GUIDE TO OFFSHORE BANKING
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DOUG CASEY ON INTERNATIONALIZING YOUR ASSETS

In a wide-ranging interview with Casey Research editor Louis James, Doug Casey discusses why it’s imperative to start diversifying one’s assets today, and provides some guidance in considering countries to diversify into.

L: Doug, we’re getting a lot of questions from readers on how to follow your advice to diversify assets politically. I know it’s a prickly subject, but what can you tell us about getting our money out from behind the new iron curtain that seems to be descending?

Doug: First – and I can’t stress this enough – you’ve got to accept the grim reality of impending currency controls. The modern era of foreign exchange controls really started with the perversely Orwellian-named Bank Secrecy Act of 1970. For the first time, that made it obligatory for US citizens to report any foreign bank or brokerage accounts they had to the government.

But the threat is older than that, of course, going back to 1933, when Roosevelt confiscated Americans’ gold. Interestingly enough, only gold bullion held by Americans within the United States was confiscated. If you had gold outside the United States, you were insulated.

L: I didn’t know that – if history repeats itself, that could be a key tactical factor for our readers to consider.

Doug: Yes. There are no guarantees, of course. Those in government today think they can do absolutely anything they deem necessary and expedient. But at least if it’s out of their physical bailiwick, it improves your odds.

L: Why do you think they allowed that exemption last time? I doubt it was because they had any shred of respect for private property – maybe they just recognized that trying to seize gold overseas would be impractical.

Doug: Good question. Well, the 1930s were a different era. Communication, for one thing, was vastly slower and more expensive than it is now. And you have to remember that though we had an income tax in the 1930s, since 1913 actually, very few people were paying it – even among those allegedly legally obligated to pay it – even among those we had an income tax in the 1930s, since 1913 actually, very few people were paying it – even among those allegedly legally obligated to pay it. It was hard for the government to find out who they were, and how much they were earning, and so on. Even though there were only 140 million people in the country then, the absence of computers and much less centralization made it very hard for Washington to keep tabs on them.

L: The income tax really was a voluntary tax back then!

Doug: [Laughs] Much more so than now – it really was a different era. At any rate, based on this history and that the juggernaut is building momentum towards the bottom of the ditch, I have to reiterate my advice on the most important investment decision you can make. And it isn’t one among the different classes of investment; it’s political and geographical diversification. Simply put, that’s because no matter where you live, your government is the greatest threat to your wealth today.
If you’re a high-income earner, the state basically takes 50% of what you earn, and then from what’s left, you have to pay your real estate taxes, sales taxes, and many, many other kinds of taxes. Government is without question the biggest danger to your financial health. You’ve got to diversify your assets so they are not all under any one government’s control.

L: You say that in almost every speech you give these days, and you said it in one of our interviews a couple of weeks ago.

Doug: Yes, and it bears repeating, constantly. It’s the elephant in the room that very, very few people pay any attention to, and it’s going to stomp most people to death, for just that reason.

L: Okay, so give us a primer. For those who want to avoid getting crushed by the elephant, where do they begin?

Doug: To start with, it makes all the sense in the world to have a foreign bank account. Not a hidden one – I’m not advising anyone to break any laws. You report it on your annual tax filings. So, the government will know about it, but if it’s a foreign bank account, they can’t just step in and lock down your assets in an instant.

L: Does Canada count as a foreign country for Americans?

Doug: I’ll probably get hate mail for saying so, but it’s important for investors to recognize that Canada is a sort of “USA Light.” When Washington says, “Jump!,” Ottawa says, “How high?” Nonetheless, if only for the sake of formalities and legal pleasantries, US citizens would have some degree of insulation with a Canadian bank account. And, as a general rule, Canadian banks are more solvent than US banks, so setting up a Canadian bank account is an easy first step for many US investors.

The second thing to do would be to set up a Canadian brokerage account. Unfortunately, the SEC has made it so that no Canadian broker will open an account with an American unless they have a US subsidiary. That, in effect, makes your Canadian brokerage account like a US brokerage account. That doesn’t help you much from an asset-protection point of view, but it does let you trade directly in many of the stocks we recommend.

Third, I think that having a safe deposit box in Canada is vastly preferable to having one in the US. You probably do remember that when Roosevelt confiscated gold in 1933, he also sealed safe deposit boxes in all US banks. No American could visit a safe deposit box for some time without a government agent accompanying him. That could certainly happen again.

And all of this is true in other countries around the world. But yes, as an easy place to start, Canada is a sort of plain-vanilla jurisdiction that’s worth giving a try.

L: So, what would be the French vanilla, or even the Bailey’s Irish Cream jurisdiction? Is there such a thing as a tax haven anywhere in the world anymore? Even the Swiss have caved… I just heard that they just started handing over new account info to US authorities.
Doug: Yes, apparently there were some 50,000 accounts UBS had, owned by US citizens. UBS, a multinational bank with a very substantial presence in the United States – and therefore exposure to extortion by US authorities – was going to hand them all over. The Swiss government stepped in, saying they would prosecute UBS officials if they violated Swiss law by doing that. But the Swiss worked out some sort of compromise with the US authorities, so only about 5,000 accounts are being handed over. On what basis they picked these 5,000 is uncertain.

So, the first tax-haven rule is to never go to a place that’s obviously a tax haven. If I were interested in bank privacy, I’d forget about places like the Bahamas or the Caymans. It makes no sense at all today. All those little island republics are totally under the thumb of the US at this point. And they’ve always been infiltrated with stooges. They may have bank secrecy laws, but they don’t have a tradition of privacy like Switzerland has – although that’s no longer what it was.

You’ll recall how the German government bribed a Liechtenstein banker to steal account names and information. The Germans then turned over relevant data to the UK, US, and other governments, who were quite happy to receive stolen goods. And there was about zero protest over the appalling theft. It’s a testimony to how thoughtless and ethically complacent most people are; when a state commits a crime, they just overlook it.

L: Are you saying that all of the little havens are unreliable?

Doug: Well, I don’t know of any that are reliable.

Instead, I would recommend places that are geographically distant from the US – and culturally distant as well. To me, the best places to be are in the Orient. That’s partially because the Chinese and other Oriental civilizations are much less prone to roll over and do what they are told. National pride ensures that, if nothing else.

But if you go this route, with, say, an account in Hong Kong, you certainly would not want to use a bank like HSBC. It’s got branches all over the world, prominently in the US – so, like UBS, they’ll do what they are told.

Actually, there are still Swiss banks that will open an account for a “US person,” if you can convince them to do it. But you definitely do not want a Swiss or Liechtenstein bank that has any presence in the US. The same would be true in the Orient – so forget about HSBC. You want a real Chinese bank. That way, when the US government calls, the phone will be answered in Chinese and no one will speak English with them.

The best places are the least obvious places. Malaysia is interesting. Thailand. These are completely non-tax-haven types of places – and that might make them suitable.

Your only chance to protect your wealth is to start diversifying its exposure to any one particular predatory state as soon as possible.

I have to stress again the urgency of diversifying the political risk your assets are exposed to: do it now.
GUIDE TO OFFSHORE BANKING

L: Okay, Doug – thanks!

Doug: You're welcome.

UN Sound Banking: Why Most Of The World’s Banks Are Headed For Collapse

By Doug Casey

You're likely thinking that a discussion of “sound banking” will be a bit boring. Well, banking should be boring. And we're sure officials at central banks all over the world today—many of whom have trouble sleeping—wish it were.

This brief article will explain why the world's banking system is unsound, and what differentiates a sound from an unsound bank. I suspect not one person in 1,000 actually understands the difference. As a result, the world's economy is now based upon unsound banks dealing in unsound currencies. Both have degenerated considerably from their origins.

Modern banking emerged from the goldsmithing trade of the Middle Ages. Being a goldsmith required a working inventory of precious metal, and managing that inventory profitably required expertise in buying and selling metal and storing it securely. Those capacities segued easily into the business of lending and borrowing gold, which is to say the business of lending and borrowing money.

Most people today are only dimly aware that until the early 1930s, gold coins were used in everyday commerce by the general public. In addition, gold backed most national currencies at a fixed rate of convertibility. Banks were just another business—nothing special. They were distinguished from other enterprises only by the fact they stored, lent, and borrowed gold coins, not as a sideline but as a primary business. Bankers had become goldsmiths without the hammers.

Bank deposits, until quite recently, fell strictly into two classes, depending on the preference of the depositor and the terms offered by banks: time deposits, and demand deposits.

Although the distinction between them has been lost in recent years, respecting the difference is a critical element of sound banking practice.

Time Deposits: With a time deposit—a savings account, in essence—a customer contracts to leave his money with the banker for a specified period. In return, he receives a specified fee (interest) for his risk, for his inconvenience, and as consideration for allowing the banker the use of the depositor’s money. The banker, secure in knowing he has a specific amount of gold for a specific amount of time, is able to lend it; he’ll do so at an interest rate high enough to cover expenses (including the interest promised to the depositor), fund a loan-loss reserve, and if all goes according to plan, make a profit.
A time deposit entails a commitment by both parties. The depositor is locked in until the due date. How could a sound banker promise to give a time depositor his money back on demand and without penalty when he’s planning to lend it out?

In the business of accepting time deposits, a banker is a dealer in credit, acting as an intermediary between lenders and borrowers. To avoid loss, bankers customarily preferred to lend on productive assets, whose earnings offered assurance that the borrower could cover the interest as it came due. And they were willing to lend only a fraction of the value of a pledged asset, to ensure a margin of safety for the principal. And only for a limited time—such as against the harvest of a crop or the sale of an inventory. And finally, only to people of known good character—the first line of defense against fraud. Long-term loans were the province of bond syndicators.

That’s time deposits. Demand deposits were a completely different matter.

**Demand Deposits**: Demand deposits were so called because, unlike time deposits, they were payable to the customer on demand. These are the basis of checking accounts. The banker doesn’t pay interest on the money, because he supposedly never has the use of it; to the contrary, he necessarily charged the depositor a fee for:

1. Assuming the responsibility of keeping the money safe, available for immediate withdrawal, and
2. Administering the transfer of the money if the depositor so chooses by either writing a check or passing along a warehouse receipt that represents the gold on deposit.

An honest banker should no more lend out demand deposit money than Allied Van and Storage should lend out the furniture you’ve paid it to store. The warehouse receipts for gold were called banknotes. When a government issued them, they were called currency. Gold bullion, gold coinage, banknotes, and currency together constituted the society’s supply of transaction media. But its amount was strictly limited by the amount of gold actually available to people.

Sound principles of banking are identical to sound principles of warehousing any kind of merchandise, whether it’s autos, potatoes, or books. Or money. There’s nothing mysterious about sound banking. But banking all over the world has been fundamentally unsound since government-sponsored central banks came to dominate the financial system.

Central banks are a linchpin of today’s world financial system. By purchasing government debt, banks can allow the state—for a while—to finance its activities without taxation. On the surface, this appears to be a “free lunch.” But it’s actually quite pernicious and is the engine of currency debasement.

Central banks may seem like a permanent part of the cosmic landscape, but in fact they are a recent invention. The US Federal Reserve, for instance, didn’t exist before 1913.
UNSOUD BANKING

Fraud can creep into any business. A banker, seeing other people’s gold sitting idle in his vault, might think, “What is the point of taking gold out of the ground from a mine, only to put it back into the ground in a vault?” People are writing checks against it and using his banknotes. But the gold itself seldom moves. A restless banker might conclude that, even though it might be a fraud on depositors (depending on exactly what the bank has promised them), he could easily create lots more banknotes and lend them out, and keep 100% of the interest for himself.

Left solely to their own devices, some bankers would try that. But most would be careful not to go too far, since the game would end abruptly if any doubt emerged about the bank’s ability to hand over gold on demand. The arrival of central banks eased that fear by introducing a lender of last resort. Because the central bank is always standing by with credit, bankers are free to make promises they know they might not be able to keep on their own.

HOW BANKING WORKS TODAY

In the past, when a bank created too much currency out of nothing, people eventually would notice, and a “bank run” would materialize. But when a central bank authorizes all banks to do the same thing, that’s less likely—unless it becomes known that an individual bank has made some really foolish loans.

Central banks were originally justified—especially the creation of the Federal Reserve in the US—as a device for economic stability. The occasional chastisement of imprudent bankers and their foolish customers was an excuse to get government into the banking business. As has happened in so many cases, an occasional and local problem was “solved” by making it systemic and housing it in a national institution. It’s loosely analogous to the way the government handles the problem of forest fires: extinguishing them quickly provides an immediate and visible benefit. But the delayed and forgotten consequence of doing so is that it allows decades of deadwood to accumulate. Now when a fire starts, it can be a once-in-a-century conflagration.

Banking all over the world now operates on a “fractional reserve” system. In our earlier example, our sound banker kept a 100% reserve against demand deposits: he held one ounce of gold in his vault for every one-ounce banknote he issued. And he could only lend the proceeds of time deposits, not demand deposits. A “fractional reserve” system can’t work in a free market; it has to be legislated. And it can’t work where banknotes are redeemable in a commodity, such as gold; the banknotes have to be “legal tender” or strictly paper money that can be created by fiat.

The fractional reserve system is why banking is more profitable than normal businesses. In any industry, rich average returns attract competition, which reduces returns. A banker can lend out a dollar, which a businessman might use to buy a widget. When that seller of the widget re-deposits the dollar, a banker can lend it out at interest again. The good news for the banker is that his earnings are compounded several times over. The bad news is that, because of the pyramided leverage, a default can cascade.
In each country, the central bank periodically changes the percentage reserve (theoretically, from 100% down to 0% of deposits) that banks must keep with it, according to how the bureaucrats in charge perceive the state of the economy.

In any event, in the US (and actually most everywhere in the world), protection against runs on banks isn’t provided by sound practices, but by laws. In 1934, to restore confidence in commercial banks, the US government instituted the Federal Deposit Insurance Corporation (FDIC) deposit insurance in the amount of $2,500 per depositor per bank, eventually raising coverage to today’s $250,000. In Europe, €100,000 is the amount guaranteed by the state.

FDIC insurance covers about $9 trillion of deposits, but the institution has assets of only $30 billion. That’s less than one cent on the dollar. I’ll be surprised if the FDIC doesn’t go bust and need to be recapitalized by the government. That money—many billions—will likely be created out of thin air by selling Treasury debt to the Fed.

The fractional reserve banking system, with all of its unfortunate attributes, is critical to the world’s financial system as it is currently structured. You can plan your life around the fact the world’s governments and central banks will do everything they can to maintain confidence in the financial system. To do so, they must prevent a deflation at all costs. And to do that, they will continue printing up more dollars, pounds, euros, yen, and what-have-you.

**HOW TO FIND THE BEST OFFSHORE BANKS**

By Nick Giambruno, Senior Editor

It’s hard to think of a topic where following the conventional wisdom can be more dangerous.

And that topic is banking.

It’s generally accepted as an absolute truth by the public and most financial experts that putting your money in a domestic bank is a safe and responsible thing to do. After all, if anything were to go wrong, your deposits are insured by the government.

As a result, most people put more thought into which shoes they should purchase than which bank should be entrusted with their life savings.

It’s a classic moral hazard—a situation in which a person is more likely to take risks because the costs won’t be borne by that person. In the case of banking, that’s how a lot of people think, but it isn’t necessarily true that individuals bear no costs of their banking decisions.

The prudent thing to do is ignore the conventional wisdom and look at the facts to form your opinions. Choosing the right custodian for your life savings makes a difference—and it deserves some serious thought.
A FALSE SENSE OF SECURITY

In the US, the Federal Deposit Insurance Corporation (FDIC) insures bank deposits. In the case of a bank failure, the FDIC pays depositors up to $250,000. The FDIC has a reserve of around $30 billion for this purpose.

Now, $30 billion might sound like a lot of money. But considering that the FDIC insures around $9 trillion in deposits, the $30 billion in reserve amounts to just a drop in the bucket. It’s actually less than half a penny for every dollar it supposedly insures.

In fact, there are over 36 banks in the US that have deposits larger than the FDIC’s reserve. It wouldn’t take much for the FDIC itself to go bust. One large bank failure is all it would take. And with many of the big banks leveraged to the hilt, that isn’t as remote a possibility as many would believe.

Oddly, this doesn’t shake the confidence the public and most financial experts place in the US banking system.

Also, it’s already an established precedent that whenever a government deems it necessary, deposit guarantees can be disregarded on whim. We saw this in the early days of the financial crisis in Cyprus. The Cypriot government initially sought (but was ultimately rebuffed) to dip its hands into bank accounts under the guaranteed amount.

Similarly, Spain has imposed a blanket taxation on all bank deposits. I’d bet this is only the beginning. We haven’t even made it through the coming attractions.

Taken together, this shows that the confidence in the banking system—merely because of the existence of a bankrupt government promise—is dangerously misplaced.

Follow conventional wisdom at your own peril.

Fortunately, in this day and age the decision on where to bank doesn’t have to be constrained by geography. Banking outside of your home country—where much sounder governments, banking systems, and banks can be found—is in most ways just as easy as banking with Bank of America.

Banking all over the world now operates on a “fractional reserve” system. In our earlier example, our sound banker kept a 100% reserve against demand deposits: he held one ounce of gold in his vault for every one-ounce banknote he issued. And he could only lend the proceeds of time deposits, not demand deposits. A “fractional reserve” system can’t work in a free market; it has to be legislated. And it can’t work where banknotes are redeemable in a commodity, such as gold; the banknotes have to be “legal tender” or strictly paper money that can be created by fiat.

THE SOLUTION

Obtaining a bank account outside of your home country is a key component of any international diversification strategy.
It protects you from capital controls, lightning government seizures, bail-ins, other forms of confiscation, and any number of other dirty tricks a bankrupt government might try.

Offshore banks offer another benefit: they are usually much safer and more conservatively run than banks in your home country... at least if you live in the US and many parts of Europe.

It’s hard to see how you’d be worse off for placing some of your cash where it’s treated best. In the event that your home government does something desperate or your domestic bank makes a losing bet, it could turn out to be a very prudent move.

When Doug Casey and I were in Cyprus, we met with a number of astute Cypriots who saw the writing on the wall. They got their money outside of the country before the bail-in and capital controls, and they were spared. It would be wise to learn from their example.

But you shouldn’t just blindly move your savings to any foreign bank. You want to consider only the best.

For me, being able to find the safest and best offshore banks comes naturally. In the past, I worked as a banking analyst for an investment bank in Beirut, Lebanon. While there, I rigorously assessed countless banks around the world.

This experience and the analytical tools I developed have been very helpful in evaluating the best offshore banks worthy of holding deposits.

A basic rundown (but not inclusive) of factors I look for when analyzing an offshore bank include:

- The economic fundamentals and political risk of the jurisdictions the bank operates in.
- The quality of the bank’s assets—namely its loan book and investments. This helps you determine what the bank is doing with your money. I look for banks that are conservatively run and don’t gamble with your deposits. Banks that make leveraged bets with things like mortgage-backed securities or Greek government bonds are obviously to be avoided. Having a sound loan book with a low nonperforming ratio is crucial.
- Liquidity—a relatively safer bank will keep more cash on hand rather than invest it in risky assets or loan it out, all else equal. That way it can meet customer withdrawals without having to potentially sell off assets for a loss—which could affect its ability to give you back your deposits.
- Capitalization—this is a measure of its financial strength of the bank. It also shows you if the bank is using excessive leverage, which can increase the risk of insolvency. A bank’s capitalization is like its margin of error: the higher the better.

Another important factor is whether an offshore bank has a presence in your home jurisdiction. To obtain more political diversification benefits, it’s better that it does not.
For example, assume you are a Chinese citizen and want to diversify. It wouldn't make much sense to open an account with the New York City branch of the Bank of China. It would be much better from a diversification standpoint for the Chinese citizen to open an account with a sound regional or local bank that doesn't have a presence or connection to mainland China—and thus cannot have its arm easily twisted by the Chinese government.

**THE BEST OFFSHORE BANKS**

Each year, a prominent financial magazine publishes a study on the world’s safest banks. Below are its top 10 safest banks in the world (notice that none of them is in the US).

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<th>RANK</th>
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<td>1</td>
<td>KfW</td>
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<td>2</td>
<td>Zürcher Kantonalbank</td>
<td>Switzerland</td>
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<td>3</td>
<td>Landwirtschaftliche Rentenbank</td>
<td>Germany</td>
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<td>L-Bank</td>
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<td>5</td>
<td>Bank Nederlandse Gemeenten</td>
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<td>7</td>
<td>NRW.BANK</td>
<td>Germany</td>
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<td>8</td>
<td>Caisse des Dépôts et Consignations</td>
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<td>9</td>
<td>Banque et Caisse d’Epargne de l’Etat</td>
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<td>10</td>
<td>Société de Financement Local (SFIL)</td>
<td>France</td>
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Now, as an American citizen, it’s very unlikely that you could just show up to one of these banks and open an account as a nonresident of that country. That is, unless you plan on making a seven-figure or high six-figure deposit. Then you might have a chance, but even then it’s not guaranteed.

This dynamic is thanks to FATCA and all the red tape that the US government imposes on foreign banks who have US clients. For foreign banks, the logical business decision is to show Americans the unwelcome mat. The costs simply do not justify the benefits.

This is unfortunately true for many banks the world over. The net effect is to drastically reduce the number of choices that Americans have when banking offshore. It’s a sort of de facto capital control.

There are of course exceptions. Some solid offshore banks still accept Americans, and some even open accounts remotely. This means you could obtain huge diversification benefits without having to leave your living room.