

STATEMENT OF SENATOR CARL LEVIN

HEARING ON

**THE ROLE OF U.S. CORRESPONDENT BANKING IN
INTERNATIONAL MONEY LAUNDERING**

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

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Through the Minority Staff's year-long investigation, its 450 page report, its close up look at 10 high risk foreign banks and its survey of 20 major U.S. correspondent banks, and through the Subcommittee's two days of hearings last week with experts and correspondent banking participants, we now have a good understanding of the role of U.S. correspondent banking in money laundering. Drug traffickers, defrauders, bribe takers, and other perpetrators of crimes can do indirectly - through a foreign bank's correspondent account with a U.S. bank - what they can't readily do directly - have access to a U.S. bank account. The stability of the U.S. dollar, the services our banks perform, and the safety and soundness of our banking system, make access to a U.S. bank account an extremely attractive objective for money launderers. And it is up to us - the Congress, the regulators, the banks - to try to stop money launderers from reaping the benefits of the prestigious banking system and stable economy we've worked so hard to achieve.

I think it boils down to the quality of the regulatory scheme under which a foreign bank operates. To achieve entrée into the U.S. banking system, a foreign bank should be subject to the same quality of regulation and periodic examination as U.S. banks. Whether banks are subject to such regulation seems to be the defining factor in whether their due diligence and anti-money laundering controls are adequate.

I know that, you, Madam Chairman, have been a leader in food safety issues. The situation with correspondent banking has some similarities to the problems this country faces in importing food. The United States has developed a highly effective food safety system, and as our Chairman has effectively argued, we don't want contaminated food from abroad slipping into our food supply. So, for example, when it comes to meat, we accept only that meat from countries which have inspection systems that meet our standards. That's how we protect ourselves. Why not apply a similar standard to foreign banks. We don't want contaminated food, and we shouldn't accept contaminated banks.

That's why all of the experts we heard and several officers of our nation's largest banks have said shell banks should be banned from U.S. correspondent accounts, period. Shell banks are banks with no physical presence, oftentimes no staff, and no real regulation. If such a prohibition were in place, all 400 of Nauru's shell banks would lose their access to U.S. dollar accounts. So would the more than 50 Vanuatu shell banks. So would the many shell banks licensed in the Caribbean and operating in Latin America. So would the Montenegro shell banks using the Bank of Montenegro's correspondent accounts. So would all the shell banks being sold on the Internet. That alone would be a significant accomplishment.

Offshore banks and banks in jurisdictions that don't cooperate with anti-money laundering efforts are two more categories of banks that raise contamination concerns. The hearings showed that these type of high risk banks were able to open correspondent accounts at major U.S. banks, including Bank of America, Chase Manhattan Bank and Citibank. Each of these U.S. banks opened and kept open accounts for these foreign banks, despite high money laundering risks and even after being confronted with disturbing evidence of misconduct or suspicious transactions. Two of them acknowledged that they should have done a better job in screening and monitoring the correspondent accounts they opened for high risk foreign banks.

When we looked at Citibank's relationship with Federal Bank and M.A. Bank last week, we heard Citibank say they knew the parent entities of those banks extremely well. In fact with respect to Federal Bank, Citibank was a major business partner in a holding company called CEI. Yet in both of those cases, the offshore banks were not subject to examination and each bank had serious problems with anti-money laundering controls. Citibank said it was surprised when it heard one of the banks, Federal Bank, had no anti-money laundering controls. The relationship manager for Citibank said Federal Bank lied to him. Yet Citibank claimed "profound knowledge" of how the offshore bank operated. But the absence of a strong regulatory hand with regular or periodic examination of Federal Bank puts everything in doubt. Today I will explore with our witnesses whether we should ban offshore banks not affiliated with U.S. banks and offshore banks not subject to examination from having correspondent accounts in the United States as well.

Another matter that merits legislative attention is the ability of injured parties and governments to get access to illicit funds in correspondent accounts. Unlike a regular bank account, where law enforcement authorities and plaintiffs in civil suits can freeze or seize the funds at issue, in a correspondent account, because the owner of the account is the respondent bank and not the clients of the respondent bank, persons trying to seize or freeze funds unlawfully obtained by a client of the respondent bank are required to sue the bank in the jurisdiction where the bank is operating or show that the respondent bank is at fault. That's not only a tough job, that can be an impossible job. Showing that the illegal funds are in the account is not enough. The consequence of this situation is that crooks using foreign bank account in the United States have greater protection for their assets in U.S. bank accounts than U.S. citizens. And where U.S. citizens are victims of illegal activity, they may be denied recovery even though the money sits in a U.S. bank. That anomaly should be fixed.

These issues are not an academic concern that only banking circles need to examine. Money laundering finances crime. It provides the funds needed to conduct illegal drug operations, financial scams, and Internet gambling. It provides the means for corrupt public officials to enjoy their ill-gotten gains. It safeguards the profits that reward criminals and organized crime. Stopping money laundering takes the profit out of crime. It helps in the fights against criminal enterprise, corrupt politicians, and the local con man who steals a person's savings. Shell banks, offshore banks and banks in non-cooperative jurisdictions are major money laundering mechanisms, and there is much that can and should be done to dismantle them.

Today we will hear from a representative of one group that has not yet spoken at these hearings, the victims of the money laundering that goes on through correspondent accounts.

Sometimes the victim is a specific individual taken in by a financial fraud – someone whose savings have disappeared into an offshore bank never to be recovered. Sometimes the victim is a class of individuals subject to the same wrongdoing, such as the 700,000 credit card holders who collectively got socked with \$40 million in illegal credit card charges by a criminal who sent the stolen funds to offshore banks with U.S. correspondent accounts.

Today we will also discuss with the Treasury Department and the Department of Justice their experience with the various problems involved in correspondent banking, their reaction to our proposed reforms, and any proposed fixes they may have in mind. The prior Administration placed a high priority on stopping money laundering, and it made significant progress. Hopefully the current Administration will maintain that priority and continue the battle.

I look forward to the testimony and, again, thank the Chairman for calling today's hearing and supporting this investigation.

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