

Where in the world TO KEEP your money?

International relocation has become increasingly popular due to globalisation and expats in Hong Kong are obvious targets for financial institutions providing offshore banking services. But there are various pros and cons to consider if you want to deposit your money in far-away accounts.

DESPITE HIGHLY PUBLICISED crackdowns on banking secrecy and alleged tax havens during the past 12 to 18 months, including in some of the world's most respected financial centres, offshore banking remains a core part of the global financial system.

And Hong Kong's reputation as a leading financial hub with a relatively large population of wealthy and internationally-minded individuals makes it a focal point for institutions providing offshore banking services.

There are some clear reasons why banking in a jurisdiction located outside of their country of residence makes sense for expats. For example, such banks are typically in either zero-tax or tax-efficient environments as well as having the attractions of greater stability and security, higher levels of privacy and confidentiality, and quick and easy international access for customers to their cash.

"Expats may still have bills to pay back in their home country or they may want to keep some of their savings abroad and want easy access to their money; an offshore banking account will allow the expats to manage their money in different currencies with ease and have access to their money from anywhere in the world", says Neil Jensen, Business Development Director, Lloyds TSB.

At the same time, activities commonly associated with offshore banking – whether perceived or real – are terrorist financing, money laundering and tax evasion.

Yet so long as the intentions are legitimate these negatives shouldn't deter anyone keen to use offshore banking services for the flexibility they claim to offer.

WEIGHING THE OPTIONS

While the term "offshore banking" is widely-held to have originated from the Channel Islands, being physically located just off the shore of the United Kingdom, some of the most renowned offshore centres today also include landlocked nations such as the well-known European destinations of Switzerland, Luxembourg and Andorra.

As offshore banking has grown in popularity and accessibility, in particular in Asian expat hubs such as Hong Kong and Singapore, a number of misunderstood issues lead to confusion and uncertainty over the purpose and value of offshore banking.

Examples of the different offerings from a small sample of some of the many banks competing in this space are included in the box entitled What's on Offer? But there are some clear benefits common to offshore banking in general, which expats should be aware of:

Higher interest rates: Some offshore banks have lower costs, due to fewer overheads and less strict regulatory requirements, than their domestic counterparts, enabling the offshore providers to give customers higher interest rates than the rate in the home country.

Tax-free interest: Offshore banks tend to pay interest on deposits without deducting tax, giving an advantage to individual account-holders who don't pay tax on worldwide income – such as Hong Kong residents.

Additional services to onshore banks: Many offshore banks try to differentiate their offering by creating a suite of services that their counterparts onshore might not provide to domestic customers. Examples of these include anonymous or numbered bank accounts, lower-rate loans based on risk and various investment opportunities.

Access to other beneficial structures: Customers of offshore banks are typically able to benefit from integrating their offshore accounts with other structures, for instance offshore companies, trusts or foundations. Each of these might have specific tax advantages for some individuals.

However, it is also important for expats to be aware of some of the disadvantages that offshore banking is considered to have, even though some proponents dismiss these as mere myths:

Question marks over financial security: A frequently-cited downside to offshore bank accounts is that some people believe they are less financially secure than domestic accounts. Following problems experienced by depositors in Isle of Man accounts in 2008 during the financial crisis, for example, the Isle of Man compensation scheme will be in place as of October 2009, but is only £20,000 (HK\$255,000), meaning that the funds of potential depositors will be at risk for any accounts greater than that amount.

Association with the underground economy: Critics of offshore banking in general point to the use of these types of accounts to launder money as part of organised crime, terrorist financing or other activities associated with underground economies. This tends



to tarnish the reputation of an industry that is used to a large extent for respectable reasons such as tax planning and asset protection.

Remote locations: By definition, offshore banking means depositing money in an account that is often located several thousand miles from the home location of the customer. Such distances make physical access more difficult, time-consuming and costly. But that is only relevant if visits in person are needed, given the prevalence – and ever-increasing security – of internet and telephone banking for transactions and electronic transfers. Many of the offshore providers also give customers ATM access in many locations worldwide, making the money just as accessible as it is from a local bank account.

Exaggerated asset-protection benefits: There is often a danger that some of the benefits of offshore banking – such as legal, financial and asset protection – are over-stated. Not every potential customer needs to implement such strategies.

High minimum deposit thresholds: Some offshore bank accounts are known for setting account-opening minimums of \$100,000 or equivalent, making them accessible to a smaller universe of potential customers. But a significant number of banks offer accounts with minimum balances of £5,000, \$5,000 or €5,000.

Post office banks: Neil Jensen of Lloyds TSB points out that in terms of offshore banking services, “some banks in Asia simply act as post offices for their parent’s overseas operations. Customers have to bear in mind that dealing with post office operations may cause delays and other frustrations. It is therefore important to look for a service provider which will have a local presence with English-speaking staff.” Harvey Catlin, Senior Regional Manager, HSBC Bank International Limited, adds that, “People should look for a well regulated offshore centre where their money can be safe as well as grow. Things to consider with the choice of offshore banking provider are the financial security of the organisation, how international the organisation really is – so they can serve the needs of the individual as they move from country to country – and to ensure that any advice from the financial adviser is independent rather than tied to the parent organization.”

EMERGING CHALLENGES

Any expat who either has an existing offshore bank account or is considering opening one should be aware of the mounting challenges facing the providers in the reshaped financial landscape that is emerging as the world works its way (hopefully) through the latter stages of the global crisis

In today’s new era of compliance and controls, some aspects of the offshore model have been thrown into doubt. This means that private banks, wealth management firms and other advisers offering offshore services are under greater scrutiny than ever before from regulators and tax authorities in terms of the types of products services they offer.

The catalyst came in late 2008 when the US Internal Revenue Service publicly revealed its investigation into the private client accounts of US customers of UBS, Switzerland’s biggest bank. The future of Swiss banking secrecy laws, and others around the world, has been the subject of intense debate ever since.

WHAT’S ON OFFER?

A quick look at three of the major players in the offshore banking space provides further insight into the rationale for offshore banking for depositors.

HSBC Bank International, for example, touts its three key advantages as: security – in terms of it being a global bank in a well-respected offshore jurisdiction (Jersey); convenience – in terms of its accounts and investments being designed for international needs; and value – in terms of its competitive interest rates. More specifically, it promotes tax-efficient savings and investments, independent financial advice in person or by phone, on-the-ground representatives in Dubai, Hong Kong, South Africa and Singapore, somewhere safe for a customer’s money in times of political or economic instability, international money transfers at reduced rates and 24-hour access to accounts and investments online and over the phone.

Lloyds TSB International offers customers the choice of accounts in sterling, US dollars and euros (with a debit card for each currency), various ways of getting easy access to funds, a range of direct transfer options, benefits of competitive interest rates, 24/7 online and phone banking, and a dedicated relationship management team. Added services include will writing, international card protection, discounted travel and private health insurance, access to a wide range of international banking products (from savings accounts to mortgages) and a dedicated international support team.

Meanwhile, **Abbey International** promotes above all else the security of knowing their deposits are fully and unconditionally guaranteed by Abbey National plc, itself a wholly-owned subsidiary of the Santander Group. Abbey also points to its location in Jersey, with its highly-regulated financial services industry as providing added stability and tax advantages through zero local capital gains tax and zero local wealth tax, as well as interest on offshore accounts being paid gross.

At the higher end of the offshore spectrum, private banks, which had previously relied on operating from central locations and then flying advisers around the world to service onshore clients, are now more restricted in their reach and activities.

They are increasingly worried about issues such as the types of conversations their relationship managers are allowed to have with existing and potential clients offshore; whether their relationship managers can engage in reverse solicitation, such as calling clients to follow up on the visit with investment advice at a later point; and whether their relationship managers can sign up new accounts during the visit, or whether they have to wait until after their trip and then do it over the phone, or even whether the client has to visit the relationship manager in the offshore centre.

Added to this is the uncertainty over how individual regulators or tax authorities will interpret their rules.

The upshot is a question mark over the ability of firms to offer the same scope of products and services as in the past.

For the time being, however, for expats looking for a more straightforward, tax-efficient and flexible financial component to their international lifestyle, offshore banking will likely retain its advantages for many years to come.