

Christoph Heuermann

BANKING ENCYCLOPEDIA

How to use international and offshore
banking to protect yourself from
a crisis



STAATENLOS

1. What you can do with an offshore account

Anyone who thinks that offshore accounts are only for millionaires is completely wrong. But in order to really understand if it is a worthwhile option for you, you first need to know what the advantages of having an account abroad are.

What you can do with an offshore account

Protect your assets

Naturally, offshore accounts provide an attractive way of protecting your assets. On the one hand, this can be done through personal accounts, and on the other, by setting up a company alongside a respective business bank account.

While the second option generally offers better asset protection, it brings with it certain considerations that must be addressed, depending on your country of residence. In some countries, you will have to register your company with a foreign business registry, or more commonly, you will have to declare your assets abroad once they reach a certain value.

Take advantage of more investment opportunities

An offshore bank can allow you to access new markets or pay higher interest rates. You can invest your money in multi-currency accounts, take advantage of their private banking expertise or choose innovative financial products that you may not have access to in your country of residence.

Have a suitable company account

If you are a business owner with no fixed place of residence or if you live in a country with a low tax burden, you may have already registered an offshore company. However, offshore companies, particularly active businesses, are practically useless without the appropriate offshore bank account.

This is where offshore company accounts come in, which can provide you with a suitable account for your business activities.

Evidently, it may be that the economic situation in Europe is too uncertain for your company. However, you can also try to open offshore accounts (or simply international accounts) in order to do business worldwide through a company registered within the European Union.

Reduce taxes (or not)

Whether you can reduce your taxes or not will depend on your country of residence. Normally, you will not be able to in high-tax countries since you will continue to be subject to tax on investments or accounts abroad. You might even end up paying more taxes if there is no double taxation agreement and you end up being taxed twice.

However, many offshore jurisdictions are tax havens where there is no capital gains tax. In some countries, it is even possible to reduce double taxation through the relevant agreements.

What you cannot do with an offshore account

Evade taxes

Although tax evasion is the first thing that comes to mind for many people, it is not the purpose of offshore accounts.

Although they are often used in this way, not paying taxes on capital gains in your country of residence is illegal and can lead to very serious sanctions. Therefore, you should always consult a qualified financial advisor about the tax implications of having an offshore account.

Be completely anonymous

The possibility of being entirely anonymous has more or less disappeared with all the information exchange that happens nowadays. Although this book will provide you with everything you need to know about banking secrecy, information exchange and anonymity options, it is still extremely difficult to be completely anonymous. It is not advisable to rely on it, for example, for tax evasion purposes.

2. The inner workings of a bank

How do banks really work? Before we go any further into the topic of offshore banking, you first need to understand some of the basics of international banking. How international banks work may seem incomprehensible to you as a layman but understanding this can help you make a better and more informed decision. Therefore, this is where we would like to discuss three essential factors that constitute international banking today.

1. Banking core

This system is the most basic part of a bank. The system records account balances, transfers, and transactions. Sometimes it is linked to services such as online banking or even the bank's website. However, the larger the bank, the greater the probability of it having a legitimate banking core.

A banking core can be stored locally or in the cloud. In this instance, being stored in the cloud means that there are several virtual servers in different jurisdictions. If this is not possible, for example, due to local legislation or for data protection reasons, it is stored locally at the bank's headquarters. However, in most cases, a mix of local and external systems is used.

Small banks in the Caribbean and the Pacific usually host their servers in the United States or Australia for financial reasons. Therefore, anyone who is looking for anonymity with banks such as these should make sure that the bank can actually guarantee it.

The banking core is connected to the SWIFT system (Society for Worldwide Interbank Financial Telecommunication) for international payment transactions, direct debit networks or clearinghouses such as FPS (UK Faster Payments Service), ACH (Automated Clearing House), SDD (SEPA Direct Debit), SCT (SEPA Credit Transfer), CHAPS (Clearing House Automated Payment System) and BACS (Bankers' Automated Clearing System). Integration with Visa or MasterCard is also possible.

2. Online banking

As is the case with the banking core, smaller banks usually outsource their online banking system. Although bigger banks often have highly customised online banking systems, they are not that different from smaller banks. Many use the same system and have simply modified the appearance and layout. Despite the initial high cost of online banking systems, competition has forced the prices to be lowered and the systems have since significantly improved.

Online banking security is crucial. However, as of today, around 50% of banks around the world still require just a username and password to log in and make transactions.

This may be convenient, but nowadays it can be a significant security risk. Fortunately, two-factor authentication is becoming cheaper and less complicated, hence more and more banks are using it. Some examples of two-factor authentication are TAN lists (Transaction authentication number), mobile applications, SMS or Digipass devices.

3. Transfers

Why do transfers with smaller banks usually take longer than with bigger banks?

On the one hand, this is due to the amount of automation involved in the process, and on the other, it is due to the way in which the bank manages risks.

Many small banks in the Caribbean often take a long time to transfer money or have very variable timeframes. On the other hand, when using larger banks,