

OPENING STATEMENT OF  
**SENATOR CARL LEVIN (D-MICH)**

BEFORE THE U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

HEARING ON

THE ROLE OF CORRESPONDENT BANKING IN MONEY LAUNDERING

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At yesterday's hearing we heard from a former offshore bank owner and from two leading U.S. banks regarding how high risk foreign banks are able to open correspondent accounts at U.S. banks and how those accounts can then be used by rogue foreign banks and their criminal clients to launder the proceeds of illegal drugs, financial fraud, Internet gambling, tax evasion and other criminal conduct.

Today we want to shine the spotlight on the decision by U.S. banks to open accounts for one particular kind of high risk foreign bank, an offshore "shell bank." Some offshore banks have physical facilities either in the jurisdiction in which they are licensed or in some other country. An offshore shell bank, however, is a bank that has no fixed physical presence in the country in which it is licensed or any other country, and it is not a branch or subsidiary of a bank with a physical presence. It is, instead, a bank that has no physical office where customers can go to conduct banking transactions or where regulators can go to inspect records and observe bank operations.

The signature features of a shell bank are its inaccessibility and secrecy. These banks are generally not examined by regulators, and virtually no one but the shell bank owner really knows where the bank is, how it operates, or who its customers are. One shell bank owner told us that his bank existed wherever he was at the moment. These banks do not fit the profile of the financial institution that most Americans imagine when they think of a bank. They exist on the bottom rung of the banking world.

The low status of these banks is on display in the Internet advertisements explaining how and where to buy a shell bank license. These web sites list up to a dozen governments that offer offshore bank licenses, including licenses for banks that do not have to have a physical presence in the licensing country. The ads stress how quickly a bank can be purchased and highlight a jurisdiction's relaxed due diligence and regulatory requirements as key selling points.

One government cited in the advertisements, for example, is Nauru, a remote island in the South Pacific. Nauru is said to have issued 400 licenses for offshore shell banks which, if true, would apparently constitute the largest number of shell banks established by any one jurisdiction. Nauru is also one of the 15 countries that has been identified by the Financial Action Task Force in June 2000, for non-cooperation with international anti-money laundering efforts. Another oft-

mentioned government is Vanuatu, another South Pacific island, which confirmed to us that it has licensed more than 50 offshore shell banks. Caribbean governments are also listed, including Anguilla which allegedly charges an annual bank licensing fee of \$3,800 for an offshore bank with a physical presence on the island, and \$7,600 for an offshore bank without one.

Let's take a closer look at Montenegro, in Europe. Here's one of many Internet advertisements for opening an offshore shell bank there. The bank costs \$9,999, and the advertisement says it comes with a correspondent bank account "included in the package." As we'll see on the next page, that means access to an already existing correspondent account at a U.S. bank. For just under \$10,000 a person can buy access to the U.S. banking system. With that kind of price tag, the purchaser seems likely to be planning to move substantial sums.

The ad also promises "no intrusive background checks," a "European jurisdiction" and "fast set-up time." The correspondent account which is advertised is at the Bank of Montenegro which "allows the new bank to use their existing correspondent network which includes Citibank, Commerzbank, [and] Union Bank of Switzerland." Exactly how many Montenegro shell banks are operating today under this arrangement is unknown.

The bottom line is that hundreds if not thousands of offshore shell banks are in existence at this moment. And all of them need to get into the international banking system if they are going to do business.

Of the four shell banks investigated by the Minority Staff, all four were found to be operating far outside the parameters of normal banking practice, without basic administrative controls, without anti-money laundering safeguards, and in most cases without paid staff. All four also largely escaped regulatory oversight. They used U.S. bank accounts to transact business and move millions of dollars in suspect funds associated with drug trafficking, financial fraud, bribe money or other misconduct.

Today we will hear first from a panel of experts with years of experience in dealing with high risk foreign banks. Jack Blum, among other accomplishments, is a U.N. consultant on offshore banking and has more than once crossed swords with shell banks. Anne Vitale was the managing director of Republic National Bank of New York and spent years designing systems and procedures to help that bank decide which foreign banks ought to be given U.S. accounts. Robb Evans is a longtime banker and former head of the California Bankers Association. In recent years, he has begun assisting federal and state agencies in recovering funds taken from fraud victims. He, too, is familiar with shell banks and offshore banks and can offer us the benefit of his wisdom.

We will then turn to officials from Citibank and will focus on Citibank's decision to open U.S. correspondent accounts for two shell banks, M.A. Bank which is licensed in the Cayman Islands, and Federal Bank which was licensed in the Bahamas but had its license revoked by the Bahamian government just two weeks ago. Far from using the heightened scrutiny recommended by U.S. bank regulators for offshore banks and required in its own internal policies, Citibank did

just the opposite. It seems to have relaxed its due diligence and monitoring requirements for these accounts because of the confidence and personal regard that Citibank officials said they had for the offshore shell bank owners.

This relaxed scrutiny continued for M.A. Bank even after Citibank received a seizure warrant for over \$7.7 million in alleged drug proceeds that were deposited into the M.A. Bank account in New York as part of the Casablanca undercover money laundering sting. Citibank not only failed for over a year to realize that the seizure warrant involved illegal drug proceeds, but also allowed M.A. Bank to move an additional \$300 million through its Citibank account. A belated analysis of the account by Citibank's anti-money laundering experts identified an additional \$22 million in suspicious transactions.

Citibank also engaged in troubling conduct when it provided the Central Bank of Argentina with misleading information about the ownership of Federal Bank. Although Citibank knew the owner of Federal Bank was Grupo Moneta -- a large conglomerate of companies in Argentina, when the Central Bank directly asked Citibank for "all information" it had regarding Federal Bank, "especially the identity of its shareholders," the president of Citibank Argentina, Carlos Fedrigotti, said the records of Citibank Argentina "contain no information that would enable us to determine the identity of the shareholders of the referenced bank." He gave this response even though Citibank Argentina was then in possession of numerous documents related to Federal Bank including the specific information requested. There are current reports that Grupo Moneta is denying ownership of Federal Bank to this day. That denial on top of Citibank's misleading response to the Central Bank of Argentina, makes this matter a troubling one, and we hope to get to the bottom of it this morning.

The questions we hope to address today include not only Citibank's specific decisions regarding these two banks, but also Citibank's overall policy on shell banks. In response to our correspondent banking survey, Citibank initially said its policy was not to open accounts for shell banks but it would make an exception for "an existing customer *bank's* offshore subsidiaries or affiliates." When asked how that exception applied to M.A. Bank and Federal Bank, whose parent owners are not banks, Citibank submitted another statement of its policy and broadened the exception, saying a correspondent account could also be opened for offshore subsidiaries or affiliates of existing customer "*financial institutions*." While Citibank did not define that term, Citibank presumably meant to encompass not only banks, but securities firms like Mercado Abierto, S.A. and commercial operations like Grupo Moneta, so that M.A. Bank and Federal Bank would be permissible correspondent accounts. A concern I have with expanding the affiliation to any existing customer financial institution is that financial institutions are not subject to the same regulatory regime as banks. Another concern is whether Citibank's revised exception has become so broad it would justify virtually any shell bank account that could point to a related onshore company that is involved in financial services and that has opened a Citibank account.

Yesterday, we talked about the legal duty of U.S. banks to act as a gatekeeper and to take reasonable measures to keep out of the U.S. banking system foreign banks that pose

unacceptably high money laundering risks. Offshore shell banks pose the highest money laundering risks in the international correspondent banking industry today. Both the Bank of America and Chase Manhattan said it is their policy not to do business with offshore shell banks. If shell banks were unable to open correspondent accounts with established banks, they would have to close. The hearing today, I believe, will show why these shell banks don't deserve a place in the U.S. banking system, and why U.S. banks should not extend the lifeline – a correspondent bank account – that keeps these banks in business.

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