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Preface

Oscar Wilde said: “The only thing to do with good advice is to pass it on. It is never of any use to oneself”. I believe I am doing just that and I would recommend this particular issue of the Offshore Pilot Quarterly to anyone who is dipping his toe into offshore financial waters for the first time.

The Shaw Paradox

“There are only two qualities in the world: efficiency and inefficiency, and only two sorts of people: the efficient and the inefficient”. Certainly in the case of business I would agree with George Bernard Shaw and most of my readers need to be mindful of this fact as they pursue their offshore endeavours. Sometimes, however, it is not as straightforward as Shaw suggests because the efficient can derail themselves and lose their hard-earned reputations by failing to recognise the need to strike the right balance between capability and capacity. This means applying the Toyota test to their business because what is germane to vehicles with motors is equally relevant to those without them and which are used in traditional offshore planning.

Following the car manufacturer’s problems with safety failures last year, Akio Toyoda, president of the company, made two statements which have universal application, whatever the widget might be. Firstly, he said: “We pursued growth over the speed at which we were able to develop our people and our organisation” and, secondly, that in future he would see to it that “members of the management team actually drive the cars”. Despite the Japanese philosophy of “kaizen” (constant improvement through small, positive steps) quality in this instance, notwithstanding the skill of the workers, played

hostage to quantity; proficiency was sacrificed for profit.

This is a classic case of those at the top not knowing what is going on beneath them; the frightening thought is that Toyota is just one example – albeit an international high-profile case – of what is happening right across the board in business and which contributed considerably to the woes of the Great Recession. Consider that when Lehman Brothers went under in 2008 it was almost impossible to know who the debtors and the creditors were as a result of the way business had been conducted. You had a situation where departments, whether dealing with credit default swaps or currency forward transactions, were using different technological systems that didn’t integrate with each other; to compound the confusion, the regulators did not have a grip on either the activity or exposure levels present in the over-the-counter derivatives market (not to mention large parts of structured finance); worryingly, the face value of derivatives was over US\$600,000 billion in June 2009.

In the March Offshore Pilot Quarterly I wrote about the need to analyse, listen and read; the quality of the information source in all three cases is key to the process (beware twits using Twitter) because if it’s of a high standard it puts the odds in your favour, provided the decisions you make are evidence-based. The conundrum for the public is this: the capable can still produce a service inefficiently and the incompetent can be efficient in what they do. We all remember how professional mortgage lenders were before the housing collapse in providing mortgages until their incompetence became apparent. If the provider has proven

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competence, but his service is inefficient, then more often than not, as Mr. Akio Toyoda put it, there is a miss-match between growth and the ability to deliver. Another possibility, of course, is that the business is driven to maximise profit because debts created to sustain it must be serviced and cash flow is crucial. If, like Cassius in Shakespeare's play, Julius Caesar, the business has too lean and hungry a look, this is probably a good reason to be very cautious in your dealings with it.

Remember, too, that the need to balance the books can lead a business into uncharted waters, straying from core services into new areas of (hopefully) profit but which, without attention to detail, can have the effect of diluting the overall quality of the company's business, besides making its operations more complex. As I also wrote in March, doing business in general has become more complicated and while Henry David Thoreau, a philosopher whom Ralph Waldo Emerson described as the bachelor of thought and Nature, urged us to "simplify, simplify, simplify" this belief has frequently been replaced (often because of pecuniary motives) with the doctrine of "mystify, mystify, mystify" – particularly the unsuspecting client.

Eye brows and Noses

When choosing offshore service providers, if none of the danger signals or observations already made give you cause for concern, then the next important quality to look for is enthusiasm, which is usually accompanied by a desire to continually improve the service, both of which are the hallmarks of craftsmanship. Titian, the Venetian painter and 16th-century master, even at the age of 90, believed that he was still learning his craft. Craftsmanship, much like the need for simplification, is an important aspect of business but it is too often overlooked. This is a pity because what I think business needs more of today is just that. A proponent of craftsmanship is Richard Sennett, professor of sociology at the London School of Economics, who lectures on the subject – one which is not to be confused with academic qualifications, any more than competence, as I say, is to be considered akin

to efficiency. What the professor wonders about is whether or not a dedication to craft, and the desire to do it well, can survive in the 21st century, especially, it must be said, in large organisations where there often seems to be an inverse result: the larger the company, the more the quality is diluted.

Qualifications, as with craftsmanship, must be tailored to the job at hand. An MBA qualification, for example, is a useful general business tool but I also recognise that dentistry calls for special skills and even if an MBA degree will help a dentist and his partners manage their very large thriving practise better, it is not fundamental to the skills needed by them. It is no coincidence that following one financial faux pas after the other, banking regulators in the UK have asked if it should be necessary for senior staff at banks to possess Chartered Institute of Bankers qualifications. A ridiculous question if the subject was doctors, but consider the damage bungling bankers have caused to the health of global economies this century.

Regular readers recall my previous references to Walter Bagehot whose 1873 book, Lombard Street, is considered by many as a masterpiece on central banking. In those days Lombard Street was the 19th-century London equivalent of New York's Wall Street. Bagehot provided sage views, one of which was that the "amateur element" of central banking must be diminished and, at the same time, the trained banking element has to be increased. Unfortunately, 138 years later we find that his opinions, such as those on lending and strengthening the banking system, went unheeded or were forgotten in the hyped, hectic days of banking before the Great Fall this century. It must be so if one considers these words from his book: "I have written in vain if I require to say now that the problem is delicate, that the solution is varying and difficult, and that the result is inestimable to us all". Obviously, Ayn Rand's book, "Atlas Shrugged", dedicated to the praise of self-interest in a world inhabited by powerful men who owe no debt to the inferior masses of mankind, proved to be a more popular approach in the long run (one of its avid fans



was Alan Greenspan, the former chairman of the US Federal Reserve)

Interestingly, however, before the full impact of the modern world of banking was felt in the City of London, particularly with the arrival of the American banks in large numbers during the 1960s, the City itself was still a gentleman's club where, to a large degree, amiability rather than ability ruled. In the 1970s Anthony Montague Browne, Winston Churchill's last private secretary, joined Gerrard & Reid, a discount house in the City, and he commented how he was surprised to find how many bankers, even if technically trained, displayed a "sheer lack of intellectual horsepower or any general historical or political knowledge". In fact, Maynard Keynes, the late economist, had this to say about Montagu Norman, a former governor of the Bank of England during the era: "... always absolutely charming, always absolutely wrong". Norman made judgements by instinct rather than analysis and when asked how he made up his mind on major questions, he said he did so by tapping his nose three times. He was famous for conveying disapproval by raising his eyebrows; since then the conduct of central, not to mention other, bankers has had most of us raising ours as well.

Horses and Wrestlers

Although I advocate training for your trade and preparation for your profession, there are instances where extremes arise and when judgement is bullied by bureaucracy. Philosophy is a fine case in point and which only became a profession during the last few centuries. Both Socrates and Baruch Spinoza were neither professors nor tenured dons, anymore than England's ecclesiastical courts, which applied the virtues of equity by measured judgement, were peopled by lawyers; their robes were those of the church rather than the courts. The Chancellor of the Court of Equity (usually a bishop) was not only the King's chaplain, but was also said to be his conscience. Equity required moral judgement to be undertaken by men who (hopefully) like Aristotle and Spinoza possessed a combination of common sense and tolerance, embracing compassion for the

human condition, and all of which infused their thought.

As I have written before, many trust issues are about sound reasoning and not the contents of statute books; sometimes courts could benefit more from it – and remember that Robert Jackson, the American chief prosecutor at the Nuremberg war-crimes tribunal after the Second World War, attended just one year of law school. Plato may have wished for states to be ruled by philosopher-kings but I argue that business needs more wholesome philosophy injected into it, one that is imbued with, what I just mentioned, measured judgement.

Things equestrian, not just equity, can shine a light on fractured reasoning. Probably, like myself, you have never had reason to consider that horses in the wild eat tough grass which will gradually wear down their teeth, whereas in captivity they are fed softer food and their teeth grow unchecked. Unless the teeth are filed down (the process is called "floating") the teeth can grow too long and will cut the horse's cheeks. Floating must be done by hand and it is hard work because besides needing first to calm the animal, its mouth must then be held open and its teeth vigorously filed.

Floater, however, are not trained veterinarians and in the American state of Texas the State Board of Veterinary Medical Examiners outlawed them, despite the fact that very experienced floaters are tantamount to skilled artisans. The State Board, however, considers a floater as practising veterinary medicine without a license for which fines and possibly prison can be the result; the fact that veterinarians have no specialist training themselves in the field was immaterial. In the event, four seasoned Texan floaters filed suit – as opposed to teeth – in order to be able to continue earning a living. The floaters, with support from the Institute of Justice which champions the cause of economic freedom, won their case (although I understand that the issue is far from over). In the 1950s less than 5% of workers in America needed licences and despite some three decades of deregulation the percentage is now nearly 30%. In some states those affected



include florists, handymen, wrestlers and second-hand book sellers.

But how do you licence honesty? Today the City of London, where I worked in the late 1970s, is a changed place. Old school ties – not to mention those of the family kind – are no longer the sine qua non they once were. Innovation – shunned and fought against by the old City guard – has changed London's financial landscape which, for gentlemen bankers, had its cataclysmic moment with what was called the Big Bang in October 1986, when new radical rules came into force, heralding the entry of foreign banks and trading companies along with a more US-style business culture. Tomamura-San, then head of Nomura International plc in London, perhaps put it best: "I am not good enough to play cricket at Lords, but I am about good enough to play baseball in Regent's Park".

Whatever the game, one of the cornerstones of business was lost in the new banking era, and which had been identified back in the 1930s by the late Henry Grunfeld, co-founder of S.G. Warburg & Co.,

the merchant bank, a man described as one of the principal architects of the City of London's revival after the Second World War. Mr. Grunfeld, upon arrival in London as a refugee from the Gestapo, spoke of the presence of an ethos of trust in the City; this essential commercial commodity runs in tandem with everything I have written about up to this point and it should be at the forefront of your mind when picking the offshore professional who will manage your international affairs. Ethics, efficiency, ability and craftsmanship make up the quartet to ponder, whether the skill calls more for the hands (floaters) or the head (banking) and, of course, the practitioner with them does not need to understand Latin to live instinctively by the code, *Dictum Meum Pactum* – my word is my bond.

To paraphrase Mr. Bagehot, the choice of an offshore service provider may be delicate but the decision is inestimable to the individual; most certainly it shouldn't cause you to ever raise your eyebrows.

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Engaging an offshore representative is an important decision and we advise all persons to seek appropriate legal and tax advice from professionals licensed to render such advice in the appropriate jurisdiction before making offshore commitments.

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