OPENING STATEMENT OF

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

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During the next few days, the Permanent Subcommittee on Investigations will examine the complex world of correspondent banking, and the extent to which the correspondent banking system can involve U.S. banks in money laundering, allowing criminals to exploit our financial system. These hearings, initiated by the Ranking Minority Member, Senator Levin, are the culmination of a lengthy investigation into correspondent banking by his staff, and represent the second phase of the Subcommittee's examination of money laundering and its effect upon our financial system.

Correspondent banking is the means by which one bank – the "correspondent" – provides financial services to another bank, often referred to as the "respondent" bank. Typically, the respondent bank has no physical presence in the jurisdiction in which it maintains a correspondent account. Correspondent banking thus enables the respondent bank to provide services to its customers that otherwise would be unavailable because of geographic limitations.

Correspondent banking is an integral part of the domestic and international banking systems. Without correspondent banking, in fact, it would often be impossible for banks to provide comprehensive nationwide and international banking services – among them, the vital capability to transfer money by wire with amazing speed and accuracy across international boundaries. For this reason, U.S. banks maintain thousands of correspondent relationships, through which billions of dollars move daily.

American banks provide some correspondent clients with fee-based products only, such as currency exchange services, interest bearing and demand-deposit accounts, and wire transfers to investment services. To other clients, U.S. banks also offer credit-related products, such as loans, credit extensions, and lines of credit. This distinction between the provision of fee-based products and service-based products is significant because the Minority investigation has shown that some U.S. banks conducted more due diligence when evaluating potential correspondent banking clients for credit relationships – in other words, when their own finances were at stake – than when only fee-based services were at issue.

Not surprisingly, money launderers have capitalized on this relative lack of scrutiny for non-credit relationships. When they do business through foreign respondent banks with U.S. banks that do not maintain correspondent banking credit relationships, they can too often "fly under the radar" of the U.S. banks. In other words, the money launderers gamble that the U.S. banks will not notice – or perhaps not scrutinize – the source of the funds flowing through their correspondent accounts.

The investigation has shown that, in some instances, the gamble has paid off. Through such accounts, the perpetrators of criminal schemes have succeeded in moving their ill-gotten gains around the world ahead of law enforcement officials, in many cases ultimately returning these funds to the United States in a "laundered" form that they can enjoy with impunity.

Regrettably, the source of such monies was often fraudulent scams perpetrated by Americans, against Americans. For example, Melvin Ford of Maryland was a central figure in the Forum, which appears to be a Ponzi-type investment scheme. Ford and the Forum targeted low- and middle-income African-Americans who attended his seminars and rallies, promising them extraordinarily high returns for their investment. The Forum established a relationship with American International Bank in 1993, and accounted for perhaps as many as 6,000 of American International Bank's 8,000 customers. By 1997, in fact, more than half of American International Bank's $110 million in assets were attributable to the Forum and its investors.

The investigation established that three types of foreign banks are particularly "high-risk," that is, prime candidates to harbor the funds of money launderers: so-called "shell" banks, offshore banks, and banks in jurisdictions with strong bank secrecy and weak anti-money laundering laws. "Shell banks" do not maintain a physical presence anywhere, which makes it very difficult for the licensing jurisdiction to regulate them.

Offshore banks are not eligible to conduct business with the residents of their licensing jurisdiction. Because they have no effect upon local citizens – and because they are often lucrative profit-centers for the licensing jurisdiction – local government regulators often have little incentive to engage in serious oversight.

The third category of high-risk foreign banks consists of banks in jurisdictions that simply have weak anti-money laundering laws. The lax regulatory environment obviously attracts those who wish to launder money. U.S. banks that rely upon local regulators to police respondent banks in these jurisdictions hang their hopes only upon a shadow.

The investigation revealed troubling gaps in U.S. banks' oversight of their correspondent relationships with these three types of banks. Moreover, labyrinthine banking relationships can also make due diligence more difficult. In several cases, U.S. banks were surprised to learn that they were conducting transactions for foreign banks with whom they had no direct correspondent account. These foreign banks had established correspondent accounts at *other* foreign banks which maintained correspondent accounts at the U.S. institutions.

Caribbean American Bank, for instance, maintained a correspondent account at American International Bank, which in turn had correspondent accounts with such prestigious institutions as Bank of America, Chase Manhattan Bank, and Toronto Dominion Bank. Caribbean American Bank thus accessed the U.S. financial system through American International Bank's correspondent accounts. This access is disturbing because Caribbean American Bank ultimately emerged as the focal point of a major advance-fee-for-loan fraud that originated in the United

States and defrauded victims around the world of more than $60 million over eight years. Through wire transfers involving American International Bank's correspondent accounts at U.S. banks, the perpetrators of the fraud collected their victims' money and disbursed it in laundered form to accounts under their direct control.

Given the intricate nature of the schemes criminals use to launder money, there are obviously practical limitations upon the intensity of scrutiny that U.S. banks can give to the customers of their correspondent banking clients, or to any particular link in a chain of "nested" correspondent accounts. A requirement that U.S. banks thoroughly investigate the business dealings of each and every customer of a correspondent banking client – their customer's customers – might well prove burdensome and impractical, doing more harm to the financial industry than good in preventing money laundering.

The investigation's case studies make it equally apparent, however, that U.S. banks must do a better job first of initially screening correspondent banking clients, and then of monitoring these clients' accounts once they are opened. For example, some U.S. banks neglected to verify that their correspondent banking customers had effective anti-money laundering procedures in place at the time they opened correspondent accounts. Moreover, U.S. banks have sometimes been far too slow to react to information they receive from government officials and the media about suspicious activity by their correspondent banking customers. There is clearly much room for improvement here.

I see the goals of these hearings as twofold. First, a careful examination of case studies of those who have successfully manipulated the correspondent banking system to launder money should shed some light on how these schemes have worked – and point out some weaknesses in current anti-money laundering protections. These disclosures should make it possible for U.S. banks to better understand and act upon the warning signs of money laundering in correspondent banking, helping prevent such abuses in the future.

Second, we must consider whether both banks and regulators have the tools they need to prevent money laundering through correspondent banking. I want to emphasize that the banking industry has made great strides in its efforts to stem money laundering. For example, the Office of the Comptroller of the Currency has noted that banks have, in general, successfully complied with their obligations under the Bank Secrecy Act to implement good currency transaction reporting programs. Nevertheless, gaps in oversight clearly still occur. One way of preventing such gaps is for the banking community to work more closely with the regulatory community to exchange information. I hope that a better public-private working relationship is one of the outcomes of these hearings.

I look forward to hearing the testimony of our witnesses. At this time, I would like to recognize the distinguished Ranking Minority Member, Senator Levin, for his opening statement – and I want to thank him for his extensive work on this complex investigation.

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