Introducing the 2011 Financial Secrecy Index

The Financial Secrecy Index is a tool for understanding global financial secrecy, corruption and illicit financial flows. By ranking secrecy jurisdictions according to both their secrecy, and the scale of their activities, it allows a politically neutral ranking of the biggest players.

Overview: Shining light into dark places

The World Bank's Stolen Asset Recovery (StAR) initiative has endorsed estimates that illicit financial flows across borders add up to $1-1.6 trillion per year, about half from developing and transitional economies. Others estimate that illicit financial flows out of developing countries alone stood at around $800 billion – $1.26 trillion in 2008. Looking at a related issue, the Tax Justice Network has estimated, conservatively, that about $250 billion is lost in taxes each year by governments worldwide, solely as a result of wealthy individuals holding their assets offshore. The revenue losses from corporate tax avoidance are greater. It's not just developing countries that suffer: European countries like Greece, Italy and Portugal have been brought to their knees by decades of secrecy and tax evasion.

These staggering sums are encouraged and enabled by a common element: secrecy. Secrecy jurisdictions, a term we often prefer instead of the more widely used term tax havens, compete to attract illicit financial flows of all kinds, with secrecy as one of the most important lures. A global industry has developed where banks, law practices and accounting firms provide secretive offshore structures to their tax dodging clients. Secrecy is a central feature of global financial markets – but international financial institutions, economists and many others don't confront it seriously.

The problems go far beyond tax. Secrecy distorts trade and investment flows, and creates a criminogenic environment for a litany of evils that hurt the citizens of rich and poor countries alike: fraud, evasion and avoidance of financial regulations, insider dealing, embezzlement, wholesale bribery, non-payment of alimony, money laundering, tax evasion and much more besides.

The time has come to identify the true culprits providing this secrecy.

***Click here** for the full ranking.

What is the significance of this index?

The index reveals that the traditional stereotype of tax havens is misplaced. The FSI reveals without doubt that the world's most important providers of financial secrecy are not small, palm-fringed islands as many suppose, but some of the world's biggest and wealthiest countries.

It also reveals that the illicit financial flows that keep developing nations poor are predominantly enabled by rich OECD member countries and their satellites, which are the main recipients of these illicit flows. The trillion-dollar figure for annual illicit financial flows out of developing countries, above, compares with little over US $100 billion in global foreign aid. So for every dollar of aid provided by OECD countries to developing nations, ten dollars or so flow back, under the table. The implications for global power politics are clearly enormous.

The pattern that the FSI reveals also helps explain why widely heralded international efforts to crack down on tax havens and financial secrecy have been so ineffective. It is OECD countries, which receive these gigantic inflows, which set the rules of the game. It helps explain why when the G20 declared in April 2009 that 'the era of banking secrecy is over', it delivered very little indeed: not far off a whitewash. (Read more about this here, and in the section *"Is the era of banking secrecy over," linked below.)

It is business as usual in the secrecy jurisdictions, and global financial secrecy remains entrenched.

For far too long, governments and campaigners concerned with cross-border finance have focused too heavily on narrow problems such as terrorist financing and on certain kinds of money laundering, while ignoring the much bigger picture involving tax evasion, abusive trade pricing and a range of other crimes and abuses. These larger problems operate through, and perpetuate, exactly the same mechanisms of offshore financial secrecy that facilitate cross-border flows of terrorist and drug financing. Tackling the smaller issues, while ignoring the bigger ones, cannot work.

The only realistic way to address these problems in a comprehensive way is to tackle them at root: by directly confronting offshore secrecy and the global infrastructure that creates it. A first step towards this goal is to identify accurately the jurisdictions that make it their business to provide offshore secrecy, and then to rank them in order of importance.

This is exactly what the FSI does.

As well as identifying the providers of financial secrecy, the FSI will help open up entirely new areas of debate and analysis. Click **here** to read more.

- **The politics of secrecy**
- **The British connection**
- **Is the era of banking secrecy over?**
- **Financial secrecy and global markets?**
- **Financial secrecy and corruption**
- **The intermediaries: enablers of illicit financial flows**

What is the Financial Secrecy Index?

The 2011 Financial Secrecy Index (FSI) focuses on 73 secrecy jurisdictions. These places set up laws and systems which provide legal and financial secrecy to others, elsewhere.

The FSI combines two measurements, one qualitative and one quantitative. The qualitative measure looks at a jurisdiction's laws and regulations, international treaties, and so on, to assess how secretive it is. The assessment is given in the form of a **secrecy score**: the higher the score, the more secretive the jurisdiction. The second, quantitative, measurement attaches a **weighting** to take account of the jurisdiction's size and overall importance to the global financial markets. In combining the two scores, we mathematically emphasise the secrecy score and de-emphasise the weighting, in order to give secrecy its due importance.

The Financial Secrecy Index website provides our main talking points and some analysis. However, it is backed by a second website, called **Mapping Financial Secrecy**, which contains a wealth of much more detailed research and data, along with a glossary

The 2011 FSI ranking cannot be directly compared to our inaugural FSI, published in 2009. Although the methodology is largely comparable to the last one, we have improved it in several respects and we include more jurisdictions than last time. One important change is that when combining the secrecy score with the weighting, we emphasised the secrecy score relative to the weighting even more than we did in 2009. Because of these changes, it makes little sense to say things like ‘x country has moved up/down five places since 2009.’ (See more details on this below.)

The FSI differs from rankings which focus on identifying corruption and governance problems within countries. In this sense, it is unique. Because the core business of secrecy jurisdictions is to facilitate criminal and other activities carried out elsewhere, in a world of global financial movements it makes no sense to focus only on what happens inside individual jurisdictions. So financial secrecy must be analysed according to how laws and regulations in one jurisdiction change the behaviour of others elsewhere.

The 2011 FSI ranks the jurisdictions most to blame for supplying financial secrecy, and provides pointers for global action.

Read a full description of how the FSI is calculated, in our full methodology here.

What is financial secrecy?

Financial secrecy is different from legitimate confidentiality. A bank won’t publish your account details on the internet, in the same way that a doctor won’t hammer details of your ailments on the surgery door. This is perfectly normal and acceptable. Financial secrecy occurs when there is a refusal to share this information with the legitimate authorities and bodies that need it, in order to tax wealthy taxpayers appropriately, for example, or to enforce its criminal laws.

Financial secrecy is harmful.

Financial secrecy comes in three broad flavours. The first is the most well-known: bank secrecy – such as that offered by Austria, Luxembourg, and Switzerland. Bankers promise to take their clients’ secrets to the grave, and the secrecy jurisdiction often applies criminal penalties to those who break the secrecy.

A second flavour, less well known but more important on a global scale, involves jurisdictions permitting the creation of entities – whether trusts, corporations, foundations, anstalts or others – whose ownership, functioning and/or purpose is kept secret. Secrecy provided through an offshore trust, for instance, can be even harder to break than bank secrecy (read more about trusts here.) Offshore companies offered by Nevada, Delaware and Wyoming in the United States, for example, also offer near-unbreakable secrecy facilities (read more in the **USA jurisdiction report**). The real owner, or the beneficiary, of one of these entities, will typically be hidden behind nominees: professional agents typically located in secrecy jurisdictions who act as fronts for the real owner. Even if you can identify the nominees, this gets you no closer to the real warm-blooded individuals who own or benefit from the entity. The tax haven of Jersey estimated in 2009 that there were up to US$400 billion in Jersey trusts alone; it is then safe to say that many trillions of dollars' worth of assets are held in such structures.

A third flavour of secrecy relies on jurisdictions putting up barriers to co-operation and information exchange. This may be achieved through deliberately refusing to pursue and obtain information held locally: even with the most impeccable information-exchange agreements with other jurisdictions, these are worthless if the secrecy jurisdiction doesn't have the information available to exchange in the first place. Alternatively, secrecy may be achieved through an unwillingness to share information with other jurisdictions – whether through a point-blank refusal to exchange information, or the erection of bureaucratic or other obstacles to information exchange.

Many of these three flavours – particularly the second and the third kinds – involve complex and devious subterfuges that are difficult to identify. The FSI represents the first ever attempt to make a comprehensive global effort to identify such facilities, and weigh them in importance.

Chart 1, which strips out the weighting from the FSI and focuses purely on the secrecy score, reveals how the 73 jurisdictions are distributed across the secrecy spectrum. They range from exceptionally secretive (Maldives and Nauru, indicated by the red bar), to moderately secretive (Denmark and Spain, indicated by the dark green bar). Most jurisdictions assessed are clustered towards the murkier end of the secrecy spectrum. Clearly much more needs to be done to tackle this global scourge.

Chart 1: 2011 Secrecy Jurisdictions by secrecy scores

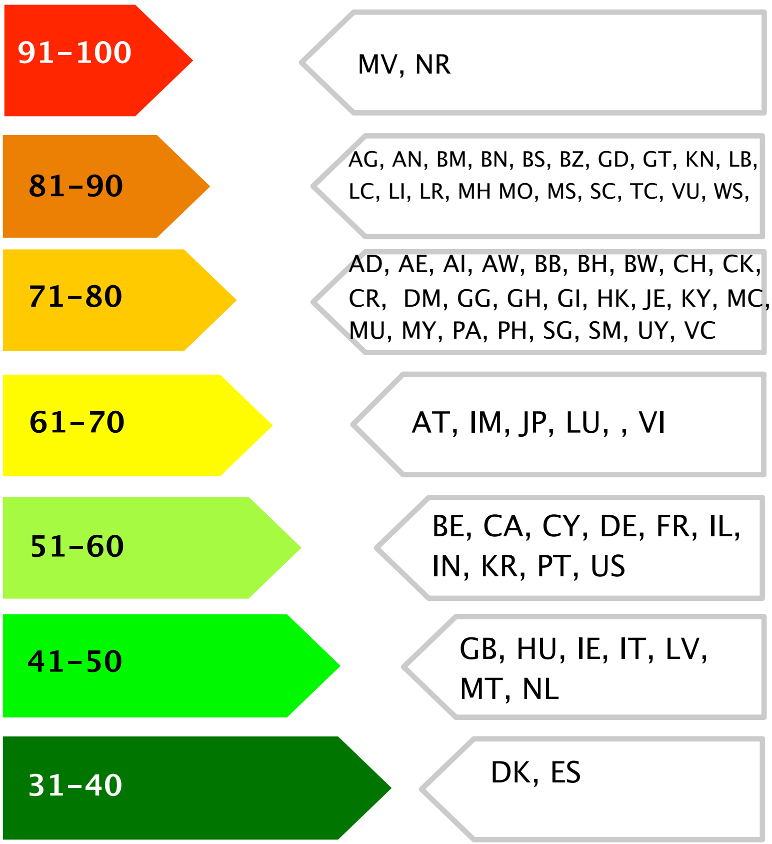

Chart 1: KEY

The bars in this chart range between red indicating exceptionally secretive, to dark green indicating moderately secretive.

See Table 1 for the country codes used in this chart.

Looking at all this in a more positive light, it is also important to identify what financial transparency is, as a guide to best practice and where we should be heading. Two promising avenues are automatic information exchange, explored here, and country-by-country reporting, explored here.

For a more detailed look at this, please see our document What is financial transparency?

What is a secrecy jurisdiction?

We use the term ‘secrecy jurisdiction’ interchangeably with the term ‘tax haven’ – depending on what aspect of a jurisdiction we want to emphasise. So for this report we prefer the term ‘secrecy jurisdiction.’

Loosely speaking, a secrecy jurisdiction provides facilities that enable people or entities escape or undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool.

Read more. For a detailed exploration of the characteristics of secrecy jurisdictions, and some discussion of the language, see Richard Murphy’s paper Defining the Secrecy World. Another useful definition is contained in Treasure Islands (page 8 of the UK definition,) and there is a discussion of definitional difficulties in Tax Havens: How Globalization Really Works, by Ronen Palan, Richard Murphy and Christian Chavagneux, mostly on pp21-25.

Which jurisdictions are included in the FSI?

The FSI includes 73 jurisdictions, each of which has a detailed jurisdiction report explaining the opacity scores in detail and providing a wealth of additional data, as well as an explanation of how the score can be improved upon.

Click on a jurisdiction in the table below to access the jurisdiction report.

Table 1: Secrecy Jurisdictions by ISO codes

Jurisdiction	ISO	Jurisdiction	ISO
Andorra	AD	Korea	KR
Anguilla	AI	Latvia	LV
Antigua & Barbuda	AG	Lebanon	LB
Aruba	AW	Liberia	LR
Austria	AT	Liechtenstein	LI
Bahamas	BS	Luxembourg	LU

Bahrain	BH	Macau	MO
Barbados	BB	Malaysia (Labuan)	MY
Belgium	BE	Maldives	MV
Belize	BZ	Malta	MT
Bermuda	BM	Marshall Islands	MH
Botswana	BW	Mauritius	MU
British Virgin Islands	VG	Monaco	MC
Brunei Darussalam	BN	Montserrat	MS
Canada	CA	Nauru	NR
Cayman Islands	KY	Netherlands	NL
Cook Islands	CK	Netherlands Antilles	AN
Costa Rica	CR	Panama	PA
Cyprus	CY	Philippines	PH
Denmark	DK	Portugal (Madeira)	PT
Dominica	DM	Samoa	WS
France	FR	San Marino	SM
Germany	DE	Seychelles	SC
Ghana	GH	Singapore	SG
Gibraltar	GI	Spain	ES
Grenada	GD	St Kitts and Nevis	KN
Guatemala	GT	St Lucia	LC
Guernsey	GG	St Vincent & Grenadines	VC
Hong Kong	HK	Switzerland	CH
Hungary	HU	Turks & Caicos Islands	TC
India	IN	United Arab Emirates (Dubai)	AE
Ireland	IE	United Kingdom	GB
Isle of Man	IM	Uruguay	UY
Israel	IL	US Virgin Islands	VI
Italy	IT	USA	US
Japan	JP	Vanuatu	VU
Jersey	JE		

How did we choose these jurisdictions?

Some people are surprised to see countries like France and Germany identified as secrecy jurisdictions. However, every country in the world exhibits at least some elements of secrecy. This may simply be because of omission: the country simply has not set up the information-sharing and other mechanisms that would reduce its score to zero. (And in fact, media stories and other sources indicate that France and Germany host large illicit assets from other countries, in conditions of secrecy.)

The original 2009 FSI contained 60 jurisdictions (see our original methodology here) but we have expanded this to 73. We filled it out by ensuring that the updated list contains:

- All 20 jurisdictions with the highest share of financial services exports (so we have added France, Canada, Japan, Germany, Italy, Denmark, India, Korea)
- Countries not previously included but with known secrecy jurisdiction characteristics: Ghana, Botswana, Guatemala and San Marino.

In subsequent FSIs we will include more jurisdictions needing serious scrutiny, such as New Zealand.

The Financial Secrecy Index: an analysis and an invitation

Ultimately the FSI is both a tool for analysis and an alarm call for action. The analysis is entirely original. The call for action is directed to civil society groups, politicians, economists, corporations, academics, and others, demanding they acknowledge the problem of global financial secrecy and illicit finance, take steps to learn about and understand it, and to take effective measures to tackle them.
--
Contact: info@taxjustice.net

