

STATEMENT OF SENATOR CARL LEVIN
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Hearing On
PRIVATE BANKING AND MONEY LAUNDERING:
A CASE STUDY OF OPPORTUNITIES AND VULNERABILITIES
November 9, 1999

Thirteen years ago, with the passage of the first money laundering statute, Congress made clear its desire not to allow U.S. banks to function as conduits for dirty money. This subcommittee, through a series of hearings and reports in the 1980's on money laundering and off-shore secrecy jurisdictions, contributed significantly to the enactment of that law. Money laundering is now a federal crime and our banks and financial institutions are required by law to establish and implement anti-money laundering programs.

Since that time the world has experienced an enormous growth in the accumulation of wealth by individuals around the globe, and wealthy individuals have turned in growing numbers to a category of banking called "private banking" as the mechanism for managing their money.

Raymond Baker, a Guest Scholar in Economic Studies at Brookings and a witness at tomorrow's hearing, estimates that \$500 billion to \$1 trillion of international criminal proceeds and hundreds of millions of dollars from tax evasion are moved internationally and deposited into bank accounts annually. He estimates that half of this money comes to the United States. Today we are looking at how private banking can provide management not only for legal money but also for the wealth of international criminals and corrupt government officials.

We need to first understand what private banking is. Most private banks are a bank within a larger bank, distinguished by the size of the accounts they hold and the presence of a one-on-one private banker or relationship manager assigned to manage the assets of each client. To open an account in a private bank, prospective clients – and we estimate that there are over 200,000 private bank clients at U.S. banks today -- must deposit a substantial sum, usually \$1 million or more. In return for this deposit, the private bank assigns a private banker to act as a liaison between the client and the bank and to facilitate the client's use of a wide range of services offered by the bank. The client pays either a flat fee, a fee based on a percentage of the assets under management or both.

Private banking is a very competitive and very profitable business, often bringing in a 20 to 25% return to a bank. Private bankers are marketers and promoters who are expected to attract wealthy clients to the bank. Once a person becomes a client of a private bank, the bank's primary goal is to service that client, and servicing a client almost always means using services that are also the tools of money laundering – secret trusts, offshore accounts, secret name accounts, and shell companies called private investment corporations.

These private investment corporations or PICs are designed for the purpose of holding – and hiding – one person's assets. The assets can be real property, money, stock, art or other valuables.

The nominal officers, trustees, and shareholders of these shell corporations are, in turn, often shell corporations controlled by the private bank. The PIC then becomes the holder of the various bank and investment accounts, and the ownership of the private bank's client is buried in the records of so-called secrecy jurisdictions, such as the Cayman Islands. Private banks keep pre-packaged PICs "on-the-shelf", awaiting activation when a private bank client wants one. They have shell companies in secrecy jurisdictions managed by shell corporations which serve as directors, officers and shareholders. There are shells within shells within shells – like Russian Matryoshka Dolls -- which in the end can become impenetrable to legal process.

Private bankers specialize in secrecy. Even if a client doesn't ask for secrecy, the private banker encourages it. Look at this brochure for Citibank's private bank on their international trust services. In the table of contents it lists the attractiveness of secrecy jurisdictions this way: "The Bahamas, the Cayman Islands, Jersey & Switzerland: The best of all worlds." This brochure also advertises the advantages of using a PIC. One advantage it lists is this one:

"PIC assets are registered in the name of the PIC and your ownership of the PIC need not appear in any public registry."

Secrecy is such a priority that private bankers are often told by their superiors not to keep any record in the United States disclosing who owns the offshore PICs established by the private bank. One former private banker told us he and his fellow bankers had to hide cheat sheets in their desks, because they weren't allowed to keep names of the offshore accounts they were managing. Since they couldn't remember the names and numbers of all those accounts when they needed them, they would keep a secret list in their desks or with a secretary to help them remember. When the list was discovered, the banker was reprimanded.

Secrecy is so important that private bankers sometimes speak in code to each other in phone calls across the Atlantic to disguise the beneficial owner of the account they are talking about, so other bank employees won't know the beneficial owners of the very accounts they are working on. One private banker in Citicorp London had worked for years on the Salinas account and never knew Raul Salinas was the beneficial owner. Raul Salinas was always referred to by a code, CC2, or the name of his PIC, Trocca. The private banker said she was surprised when she learned Raul Salinas owned one of her accounts.

American banks aren't allowed to maintain secret accounts in the United States, so U.S. private bankers establish secret accounts and secret corporations in countries that do allow them. Then they manage those accounts from their offices in the United States. In short, American banks help wealthy customers do abroad what the customer and the bank can't do within the boundaries of the United States.

Today we are looking at the private bank of Citibank. It is the largest bank in the United States, and it has one of the largest private bank operations. It has the most extensive global presence of all U.S. banks, and it had a rogues' gallery of private bank clients. Citibank has been private banker to:

- Raul Salinas, brother to the former President of Mexico; now in prison in Mexico for murder and under investigation in Mexico for illicit enrichment ;
- Asif Ali Zardari, husband to the former Prime Minister of Pakistan; now in prison in Pakistan for kickbacks and under indictment in Switzerland for money laundering;
- Omar Bongo, President of Gabon; subject of a French criminal investigation into bribery;
- sons of the General Sani Abacha, former military leader of Nigeria; one of whom is now in prison in Nigerian on charges of murder and under investigation in Switzerland and Nigeria for money laundering;
- Jaime Lusinchi, former President of Venezuela; charged with misappropriation of government funds;
- two daughters of Radon Suharto, former President of Indonesia who has been alleged to have looted billions of dollars from Indonesia; and, it appears,
- General Albert Stroessner, former President of Paraguay and notorious for decades for a dictatorship based on terror and profiteering.

And these are just the clients we know.

Other banks have similar accounts. The legal counsel for Bankers Trust private bank asked the Subcommittee not to make public any information about an account of a certain Latin American client because the private banker was concerned that the banker's life would be in danger if the information were revealed. The Bankers Trust counsel, when describing one of its clients, told our staff words to the effect that, "These are bad people." If the bank thinks they're "bad people," why are they seeking them as customers of the private bank? In the Bankers Trust case it appears the bank does know its client; but what it knows is that its client is "bad."

Today we're going to look at some of these cases in greater detail to learn how these individuals became clients of Citibank, what effort Citibank made to implement its due diligence and ascertain the source of the client's wealth, and what Citibank did to help disguise the clients' accounts.

No one is suggesting that private banking is an improper banking activity or that banks should not be making a profit on the services they offer their clients. As several of Citibank's top managers said to us, the question is how you conduct private banking in an "honorable" way.

The key factor to banking in an "honorable way" is the exercise of due diligence in learning who a client is and the source of the client's wealth and then taking appropriate action. This is a fundamental requirement for a strong anti-money laundering program.

America can't have it both ways. We can't condemn corruption abroad, be it officials taking bribes or looting their treasuries, and then tolerate American banks making fortunes off that corruption.

The Federal Reserve, the Office of the Comptroller of the Currency, the State Department, and the General Accounting Office all have concluded that private banking is vulnerable to money laundering. We will ask today's witnesses, private bankers from Citibank, about some specific cases showing us how and why that's true. At tomorrow's hearing we will look at generic private banking practices, the role of the federal regulators, and the significance of private banking in the global movement of money.

Private banking has a legitimate function, but it has too often been used to manage dirty money. We must end the use of private banking by the criminals and the corrupt.

I thank the Chairman for her support for these hearings and her staff for their hard work in helping us to bring these about. I also thank my Minority staff for their excellent work.