

The real size and intensity of Offshore Financial Centres

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All 'offshore financial centres' (OFCs) have one characteristic feature in common; they offer very low tax rates and lax regulations to non-residents with the aim to attract foreign financial assets. OFCs essentially undercut 'onshore' jurisdictions at their expense. The main beneficiaries are high-net-worth individuals and large multinational corporations that have the capital and expertise required to utilise OFCs. Beyond its geographical connotation the phenomenon of 'offshore' represents a withdrawal of public regulation and control, primarily over finance. Some important OFCs are in fact located 'onshore', e.g. Delaware in the USA and the City of London in the UK. However, historically many OFCs have literally developed 'off-shore', mostly on small islands.

OFCs as defined by Zoromé (2007) are jurisdictions that provide financial services to non-residents on a scale that is excessive compared to the size and the financing of their domestic economies. The graphic shows combined data on securities (Coordinated Portfolio Investment Survey by the IMF) and on deposits/loans (Locational Banking Statistics by the BIS) at the end of 2011. Capturing the two by far most important components of financial centres allows a reasonable approximation of the real size of OFCs while avoiding double counting. The larger the size of the circles on the map, the more foreign financial assets have been attracted to the particular jurisdiction. The vast majority of the almost US\$70 trillion foreign financial assets are concentrated in North America, Europe and Japan. Areas with assets below \$US50bn are not shown for their relative insignificance in the global context.

The graphic shows the foreign financial assets divided by the GDP of the jurisdiction, the so-called 'OFC-Intensity Ratio'. Here it becomes obvious that the Cayman Islands – the sixth largest international financial centre according to the data – are by far the most *intensive* OFC in the world. The foreign financial assets are more than 1,560 times larger than the GDP of this tiny archipelago under UK sovereignty. Remarkably, the top ten of the most intensive OFCs is dominated by jurisdictions that are under the sovereignty of the UK or that are (formally independent) Commonwealth realms. While it is extremely difficult to say above which value a financial centre has a scale that is incommensurate with the size of its domestic economy, it could be argued that jurisdictions with an OFC-Intensity Ratio of more than three could already be seen as OFCs. Then, even the UK and the Netherlands would be OFCs. However, the more common perception also takes the absolute size into account, where smaller jurisdictions with a very large OFC-Intensity Ratio matter more than very large ones such as the United Kingdom, despite it having very similar characteristics as other OFCs.

