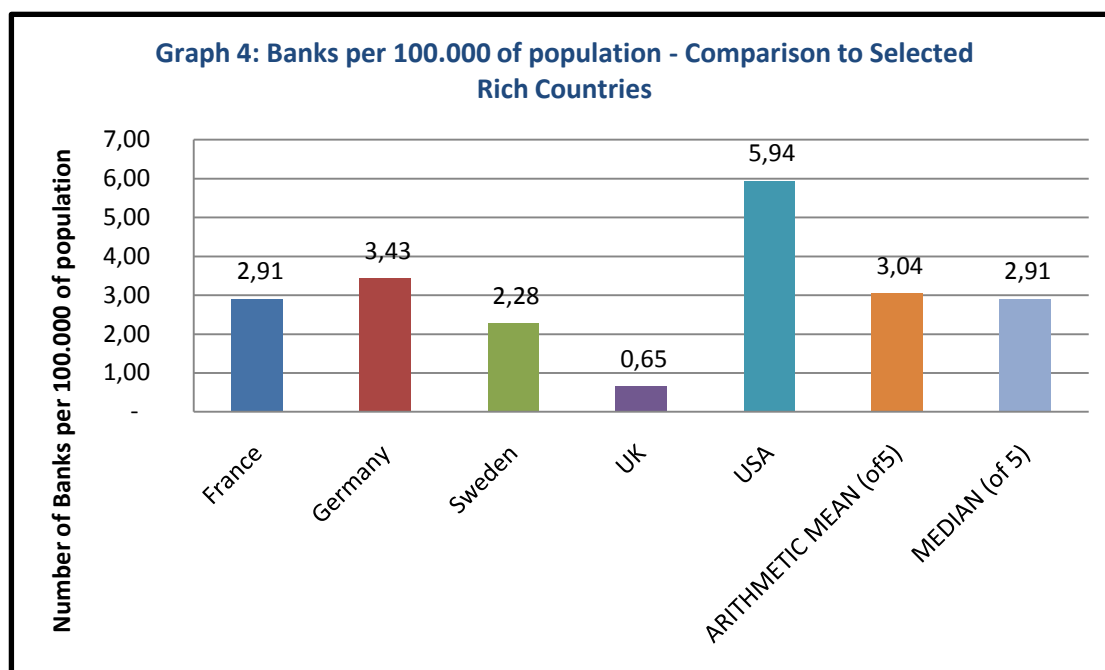
Antigua & Barbuda, Austria, Bahamas, Bahrain, Barbados, Belize, British Virgin Islands, Brunei, Cayman Islands, Cook Islands, Dominica, Gibraltar, Grenada, Ireland, Israel, Lebanon, Liberia, Luxembourg, Malaysia (Labuan), Marshall Islands, Mauritius, Nauru, Netherlands, Netherlands Antilles, Philippines, Portugal (Madeira), Samoa, Seychelles, St Kitts & Nevis, St Lucia, St Vincent & Grenadines, Turks & Caicos Islands, United Arab Emirates (Dubai), US Virgin Islands, Vanuatu

NB: Some of the jurisdictions enlisted here are likely to be among those with the highest number of lawyers. Therefore, the graphs may well look different if data was available for all.

Graph 1: Number of Banks - Top Ten Share of Total of 60 Jurisdictions

Results Detail



**Table 4: Results Details - Number of Banks, Accountants, and Lawyers**

ID	Jurisdiction	ISO	Banks	Accountants	Lawyers
1	Andorra	AD	7	0	124
2	Anguilla	AI	6	unknown	17
3	Antigua & Barbuda	AG	17	unknown	unknown
4	Aruba	AW	10	16	16
5	Austria	AT	870	unknown	unknown
6	Bahamas	BS	139	500	unknown
7	Bahrain	BH	190	unknown	unknown
8	Barbados	BB	68	unknown	unknown
9	Belgium	BE	102	12878	14710
10	Belize	BZ	8	unknown	unknown
11	Bermuda	BM	4	165	325
12	British Virgin Islands	VG	9	unknown	unknown
13	Brunei	BN	9	unknown	unknown
14	Cayman Islands	KY	450	unknown	unknown
15	Cook Islands	CK	7	unknown	unknown
16	Costa Rica	CR	39	28000	10000
17	Cyprus	CY	44	2520	1810
18	Dominica	DM	1	unknown	unknown
19	Gibraltar	GI	18	unknown	unknown
20	Grenada	GD	6	unknown	unknown
21	Guernsey	GG	48	420	530
22	Hong Kong	HK	200	26825	6846

Table 4: Results Details - Number of Banks, Accountants, and Lawyers					
ID	Jurisdiction	ISO	Banks	Accountants	Lawyers
23	Hungary	HU	32	5900	9304
24	Ireland	IE	81	18718	unknown
25	Isle of Man	IM	40	1482	269
26	Israel	IL	21	unknown	unknown
27	Jersey	JE	47	880	2560
28	Latvia	LV	27	1037	1496
29	Lebanon	LB	65	unknown	unknown
30	Liberia	LR	8	unknown	unknown
31	Liechtenstein	LI	15	75	160
32	Luxembourg	LU	152	unknown	unknown
33	Macao	MO	28	145	171
34	Malaysia (Labuan)	MY	60	23183	unknown
35	Maldives	MV	6	5	411
36	Malta	MT	22	1500	850
37	Marshall Islands	MH	unknown	unknown	unknown
38	Mauritius	MU	19	unknown	unknown
39	Monaco	MC	25	22	25
40	Montserrat	MS	9	1	5
41	Nauru	NR	unknown	unknown	unknown
42	Netherlands	NL	101	13000	unknown
43	Netherlands Antilles	AN	80	unknown	unknown
44	Panama	PA	85	12000	9000
45	Philippines	PH	38	unknown	unknown
46	Portugal (Madeira)	PT	27	unknown	unknown
47	Samoa	WS	6	unknown	unknown
48	Seychelles	SC	7	unknown	unknown
49	Singapore	SG	161	800	3476
50	St Kitts & Nevis	KN	1	unknown	unknown
51	St Lucia	LC	6	unknown	unknown
52	St Vincent & Grenadines	VC	21	unknown	unknown
53	Switzerland	CH	331	unknown	929
54	Turks & Caicos Islands	TC	8	unknown	unknown
55	United Arab Emirates (Dubai)	AE	46	unknown	unknown
56	United Kingdom (City of London)	GB	397	unknown	152800
57	Uruguay	UY	27	6542	6438
58	US Virgin Islands	USVI	unknown	unknown	unknown
59	USA (Delaware)	US	18058	unknown	1104766
60	Vanuatu	VU	unknown	unknown	unknown

Results Overview

The data for lawyers and accountants is not analysed in depth here: there are too many jurisdictions for which data is not available to draw firm conclusions.

This is not true of the banking data. Here there is a clear and undoubted conclusion that can be drawn which is that as Graph 3 shows the smaller secrecy jurisdictions have far more banks than are necessary to meet their domestic banking needs and as such these institutions can only be in existence to manage international financial flows, some of which will undoubtedly, as alternative evidence shows²¹, be illicit. It follows therefore that the population of lawyers and accountants in these places have the same purpose, with the same risk attached.

The conclusion that can be drawn is this: illicit financial flows through secrecy jurisdictions could not happen but for the presence of a disproportionate population of bankers, lawyers and accountants in these locations.

²¹ <http://www.gfip.org/index.php?option=content&task=view&id=274>; 2-12-09.