The Price of Offshore, Revisited – supplementary notes, June 2014
June 5, 2014

Two years ago TJN published the Price of Offshore Revisited, making headlines around the world. We estimated that the stock of financial wealth held offshore, hardly taxed or untaxed and in substantial conditions of secrecy, amounts to some $21-32 trillion.

As is quite natural, a number of independent researchers as well as lobbyists financed by the tax haven industry have questioned our numbers. This document seeks to add clarity to the debate. We add some hard sources to the estimates and explain why we think those earlier estimates were conservative.

One of the most confrontational attacks on the Price of Offshore Revisited came from two U.S. academics funded by the British tax haven of Jersey. That report and TJN’s rejoinder are available here.

This article isn’t attempting to produce ‘new estimates’ for the size of offshore - the most important task here is to provide some additional data sources to show that our estimates then were credible. It is produced by a TJN in-house team and so does not attempt to replicate Henry’s work exactly, but in a sense starts afresh.
The economists’ blind spot

We noted that measuring the size of offshore is ‘an exercise in night vision’ because of the difficulties in measuring secret practices, the difficulties in defining what ‘offshore’ means, and the apparent reluctance of international financial institutions (IFIs) such as the IMF, the World Bank, the Bank for International Settlements, the OECD - and even academic researchers to foray into such difficult terrain. All concede there is a major problem here, but have failed to take the necessary steps to quantify it, leaving academics and civil society organisations like TJN to fill the gap. This failure to collate the robust statistics has created a blind spot, where economists rarely dare to stray.

One key question here is: what constitutes as ‘offshore?’ TJN has always taken a broad view of what ‘offshore’ means – it emphatically is NOT restricted to small island tax havens – as the IFIs often seek to do. The Bank for International Settlements, for instance, lists only 22 small island jurisdictions as ‘offshore’ centres and excludes such giants as Switzerland, Luxembourg, the United States and United Kingdom, all of which have large offshore sectors – they host assets of non-residents elsewhere and don’t provide transparency to those countries’ home jurisdictions. This phenomenon of ‘offshore’ is extensively documented by TJN and many others. Our estimates are not predicated on banking secrecy, which other models (such as Gabriel Zucman’s) rely on in his 2013 paper Hidden Wealth of Nations.

Methods of measurement

The Price of Offshore Revisited uses three separate methods for estimating the size of the offshore economy, and triangulates them against each other as a cross-check. So this is not like a long chain with many links vulnerable to the weakest link, but like three separate chains working in parallel, stronger than a single chain.

1. The size of assets under management in Private Banks. This finds a total $12.05 trillion held in the top 50 private banks, based on their published company reports and filings in the U.S. Henry has not yet published the full data set on this but he has indicated that he is planning a book on these issues, which will include all the data. In our years of experience and discussions with people in the industry, we have come to understand that private banking is heavily criminalised, with extremely high tax evasion rates. It is hard to document this, of course, given the strenuous efforts at concealment, but anecdotal evidence from whistleblowers and others backs this up. For instance, the French National Assembly published a report in July 2013 looking at data provided by whistleblower Hervé Falciani, the so-called “HSBC List.” It notes that an astonishing 99.8 percent of the accounts involved were undeclared.

This extraordinary figure may not be representative of the world as a whole, but a series of semi-structured interviews we have carried out with wealth
managers and other financial specialists over the years suggest that the numbers for cross-border wealth are remarkably high. What is more, many other secrecy structures, particularly in the Anglo-Saxon world, would use mechanisms other than banking secrecy (e.g. Trusts, secret companies) to achieve the same ends, or to escape taxes through less illegal means. (See more about the different flavours of secrecy here, and see these issues discussed in more detail, lower down.) See pp 31-33 of the report for more about the estimation methods.

2. Measures of unrecorded capital flows for 139 mostly low-middle income countries for which the data is available. This uses a standard “sources and uses” method for estimating capital flight. It adds up a country’s measured sources of foreign capital - foreign loans, net direct and portfolio investments - and compares it to recorded uses, including financing current account deficits and changes in official reserves, and qualifies the difference as illicit outflows or capital flight. It is assumed that this is invested offshore - and this is then augmented by an ‘accumulated offshore wealth’ model which assumes a 75% reinvestment rate then estimates how much the wealth that remains offshore would be expected to grow over time - assuming conservatively that they were invested in safe, low-yielding assets. (The remaining 25 percent might be put to conspicuous consumption, purchase of luxury cars, yachts, bribery, etc.) This finds some $7.3-$9.3 trillion in accumulated capital flight from these source countries. Given that developing country wealth represents perhaps 25 percent of global wealth, this would support the order of magnitude of TJN estimates.

3. The offshore portfolio model. This is a relatively simple exercise which involves two steps. First, you take data from the Bank for International Settlements to find the total amount of cross-border banking deposits held by non-banks. We will then scale that down by removing the share of those deposits that are not held by individuals (mostly by multinational corporations). Then, we create a multiplier (based on widely published data) of what proportion of investors’ cross-border portfolios are held in cash or deposits, versus other assets such as bonds, and equities. We then scale up the BIS’ total of bank deposits by a multiplier to reach a final number. Then one might assert what proportion of that total is ‘offshore,’ based on one’s preferred definition of what the word ‘offshore’ means.

The first two involve large data exercises, and we don’t cover them here. However, the third is relatively simple: so we will reproduce (and update and source) the numbers here.

Then we will explain the multiple reasons why we think those figures are conservative. We finish on a light-hearted endnote about astronomical numbers.
The portfolio model: example of calculation

This method of calculation is, we stress, just one of the three different cross-check methods used in the *Price of Offshore Revisited*. Our estimate catches up with the latest data, as well as the numbers for 2010 used by the *Price of Offshore Revisited* (though the source data are slightly different now, since the BIS has revised its 2010 estimate since then).

**Step 1. Total cross-border deposits.** From the Bank for International Settlements (here http://www.bis.org/publ/qtrpdf/r_qa1403.pdf Table 1, part F1 on pA7 - loans and deposits: external liabilities to non-banks.). This produces a figure for 7.46 trillion in cross-border deposits for September 2013.

**Step 2. Removing non-relevant deposits.** Some of this will be held by corporations. Although corporations have large cash piles (including large overseas cash piles, which add up to some $2 trillion for U.S. corporations alone), only a small portion of these will be held as bank deposits. Multinational corporations have the resources to manage their financial assets, and would hold only a small share of assets in such low-yielding assets: any overnight cash is likely to be invested in commercial paper and other higher-yield assets. U.S. Federal Reserve Data (on p68 here http://www.federalreserve.gov/releases/z1/current/z1.pdf) estimates that total foreign cash deposits for U.S. Multinationals was a trivial $50 billion (or 0.05 trillion) in the fourth quarter of 2014. Henry estimates that the Fed data is incomplete, however, and asserts that it’s sensible and cautious to put a ceiling of around $1 trillion for the global total of cross-border deposits held by multinational corporations. Add that generous sum to that $250-odd billion in deposits held by “international organisations” (BIS pA35, bottom row) and our estimate of individual wealth cross-border deposits is reduced by $1.25 trillion, to reach $6.3 trillion.

**Step 3: the multiplier.** We have a figure for deposits: now we can estimate how much the total portfolios are worth (including bonds, equities and so on), by scaling up the deposits figure with a multiplier. Fortunately, Boston Consulting Group and Merrill Lynch / CapGemini produce regular estimations of the share of wealthy individuals’ portfolios that are held in cash only. The range of estimates we have looked at suggest multipliers that range between 3.5 and 7.0. (See the footnote here for sources and details.) We used an ultra-conservative multiplier of 3.0, while in our 2005 estimates we used 3.5.

Crucially, all these estimates for the multiplier use cash plus deposits as a basis for calculation, whereas the BIS data measures deposits only. So our estimate - along with all the other estimates constructed in the above footnote - is conservative. How big is the offshore cash component? Well, we don’t know, but it is undoubtedly large: $1.3 trillion is cross-border out of a total $1.7 trillion, according to one estimate. If we included that, we would have a total of cash to deposits close to $7.6 trillion, to which our multiplier would then be applied.
Our conservative multiplier of 3.0 would take our $6.3 trillion to $18.9 trillion and our 7.6 trillion to $23 trillion, while a still-conservative multiplier of 3.5 would produce a figure of $26.6 trillion, at least for September 2013. For the period covered by the original Price of Offshore Revisited document, this particular calculation range (which does not exactly replicate Henry’s, partly because the BIS has since updated its 2010 estimates) would yield a range between $17 trillion and $24 trillion of offshore wealth, based on a BIS estimate of 6.9 trillion in bank deposits for September 2010. Applying a still-reasonable multiplier of 4.0 would push the upper limit of these estimates to $30.5 trillion.

**Step 4: so how much of this total is “offshore”?**

Answering this question is the hardest part, not least because nobody agrees on what ‘offshore’ is.

The broadest answer is, as the IMF once remarked in a quantification exercise in 2000, “all of it.”

However the *Price of Offshore Revisited* spoke (top of p3) that the goal was to measure ‘untaxed private wealth protected and serviced by the global offshore industry... the tax-free status of the enormous sums invested by their wealthy clients is predicated on secrecy.”

As mentioned, we at TJN have always taken a broad definition of ‘offshore’ and do not like the politically-influenced ‘lists’ of mostly small-island offshore jurisdictions that are sometimes produced by international financial institutions, often fearful of upsetting large, surly member nations such as the U.S. and U.K. — which, as we have documented extensively, host enormous offshore sectors. A full discussion of what ‘offshore’ means is outside the scope of today’s document, but - to give an illustrative example - a portfolio of French CAC40 shares owned by a company in the British Virgin Islands is, while the assets themselves are visible and come in the form of French listed companies, their ownership is opaque, and we would call this portfolio ‘offshore’. See here for one example of an apartment building in central London that is almost entirely ‘offshore.’ In short, it doesn’t really matter where the asset itself is: it’s the ownership of that asset and its opacity that concerns us.

For the purposes of the 2010 report, then, one might ask how much of the world’s cross-border wealth was held in conditions of secrecy, or untaxed. The answer may surprise many people: almost all of it.

On the secrecy side, there is almost no transparency (yet) in international finance, even if global protocols are in the process of being overhauled. Current protocols in 2010 were (and still are) pitifully weak. If a resident of Indonesia or the U.S. or Nigeria were to stash some money in an Austrian or German bank account, it would be almost impossible - though not always completely impossible, for the Indonesian or U.S. authorities to ‘see’ that account. Nearly every cross-border assets is ‘offshore’ in this respect.
One big exception to this would be assets held in jurisdictions involved in the European Savings Tax Directive, a multilateral automatic information sharing exercise set up in 2005 involving European Union countries and associated territories (see here for a short description, and the footnote for more details).

So one must ask: how effective is this transparency scheme? Well, there are few good sources of information, but, as usual, some things can be said. First, it’s well known among wealth managers that the Savings Tax Directive as it has stood since 2005 is full of holes (see a description of the main holes here).

In fact, the European Commission created its own study estimating how much revenue has been raised by this initiative through information exchange. It found that for the 33 participating countries recorded as having provided information, only on $10.5 billion (with a ‘b’) in cross-border interest payments and sales proceeds in 2009, the last year for which data was provided. Of this, $2.3 billion was on interest payments.

The Commission estimated an average interest rate of 3.87% for the Euro area and 2.84% for the UK. Given that the UK accounted for just 11 percent of the total, this would imply an asset base on which information was being reported on just 62 billion Euros of assets. This would suggest that information was being reported automatically on perhaps five percent of all European cross-border bank deposits (see the calculation in the footnote here). However, a much lower share of that would apply to total assets, since the Savings Tax Directive is (in its current form) only really any use at capturing bank deposit interest, but is effectively blind to other forms of income - as illustrated in our report on the EUSTD loopholes. Given our conservative deposits: total assets multiplier of three, this would suggest that information was only exchanged on about 1.5 percent of European cross-border assets. Given that Europe makes up perhaps a quarter of the global economy, and that there were almost no other working schemes of this kind in operation in 2010, this would suggest a global total of 0.5 percent or less of total assets subject to transparency. Even then, this is only transparency vis-à-vis other participants in the scheme; there is no transparency to other countries elsewhere. So one might perhaps subdivide this figure by another factor of two to four. The overall point is: the information-sharing is negligible, even in Europe. Offshore secrecy is alive and well.

It is true that there were some other forms of information exchange out there in 2010, under protocols arranged by the OECD, a club of rich countries (that includes many secrecy jurisdictions). However, these protocols were only slightly better than useless: under the prevailing OECD ‘on request’ system of information exchange via bilateral Tax Information Exchange Agreements (TIEAs), you effectively had to know the precise information you were looking for before you went through the process of requesting the foreign jurisdiction where you think that particular tax evader’s asset was held, in order to receive the information, and you had to jump through various other hurdles to access that piece of information. Only a tiny trickle of such requests were made or answered, it seems, as anecdotal evidence from France and the Netherlands.
suggests. The system was the global standard in 2010 and effectively remains so today, despite declared moves by the G20 and OECD to move to the much stronger system of automatic information exchange. Read more about TIEAs here.

These are very rough calculations, subject to many uncertainties, but they do illustrate that even when the world’s predominant information-sharing mechanism is concerned, opacity on the cross-border assets is almost complete. Reforms are now being planned to the EUSTD and to create global information-sharing mechanisms which could significantly impact these calculations - but this is only for the future.

**But how much of the secret stuff is declared?**

Leaving aside that question of the income, capital gains and wealth on which information is not being exchanged between tax authorities, automatically or otherwise — one can ask how much cross-border wealth is actually being declared to tax authorities by the wealth holders themselves, in their tax returns?

Here, measurement becomes hard, and subject to wide interpretation. Most people declare their income and assets to their home tax authorities, but most people hold their assets domestically or through domestic vehicles, which most tax authorities can ‘see.’ Only a small share of the global population move their assets across borders - and tax evasion and hiding for other purposes is of course rampant. The French National Assembly report cited above, finding that 99.8 percent of accounts in the HSBC case were found to be undeclared, is of course not representative of the global total. However, where those cross-border assets are held effectively in secrecy, tax evasion rates will be high.

There is a further complication. Less wealthy individuals who hold assets overseas - and perhaps that includes you and me, dear reader - will often do so for various more or less legitimate reasons. Expatriates may wish to hold wealth back at home in their home currency, and for various other reasons (though frequently they will find their bank encouraging them to shift those assets into offshore tax havens separate from their home jurisdictions, as many British expatriates will testify, for example). However, the higher up the wealth scale one moves, the greater likelihood that these individuals will have access to and use expensive tax advisers who can always find ways to help their clients structure their assets so that they are - perhaps quite legally - shielded from tax - whether that be income taxes, inheritance taxes, withholding taxes, or whatever. This can be achieved through the use of trusts, where genuine economic ownership and control and the power to control assets is separated from pure legal ownership, making it extremely hard for tax authorities to levy tax even if the assets are declared and known about. These kinds of untaxed assets should be considered very much ‘offshore’, wherever they are located - and indeed creating such arrangements are the bread and butter of wealth managers in big private banks, who would make offerings of such (lucrative fee-generating) structures as a matter of routine. In addition, it has to be taken into account that
many assets (such as those looted by kleptocrats) are held overseas but are not seeking income yields, but merely bolt-holes to hide their wealth from criminal authorities, angry spouses, irate creditors, and many others. If any armchair economists want to try and refute this analysis, we would invite them go out into the real world and talk frankly to the wealth managers and their associates and see if they can make a case for something different.

Given all this, the question of how much of this is ‘offshore’ becomes a philosophical one, subject to wide interpretation and legitimate disagreement.

It makes sense, we think, to stick to the broader definitions that focus on transparency and information exchange, which the analysis above shows can be measured in some way - albeit subject to those ‘maddening, irreducible uncertainties’ described in the Price of Offshore Revisited. The measurements above suggest that perhaps 99.5 percent of these global cross-border assets are held in conditions of secrecy, and every expert we’ve spoken to suggests the percentage of properly declared and tax-paid assets is in single figures. (Just as an indication - this rare table from Boston Consulting Group shows the intense profitability of offshore finance versus “onshore” finance: margins of 28% annually, versus a mere 13% for onshore players. The facility with which assets and income can be shielded from tax authorities by offshore structures surely goes a long way towards explaining these ultra-high profit margins.) If someone wants to argue that we should be cautious and assume a figure of - let’s pluck a figure out of thin air here - 90 percent, well, we can live with that.

In any case, we have said that our estimates are conservative ones. The next section explores the many and varied things that we have left out of our analysis. Who knows: the global total could be twice as big as we thought.

And there are many things we excluded

Our $21-32 trillion estimates of offshore wealth excluded many things. Each would require a large separate data-digging exercise to make sense of, and some are undoubtedly impossible to get a sensible handle on.

- This list only includes reporting banks for 44 countries, out of nearly 200 in the world. Countries excluded include China, Russia, Taiwan, Lebanon, British Virgin Islands, Israel, New Zealand, Latvia, United Arab Emirates, Hungary, Mauritius, Barbados, Liechtenstein, Seychelles, Vanuatu, Belize, Curacao and many others. This list includes many important secrecy jurisdictions. Imagine a bank account in one of these non-reporting jurisdictions. This money, if invested in a BIS reporting jurisdiction, should be flagged up in the BIS data as a liability to a bank, but not as a liability to non-banks. It is therefore excluded from the BIS data we use.

- Cross-border assets which are (for technical reasons, often deliberately created) recorded as domestic assets, and are excluded from the BIS data. This can occur, for example, when the legal owner of a bank account is a domestic institution. Take a shell company incorporated in Switzerland
which owns a Swiss bank account. This would wrongly be counted as a domestic Swiss asset by the BIS. However, while the ‘legal’ owner of the bank account is just a local shell company, the genuine beneficial owner hiding behind that shell company is who we are really interested in – perhaps a Ukrainian oligarch or Mexican criminal or just a plain-vanilla wealthy Indonesian or U.S. tax evader. Similarly, a trust might own a bank account, and if the trustee or trust is resident in the same place as the bank account is, then in the BIS statistics it will be treated as a local account and won’t be included in cross-border assets. We think it is impossible to know how large this issue, but given that we know from experience that this is a common offshore situation, it is undoubtedly large.

- Wealthy people directly hold significant funds in alternative assets such as hedge funds and private equity firms, which would be excluded from the BIS data. Again, some but not all of the multipliers cited above take them explicitly into account.

- Offshore big bills. As mentioned, we did not include these in the Price of Offshore Revisited. An estimated $1.3 trillion outstanding, cross-border, to which the 3.0 multiplier should be applied

- Corporate ‘offshore’ holdings. We subtracted U.S. corporate holdings from our deposits estimates - but we could also have substantially included them (or added them to our total, after applying the multiplier). It’s been estimated that the 307 largest U.S. corporations alone held US$1.95 trillion in stockpiled offshore profits outside the U.S. at the end of 2013, including cash, in a significantly ‘offshore’ situation, paying very low tax rates (see also here and, even better, here).

- Trade misinvoicing. Other studies include this in their estimates of capital flight (one of our three main components in the triangulation exercise); we excluded it. This factor can be large. Take, for instance, Global Financial Integrity’s research which takes this into account, and estimates that illicit financial flows out of developing countries has been running at close to $1 trillion per year recently.

- Unreported shareholdings. For instance, a third of the shares of Credit Suisse are not registered in any beneficial ownership registration. We have no idea how important this factor might be.

- Real estate, held cross-border. This is potentially a large fly in the ‘offshore’ ointment, with (for example) large numbers of U.S. Properties held by Latin Americans, for instance, and large numbers of U.K. Properties held by Russians, Malaysians and many other global investors. Very little information about this is available, little information reporting is provided, though some anecdotal data suggests that the quantity of offshore-held real estate, substantially in conditions of secrecy, is surprisingly high. Some of the multipliers cited above take real estate
into account (at around 15-20 percent of total portfolios) while others do not.

- Wealth held in free ports, described by The Economist as “warehouses for the über-rich.” It is not known how large this issue is, but given their increasing popularity it is likely to be significant. Even if not held in free ports, there is huge wealth locked up in yachts, supertankers, gold bullion, diamonds in toothpaste tubes, crystal-encrusted gloves from deceased pop megastars, racehorses, Van Gogh paintings, Bitcoins and many other undeclared cross-border assets that lie a million miles away from being captured by our analysis.

In short, we think we were being conservative.

Endnote: some fun with astronomical figures.

If you took $21 trillion dollar bills and laid them end to end, how far would they stretch?

Well, you can stretch about 6.5 dollar bills along a metre’s length.

1 kilometre = $6,500.

1,000 km = $6.5 million

1m km = $6.5 billion

1bn km = $6.5 trillion

3bn km = $21 trillion.

So how far is that?

Well, the sun is about 150 million km away, or 0.15bn km. The earth’s orbit around the sun (2 X π x 0.15) is about a billion km long.

So to conclude: take all the offshore money in the world and turn it into dollar bills, then lay them end to end. That much money would stretch three times along the earth’s orbit around the sun.

Imagine trying to fit that lot into a briefcase.

END
1 The *Missing Wealth of Nations: are Europe and the United States net debtors or net creditors?*, Gabriel Zucman, Quarterly Journal of Economics, 2013. Zucman looks at anomalies between countries’ portfolio asset positions as estimated by the IMF, corroborated with a unique Swiss data set, to estimate how much financial wealth goes unrecorded due to banking secrecy. Analysing Zucman’s paper fully is beyond the scope of this article, but the totals of wealth he finds in offshore tax havens (some $6 trillion) only looks at a subset of what the Price of Offshore Revisited is looking at. This is for three main reasons. First, we consider that the International Asset Position data is inadequate. Second, more importantly, the data that is available to the IMF and other data collection agencies which feed into the International Investment Position data isn’t the same as the data available to the relevant tax authorities, which we believe are more relevant in this respect. Third, perhaps even more importantly, we think his estimates exclude all wealth held in structures such as shell corporations and trusts. This is because while these structures do indeed create secrecy (as we have extensively documented elsewhere), they do not create discrepancies in the data of the recording institutions: they don’t ensure that no owner is recorded - they merely ensure that the wrong owner is recorded (e.g. the owner of the asset will be recorded by the bank as being legally “owned” by a lawyer serving as nominee for the relevant shell company, whereas the genuine beneficial owner is elsewhere. In other words, there will be no discrepancy between the assets and liabilities, for these purposes, and the asset therefore won’t show up in Zucman’s data set. In addition, most of the factors outlined in the last section of our paper here would equally apply to Zucman’s, meaning even his restricted view of offshore underestimates the numbers.

2 See p19 of the parliamentary report, where it says “La faiblesse du nombre de comptes déclarés (0,2 % des personnes physiques) ne laisse pas d’étonner, et montre, s’il était besoin, que le recours par des résidents fiscaux français à des comptes ouverts auprès d’établissements suisses répond quasi exclusivement à un objectif de fraude.” Separately, a U.S. report into Liechtenstein banking found a 98 percent undeclared rate: see here. At the other extreme, a study by the U.S. IRS found a 56 percent misreporting rate for assets not subject to information reporting. That, however, covers mostly domestic assets: the misreporting rate for foreign assets in secrecy would undoubtedly be much higher. See Tax Gap for Tax Year 2006: Overview; U.S. Internal Revenue Service, Jan. 6, 2012. For many less law-abiding populations elsewhere, the figures for non-declaration are likely to be far higher than for the U.S.

3 See, for example, Boston Consulting Group, *Global Wealth Report 2012*, which estimates U.S. plus European plus Japanese financial wealth in 2010 at $90.1 trillion, out of a total $120 trillion. Exhibit 1, p5: North America $38 trillion; Western Europe 33.6 trillion; Japan $18.2 trillion. This doesn’t exactly overlap the 139 countries studied in *Price of Offshore Revisited*, but there is a rough correlation.

4 Note, the lower figure for “Offshore centres” in Table 6A on pA29 of the same BIS table is not useful here: the BIS’ categorisation of ‘offshore centres’ is restricted to small island offshore centres. It is politically influenced, and excludes such offshore giants as Switzerland, Luxembourg, the United States and United Kingdom. (See here, if you doubt their offshore status.) This confusion has served the offshore players very well, by obscuring the scale of the issue, and by deflecting blame onto small island jurisdictions, which then in turn deflect blame by correctly identifying the larger financial centres among OECD countries as rank hypocrites. In practice, the smaller centres work in collusion with the larger centres, with Jersey Finance, for example, describing its offshore industry as “an extension of the City of London.” In any case, Table 6A wouldn’t be the data we need, even if it covered those countries effectively.

5 The document title is *L.100 Households and Nonprofit Organizations (1) Billions of dollars; amounts outstanding end of period, not seasonally adjusted*. In this document, it’s the last column, item 3.

6 Examples:

  (http://www.capgemini.com/resources/world-wealth-report-2013)

*Global breakdown of HNWI financial assets, Q1 2013:*
10.1% alternative investments
15.7% fixed income
20.0 percent Real estate
26.1% equities
28.2% cash / deposits
(implying a multiplier of about 3.5)

- Boston Consulting Group 2012, Global Wealth Report, p16
  (http://www.bcg.de/documents/file106998.pdf)
(in the text, not the graphs) – 23 percent in cash or deposits, implying a multiplier of 4.3.

- CapGemini/Merrill Lynch 2011, World Wealth Report, p16
  (http://www.ml.com/media/114235.pdf)

HNWI Allocations in 2010:

- 5% Alternative investments
- 14% cash / deposits
- 19% real estate
- 29% Fixed Income
- 38% equities.
(implying a multiplier of around 7.0)

The Price of Offshore Revisited estimated that the median value for 1998-2010 was 4.6, and for 2004-2005 it topped 4.9. This is easily verifiable from Merrill Lynch/Cap Gemini reports (e.g. we have found this one, where Exhibit 4 on p11 gives an average multiplier of 3.6). Readers will surely find others out there via a simple Google search.

Despite these higher multipliers, our report still used a conservative multiplier of 3.0.

7 Here’s an example to illustrate why this means we were being conservative. Let’s say, just for example, that the average portfolio has a 25 percent share of cash plus deposits – implying a multiplier of four. But if we take the cash component out, then let’s say you are left with a 20 percent share of deposits only. This would imply a multiplier of five. To get a feel for how large the offshore cash economy is, see, for instance, that there are some $300 billion of 500-Euro banknotes in circulation. As any citizen of Europe will tell you, 500 Euro notes are as rare on the streets as hens’ teeth – nobody in TJN claims to have ever seen one: even 200 Euro notes are rare. These big-denomination notes are used substantially by the world’s criminals and assorted secrecy players. See, for example, Paper money is unfit for a world of high crime and low inflation, Ken Rogoff, Financial Times, May 28, 2014, in which it was noted that “In arresting Joaquín “El Chapo” Guzmán, the Mexican drug lord, two months ago, authorities found a room containing more than $200m. Also see a forthcoming article in the American Interest provisionally titled Big Bills: How Western central bankers and treasury secretaries cater to illicit drug syndicates, money-launderers, racketeers, and kleptocrats. This estimates that there is some $1.7 trillion big bills outstanding, of which $1.3 trillion is held across borders, including the 1,000 Swiss Franc notes, and even $100 bills. Note that the multiplier would be applied to these cash deposits, which were not incorporated into the Price of Offshore Revisited.

8 Based on this BIS data, http://www.bis.org/publ/qtrpdf/r_qa1103.pdf

Table 1 E1: “liabilities to nonbanks”

9 “Offshore finance is, at its simplest, the provision of financial services by banks and other agents to non-residents.” Offshore Financial Centers, IMF Background Paper, June 23, 2000.


The calculation goes as follows. The EC data for 2009 (see above) contains €2.316 billion in interest payments, of which €259 million was from the UK and €2057 non-UK. With interest rates at 3.87% and 2.84% respectively, this would imply an asset base of (€2057 / 0.0387) + (€259 / 0.0284) = €62 billion. Average $/€ exchange rate was 0.705 in 2009, and the BIS' $6.8 trillion in cross-border deposits in 2009 (see here, table E1, liabilities to non-banks, average Dec 2008 and Dec 2009) was €4.8 trillion in global cross-deposits. Assume a quarter share for Europe, or €1.19 trillion - the €62 billion is about five percent of that. One could also perhaps factor into the asset base a further $495 million in tax revenue shared across-border under a withholding tax regime, adopted instead of information exchange by a few European tax havens. Tax was payable at 20 percent on this, suggesting cross-border interest payments of $2.5 billion, and an underlying asset base of $63 billion. We would not consider this as 'transparent' since the withholding tax option was provided for those jurisdictions that have opted to retain fully-fledged secrecy - so we would not put it into our own calculations. Others may want to include it, in which case our 1.5% figure could rise to 3 percent. In any case, given that there were almost no other working information exchange schemes underway, the global total (again assuming Europe has a quarter share) would be a quarter of that: perhaps 0.5 percent, or something like that. In short, almost nothing.

Winning in a challenging World, Boston Consulting Group, 2003, Exhibit 9, p14. We could not find a more recent example, though there may be some out there.


For instance, The Guardian reported in November 2012 that 94,670 offshore entities had been set up purely to hold UK property. An investigation for Vanity Fair in 2012 revealed that one single apartment building in London notes: “London land-registry records say that 76 had been by January 2013 for a total of $2.7 billion—but, of these, only 12 were registered in the names of warm-blooded humans, including Christian Candy, in a sixth-floor penthouse. The remaining 64 are held in the names of unfamiliar corporations: three based in London; one, called One Unique L.L.C., in California; and one, Smooth E Co., in Thailand. The other 59—with such names as Giant Bloom International Limited, Rose of Sharon 7 Limited, and Stag Holdings Limited—belong to corporations registered in well-known offshore tax havens, such as the Cayman Islands, the British Virgin Islands, Liechtenstein, and the Isle of Man.”