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Interview: Serving US Expats In An Increasingly Anti-Secrecy Banking World

Tom Burroughes: WealthBriefing Group Editor in London

With some firms saying they refuse to deal with expatriate US citizens due to fierce new tax compliance laws such as FATCA, and growing pressure on offshore banking in countries such as Switzerland, some wealth managers are trying to fill what is a significant market gap. Zurich-based [Bellecapital International](#), a business set up late last year, recently spoke to this publication about its business, why it was set up and what it hopes to achieve. We spoke to [Curtis Childs](#), managing partner.



Background: Bellecapital International is an SEC Registered Investment Advisor based in Zurich. It was created in July last year to serve onshore and offshore US individuals and families.

Its affiliate company, Bellecapital AG, is an independent asset manager established in 2008 and which manages approximately \$2.5 billion. Between the two firms it has 10 investment professionals, including Dr Martin Jetzer, chief economist. Both firms run global multi-asset class segregated accounts by investing in direct securities rather than funds. It uses independent third-party bank custody platforms to give clients a choice of where to hold their assets.

Q. What was the reason this firm started?

US investors have significant offshore assets. With the right firm architecture, we see a clear opportunity to assist US persons invest intelligently, prudently and profitably, by diversifying their assets globally.

We have seen estimates that there is between \$20-40 billion of US “segregated account” wealth managed in Switzerland of which we believe only 30 per cent is managed by firms with the appropriate regulatory and tax reporting infrastructure. It is imperative that all “segregated US accounts” are managed taking into account the correct regulatory and tax framework. We see a transition taking place and we are able to provide the necessary and correct infrastructure. There is an immense opportunity to provide the appropriate service to US persons.

Contrary to popular belief (for example the political furor concerning Mitt Romney’s tax-declared Swiss bank account), Americans can legitimately hold accounts outside the US and many have a desire to.

What sort of events have prompted this business initiative? Just how serious are they?

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Swiss banks and asset managers are exiting the market voluntarily and as a result of judicial pressure. Many of the clients they serve have significant property, business and other interests outside the US and need a new home.

The Overseas Voluntary Disclosure Initiative - approximately 15,000 US persons went through the 2011 programme. It is estimated there are seven million US persons living outside the US and our understanding is only 430,000 filed tax returns in the US in 2010. The Internal Revenue Service has been busy. Once the funds have been “tax scrubbed” they often need a new home. This “new home” should be a firm with an appropriate understanding of US personal tax issues, the instruments that can be utilised within taxable accounts and the ability to work with custodian banks to provide and assist with full US tax reporting.

As for FATCA, implementation is costly and many banks will exit the US person market. This will create opportunities for consolidators as many accounts will need to find new homes.

Q. How much evidence do you see of expat Americans being denied access to financial services?

As an American who recently moved to Zurich, I have personal first hand experience. I was turned away by the first bank I approached to open a savings account. And it is not just expats who experience this problem. The problem exists for dual nationals where the second passport is a US passport, for trusts and personal holding companies with US beneficiaries, for joint account holders where one person has a US passport and unfortunately for green card holders as well. Let’s not mention the challenges now for a person resident in the US who simply wishes to benefit from banking and asset management services outside the US. Whether it is for diversification, lifestyle, or for estate planning, the demand is real and will grow.

Why is this? Most non-US institutions are neither SEC registered nor capable of producing IRS tax reporting on worldwide financial assets. With the HIRE Act of 2010 and the tax related provisions in Dodd Frank, the IRS has been allocated significant additional resources to pursue individuals, companies and facilitators that are either incorrectly reporting or not reporting at all. Investigations, settlements and prosecutions are growing, have been aggressive and are being publicised. For most financial institutions, the cost of establishing and supporting US clients from a legal, systems and regulatory standpoint is prohibitive. It is not a business where you can be half-way in the game.

This issue seems to have caught some firms unawares. Are you seeing signs of panic and serious errors being made regarding market strategy? What do you think of how the industry has reacted?

The industry can broadly be broken down into three categories: non-compliant, negligent and compliant. In spite of the fact the UBS problems were well publicised, the industry remains fragmented and in many cases is slow moving and reactive. Given the implications of diminishing banking secrecy within the Swiss market, it is surprising we have not witnessed, or begun to see, a strong and well coordinated tri-party policy response combining government, the regulator and our industry to address the issues and to constructively move forward.

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But, on a positive note, we are closer to the end of the problems than to the beginning and following more high profile cases we are starting to see the mid-tier and smaller banks being pro-active in addressing their issues.

Q. Without commenting on the specifics of the Wegelin story, what do you think about how Swiss banks are reacting to the US anti-tax evasion crackdown? Do you think the Swiss banking industry needs to change and if so, how?

The traditional model of private banking is changing fast. The days of price and performance insensitive clients looking for confidential homes is coming to an end. Personal information is increasingly accessible by intelligence agencies and cross-border data sharing is on the rise. Tax investigators are gathering and fusing data from GPS, mobile phone, social networking and credit card data bases to gain significant insight into daily activities. The world, and each individual's personal financial information, is becoming more transparent.

Banks here, in Switzerland, are increasingly being exposed to the forces of global competition. Geography and tradition no longer suffice; free markets are at work. Banks will have to be more competitive on pricing, transparent on total costs, free of conflicts and investment performance focused. Tax-declared clients have greater choice, are less tolerant of the old "high price, light service" models. Firms will have to work harder and accept less. The industry is evolving in the best interest of clients.

Q. What sort of business volumes and revenues could your business make? Do you have any specific targets, objectives?

We do not publish firm financial information and do not have sales targets. Our principle measure of success is the net after-tax performance of the accounts we manage. If we get this right, smart money will continue to find us.

Q. Who is working with you?

The business principals are Mark Eberle, former CEO of Barclay Capital Switzerland, Michel Guignard, who recently joined following a period running Kaiser Partner's SEC registered business after a career managing businesses for UBS and Credit Suisse, and myself.

On the professional side, we work closely with a number of top legal and accounting tax specialists to ensure clients are provided with impartial, well rounded and up-to-date advice.

We have agreements with a number of world class banks that provide our clients with global custody and IRS tax compliant reporting.

Q. When do you think you will know that your firm has hit critical mass in terms of client numbers?

Our business is currently at critical mass. As a private firm, we are not subject to the same short-term pressure public firms are. It takes time to establish trust and confidence - the hallmarks of what we consider enduring value.

Q. What do you think is going to happen over the next few years?

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Tax collection rates will continue to improve globally. Banks will retreat from jurisdictions where they cannot provide onshore tax reporting or be sure they are serving tax declared investors.

The IRS and US Justice Department are aggressively weeding out non-compliant tax payers and forcing institutions to come to terms with the new world of cross-border information sharing. The US is leading the way in high-profile prosecutions and fiscal authorities and banks around the world are watching with keen interest. Governments are investing greater resources to collect revenue. Armed with rapidly improving intelligence gathering abilities, the world is becoming a smaller and more difficult place to hide.

FATCA is the final game changer for financial institutions holding US person assets. The cost of non-compliance, 30 per cent withholding US source income, is punitive and not an option. Firms have two choices, play by the new rules or get out of the game.

For many the white flag is already up, for the new, the opportunity has just begun.