

Why Offshore Banking?

There are only two reasons for establishing an offshore bank in a foreign jurisdiction. One is legal the other is illegal. The legal reason is to offer a way for legitimate individuals and companies to trade outside of their home countries. The illegal reason is to defraud investors of their capital investment. Bankers promise the investor a rate of return higher than normal, luring him into a false sense of security. Here the offshore banker has no intention of meeting his obligations to the investor.

This story is on illegal offshore banking. The banker first finds a corrupt offshore tax haven. A country desperate to boost its financial and economic performance. The country positions itself as an emerging nation in offshore banking. It passes legislation and sets up institutions to lure bankers and investor onto its soil.

On one Caribbean island offshore banking industry emerged in 1997 when the nation issued its first offshore bank license. Over the next six years, the island licensed fifty banks. As a nation, it enjoyed an economic boost from the funds it received and the extra levels of business.

The authorities looked the other way while corruption at high levels of government on the island led to financial scandal. Greed engulfed the men who established the banks, broke international law and defrauded American and Canadian investors out of USD 500 million.

This Ponzi scheme scandal ruined the offshore banking industry on the island. The reputation the island was attempting to build for itself as a safe and secure offshore centre was smashed.

Leading up to the scandal many of the fifty banks licensed to run collapsed. Policies and legislation in place to regulate the banking industry were poor and useless.

By 2001, the Financial Action Task Force (FATF) placed the island on the list of noncooperative countries and territories in the fight against money laundering (NCCT). The FATF in its report cited several concerns: inadequate access by the supervisory authorities to customer account information; inadequate authority for the supervisory authorities to cooperate with foreign counterparts; and inadequate qualification requirements for owners of financial institutions.

In 2002, the U.S. Department of Treasury issued an advisory to banks and other financial institutions operating in the United States, to give enhanced scrutiny to financial transactions originating in or routed to or through the island; or involving entities organized or domiciled; or persons maintaining accounts there.

The government raises revenue from the offshore sector by imposing licensing and annual fees upon offshore entities. In addition, the island allows internet gaming sites and registers International Business Companies.

The collapse of the industry, arrest and imprisonment of the key players, and the efforts by the government to pass the legislation and regulations necessary for adequate supervision of the banks caused the FATF to remove the island from the NCCT list in 2003.

The same year the Department of Treasury lifted its advisory.

Read the story as part of my series of short stories Tales From My Caribbean Crypt on Amazon:

https://www.amazon.com/Tales-My-Caribbean-Crypt-Offshore-ebook/dp/B0751RTRJB/ref=sr_1_4?ie=UTF8&qid=1511303092&sr=8-4&keywords=garvey+louison