

Guest Comment:
Charles Lowenhaupt On Privacy And The "Panama Papers"

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Charles Lowenhaupt offers his thoughts on the wealth management ramifications of the Panama Papers saga.

On Monday, media reports said millions of documents obtained from a Panama-based law firm revealed links to 72 current or former heads of state, such as Russian leader Vladimir Putin. Mossack Fonseca, the law firm, has denied wrongdoing, saying that offshore companies of the sort it creates are offered for a range of legitimate purposes. Yesterday, the unfolding saga continued to claim high-profile victims when the president of the Chilean branch of Transparency International, a group that seeks to shine a light on dirty money, resigned after leaked documents showed he was linked to at least five offshore firms.

Charles Lowenhaupt, founder and chairman of Lowenhaupt Global Advisors, considers the privacy implications of the Panama Papers saga in a wealth management context. Family Wealth Report doesn't necessarily share the views stated below but is delighted to publish them and welcomes reader feedback.

The leak of 11 million documents ("The Panama Papers") from the files of a Panama law firm, Mossack Fonseca, represents an unprecedented exposure of what is considered highly confidential information about the secret financial dealings of the some of the world's highest profile leaders and wealthiest individuals.

The prominent names and improprieties disclosed will feed the media for weeks and months to come. It is no wonder that former intelligence contractor leaker Edward Snowden applauds the disclosure and says that "courage is contagious."

On the day after the first reports of the Panama Papers, there were also reports of a scam targeting large companies like Weight Watchers to gather tax information on hundreds of employees in that company alone. Employers are induced to share confidential information about their employees.

And let us not forget the whistleblowers who forwarded confidential data from Liechtenstein and Swiss banks to tax collectors in Germany and elsewhere. Or the US government's capacity to extract supposedly confidential information from UBS and other Swiss banks through political and legal pressure.

Privacy? What's that?

If a Panama law firm can be hacked, so can yours. If the bank's records on tax cheats can be opened, so can its records on you.

So the lesson once and for all is that there is no such thing as privacy. We live in a world of public information, either shared voluntarily or lifted out of the ether. What are wealth holders to do about all this? Several years ago, at a meeting we held with some people who helped run single family offices, we discussed the latest technology being used. A wise Indian advisor explained that his friends and clients did not want to use technology, but instead maintained account books held in different locations. The overview required a conference call with two or three offices to put the information together. "Technology is the enemy of privacy," he said. He was correct.

What to do

Before you abandon the many benefits of technology – the record-keeping, the use of banks, lawyers and accountants, and travel – recognize that modern life follows people technologically no matter what you do. The freedom that comes with wealth will not be a freedom from the vulnerability of having your life and affairs disclosed.

How is this fact of life to be managed?

First, recognize that you have no privacy. Lead your life and lead it wisely. Designing complex governance structures to create anonymity won't work. Evading taxes is not likely to succeed. Criminality may be profitable, but you are likely to be caught. You may not be a drug lord of Mexico, but your comings and goings are available to any good private eye. If you are a public figure, and with wealth you likely are, consider what your decisions might look like on the front page of your local paper.

Second, put wealth in its place. What is the wealth for? Wealth is not for accumulation or for investment; it is accumulated or invested to accomplish its purposes. If wealth is for anything, it is for the freedom to be all you and your family can become. Self-actualization takes place in a community, not in the shadows of secrecy.

If you live in a place of insecurity, you should move. That's exactly what's happening in select countries around the world. In France, for example, approximately 10,000 millionaires, or 3 percent of its millionaire population, are said to have moved to another country in 2015. After France, China had the largest the millionaire outflows followed by Italy, India, Greece, the Russian Federation, Spain and Brazil. Raise your children to feel that they can live a life in the sunshine. If they are burdened by the secrets requiring the kinds of complexity being sold by Mossack Fonseca, they cannot lead a life passionately pursuing their dreams. They cannot hold their heads high in community knowing that legacy is threatened by the lift of a hacker.

The challenges of living in the modern world are substantial enough even with privacy guaranteed. Now that it is gone, the mantras need to be simplicity, direct communication, and transparency. Your business life should be as transparent as your bank account. If you cannot understand your governance structures, don't use them. There are no caves or Walden Ponds to retreat to in the modern age.