Barclays is quitting some tax havens - but the reasons ...

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After news of Jersey's continuing decline yesterday it is interesting to note the report in the FT this morning that Barclays is quitting many markets:

Barclays is to pull out of more than 100 markets and cut staff in its wealth management business as it aims to boost the unit's feeble profitability.

The UK bank will reduce the number of countries in which it provides wealth and investment management services from about 200 to 70 by the end of 2016.

That will leave it still focused on global markets that encompass about 80 per cent of the world's wealth.

The apparent explanation is:

The move reflects banks' rapidly rising expenditures to make sure they do not break anti-money laundering rules, making it uneconomic for all but the leading global wealth managers to remain active in smaller markets.

The report also notes:

As part of the cost cutting plan, Barclays aims to wind down five of its 17 "booking centres", which enable clients to trade and book assets in particular jurisdictions for tax and legal purposes. The five targeted centres run less than £5bn of assets.

Three obvious conclusions follow.

The first is that tax haven activity is not paying. Jersey is witnessing that too.

The second is that the decline in profitability is because regulation to eliminate tax abuse is working. It's not, I suggest, that costs have risen: it's that as banks realise that they have little choice in the wake of HSBC's shaming as a money launderer on a massive scale that they must stop such behaviour in their own networks, which I would suggest that they have not been willing to do before. This is what has cut the profitability on which they have relied to date.

The third relates to that last observation: blatantly helping clients book transactions where they do not take place is pretty close to tax evasion. It is, after all, deliberate misrepresentation. The real question is why was Barclays ever involved in this activity?

Of course I welcome this change. But what it tells us is that there is a long way to go before the world's major banks really understand just what is expected of them when it comes to stamping out tax abuse.