OPENING STATEMENT

OF

SENATOR SUSAN M. COLLINS

CHAIRMAN

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Hearing on

PRIVATE BANKING AND MONEY LAUNDERING:
A CASE STUDY OF OPPORTUNITIES AND VULNERABILITIES

November 9, 1999

During the next two days, the Permanent Subcommittee on Investigations will examine the confidential, complex world of private banking and whether private banks are – by their very nature – particularly susceptible to money laundering. At the outset, I should note that this is not the first time that this Subcommittee has investigated money laundering. In the mid-1980s, our colleague, Senator Roth, chaired a series of Subcommittee hearings which exposed how criminals used offshore banks to launder their dirty money. The Subcommittee's findings prompted passage of the Money Laundering Control Act of 1986, which defined money laundering as a freestanding criminal offense for the first time.

These hearings, which were initiated by the Ranking Minority Member, Senator Levin, are very timely. Our banking system's vulnerability to money laundering is once again a focal point of debate in the wake of recent disclosures that billions of dollars were siphoned out of Russia into accounts at the Bank of New York and, within a few days or even hours, rerouted to multiple accounts all over the world.

What happened at Bank of New York, as well as the cases we will highlight today, should be a cautionary tale for the rest of the banking industry, law enforcement, and Congress. We cannot allow the integrity of our banking system to be sullied by the dirty money that fuels the engine of criminal enterprises both here at home and abroad. Our banks must be vigilant in their efforts to detect and report criminal activity and avoid acting as conduits for money laundering. Stop money laundering, and you dry up much of the seed capital criminal organizations need for their operations.

Today's hearing will focus on one aspect of our banking system – private banking – that may be particularly attractive to criminals who want to launder money. Private banking is probably unfamiliar to most Americans since, by and large, private banks cater to very wealthy clients. Indeed, most of the private banks examined by the Subcommittee require their clients to deposit assets in excess of $1 million. The banks charge the customers a fee for managing those assets and for providing the specialized services of the private bank. Some of those services include traditional banking services, like checking and savings accounts. But private banks go far beyond

providing routine banking services. They market themselves to clients by offering services to meet the special needs of the wealthy, including providing investment guidance, estate planning, tax assistance, offshore accounts, and, in some cases, complicated schemes designed to ensure the confidentiality of financial transactions.

The private banker coordinates the management of the client's wealth and acts as the client's personal advocate to the rest of the bank. If the client needs to set up an offshore trust, the private banker takes care of it. He serves as a liaison between the client and the bank's trust managers, investment specialists, and accountants. In short, private bankers are expected to provide personalized, can-do service for their wealthy clientele.

Historically, private banking was a speciality business dominated by Swiss banks. In the last 30 years, however, large banks in the United States have aggressively pursued private banking business and sought to increase their market share. Private banking is a profitable, competitive, and growing business in the United States, and private banking services are now an established line of business in many American banks.

Private banks offer their wealthy clients not only first class service but confidentially as well. While the average passbook savings depositor at a community bank in Maine has little need for Swiss bank accounts, some wealthy and prominent people seek the anonymity of the financial services offered by private banks. And, it's fair to say that private banks sell secrecy to their customers.

The Subcommittee's investigation found that private banks routinely use code names for accounts, concentration accounts that disguise the movement of client funds, and offshore private investment corporations located in countries with strict secrecy laws – so strict, in fact, that there are criminal penalties in those jurisdictions for disclosing information about the client's account to banking regulators in the United States.

These private banking services – which are designed to ensure confidentiality for the client's account – present difficult oversight problems for banking regulators and even law enforcement. For instance, in one of the cases examined by the Subcommittee, the private bank opened special accounts for the client using the fictitious name "Bonaparte." The difficulties associated with identifying clients to account activity worsen when private banks use concentration accounts to transfer their clients' funds. In one case examined by the Subcommittee, the private banker's use of a concentration account, which commingles bank funds with client funds, cut off any paper trail for millions of dollars of wire transfers. The concentration account became the source of funds wired from Mexico, and investment accounts in Switzerland and London became the destination.

I want to emphasize that private banking is a legitimate business, and there can be bona fide reasons why private banks offer products designed to ensure anonymity and secrecy. The problem, however, is that what makes private banking appealing to legitimate customers also makes it particularly inviting to criminals. The Subcommittee found that criminals can easily

employ private banking services to move huge sums of money. In one of the cases examined by the Subcommittee involving Raul Salinas – the brother of the former President of Mexico – the General Accounting Office determined that private banking personnel at Citibank helped Mr. Salinas transfer between $90 million and $100 million out of Mexico in a manner that "effectively disguised the funds' source and destination, thus breaking the funds' paper trail."

Mr. Salinas received first class service from Citibank's private bank. My concern is that this gold-plated service included disguising the source, flow, and destination of funds that may have been the proceeds of illegal activity. Now, the Subcommittee has uncovered no evidence that Citibank or any other private bank knowingly helped Mr. Salinas or any other criminals launder dirty money. We have found, however, that some private banks neglected their own internal procedures designed to detect and report suspicious activity as they are required to do by law.

For example, too often Citibank's private bank essentially paid lip service to its own procedures. Moreover, it continued to do so even in the face of highly critical internal audits and warnings from banking regulators that there was a risk of exposure to money laundering.

One of the purposes of these hearings is to determine why those internal policies were neglected and why it took Citibank so long to correct the problem. A second goal of these hearings is to examine whether our banking regulators have done enough to ensure that banks – and especially private banks – take seriously their obligation to implement internal procedures designed to report potential money laundering. Finally, these hearings will examine whether Congress needs to do more to combat this problem.

At this time, I would like to call on the distinguished Ranking Minority Member, Senator Levin, for his opening statement. Before doing so, however, I want to once again commend you and the Minority staff for the fine work you have done on this investigation and for initiating these hearings.