



THE SILENCE OF THE SCAMS

A Spiders' Convention

The offshore financial services business, despite the close scrutiny encountered from onshore governments and the press, is flourishing and huge sums of money are being funnelled into investments by bankers, lawyers, accountants and other professionals on behalf of their clients. Opportunities appear to abound, but investors embarking for the first time on a voyage of discovery into offshore waters should move cautiously.

One of the most effective tools in luring investors has been the Internet and there is no question that browsing the Web can be addictive. The problem is that webs are also used by spiders who, in this instance, are the silver-tongued con-men with a smooth patter who convince the investor to part with his money with the eagerness of a convert at a revivalist meeting. The amount of information available on the Internet about offshore financial services and products is staggering, but if you don't separate the wheat from the chaff you could become a fly at a spiders convention. Some of the promises and assurances are reminiscent of Will Rogers who said, when commenting about a politician, "It's not what he doesn't know that bothers me. It's all the things he knows for sure that just ain't so!" You hear about the big scams in the newspapers, but alongside those are the numerous, smaller ones that remain silent for the public at large, but are very real for the victims.

Pyramids and the Devil

There are some fundamentals which should serve as beacons when an individual is walking through this electronic maze of apparent opportunities. Given that you are not opening an account with an internationally-recognised, reputable financial institution and are entering the secondary market, it becomes important to draw back the curtain of words that tell you what the advertiser can do for you and discover the bona fides of those who will be actually doing it. Are they experienced? Are they qualified? Suddenly, as offshore financial services reach a wider domestic market more and more practitioners of various disciplines are wrongly professing to be highly knowledgeable in particular areas, hoping to play catch-up as they go along; this is all very well, but not if it's at your expense. One or two years offshore experience or perhaps several business trips to an offshore centre do not an expert make, any more than one swallow makes a summer, as Aristotle reminded us.

Besides the personnel, the pedigree of the company is an important factor and a company which has been operating for a respectable period of time can be more reassuring. Look



also at who the company's bankers and (more importantly) auditors are; the company should have no objection to providing references from either or both these sources. If a company is not audited, then there is no independent monitoring of its activities, which is the ideal environment for pyramid schemes, a plague which has spread to the Internet. Fresh funds are the lifeblood of these scams and when the supply is cut off - often due to a combination of unanticipated events – then the pyramid will invert and the false financial edifice will come tumbling down.

Variations of the pyramid scheme are occurring constantly and it would be well to remember, as I say, that for every highly-publicised swindle, with newspaper pictures of despondent investors, there are countless other frauds where the impact is just as devastating for the victims, except that their faces have not appeared in a newspaper. In a case of the Devil looking after his own, many investors will have compelling, lawful reasons to keep low-key about their investment and, in consequence, they neither seek legal redress nor report the fraud to the authorities but just suffer in silence.

Pirates and Pawns

The banking authorities have increasingly become more co-operative in exchanging information with each other. Offshore regulators, such as the Bahamas, Bermuda, the Cayman Islands, Hong Kong, Panama and Singapore have taken similar steps. I welcome this because I have always advocated the need for more co-operation between the authorities as opposed to more regulation. This became very obvious to me when I was an offshore banking regulator (1989-1992).

Regulators must ensure that banking guidelines are kept updated, and followed. Infractions can be severely prosecuted, especially in the United States of America, and which presents an international problem because of the clout of the greenback. The US government can claim jurisdiction to prosecute foreign bankers, whether pirates or pawns, on the basis that U.S. dollars wire-transferred from, say, London to Singapore would most likely have passed through the New York clearing bank system and this momentary pause via a series of electronic blips would subject the transaction to the jurisdiction of the American courts.

Wistful Conclusions

I can only repeat what I have said so often before, that experience is all that counts, more so than the practitioner's location. Besides, perceptions of jurisdictions can be misleading. It still remains a fact that it is usually easier to open a bank account in the US than it is in



today's Panama and most other offshore centres. Several prime offshore centres suffer from biased propaganda, but the fact is that there is no ideal offshore jurisdiction and there never will be. The best of offshore centres will never be immune from the worst of publicity if the fates conspire against it and what really counts is the presence of professional competence. In previous articles I spoke of the concept of The Order of the Hammer (TOOTH), illustrating my point with the experienced engineer who put aside his sophisticated tools and applied a hammer-blow to get a machine to work. He sent his bill and charged not for his effort but for his skill in knowing precisely where to aim the blow.

If you wish to avoid TOOTHache, seek out professional advice; even if it costs money, the price of not getting it can be much higher if you're steered towards the wrong investment or strategy. Sadly, we can all fall foul of the masterly fraud, although little comfort can be derived from the thought that if God made man, who can you trust?

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