

Money Laundering in Scandinavian banks

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1. Introduction

The Scandinavian banks have again and again been involved in money laundering scandals. This report revolves around the subject of money laundering with a focus on Scandinavian banks' involvement in recent events. A broad description of money laundering in general is presented as well as information on Anti Money Laundering.

2. What is money laundering?

Money laundering is the act of inserting illegal money into the legal economy in a way to conceal its real source and instead make it appear to originate from a legitimate source. The word money laundering stems from the fact that you make dirty money clean. Money can become dirty in two major ways; it can either be earned from illegal activities directly or it can be earned from legal activities but become dirty when not being taxed. Money laundering is an illegal act in itself and it's a very extensive business globally. The consequences of money laundering, like increasing inflation, more volatile interest rates and lower tax revenue, are detrimental to other businesses and the economic development as well as the rule of law. Furthermore it has a damaging effect on the reputation of the involved financial institutions resulting in loss of customer trust. Ultimately the money laundering industry empowers organized crime (Money laundering, 2019a).

The money laundering process consists of three steps: Placement, Layering and Integration. Depending on the amount of money and where they originate from, the laundering method of choice put emphasis on different steps. For example, the step layering gain importance when dealing with larger amounts cash.



The money laundering process. Reference: <https://linkurio.us/blog/investigating-money-laundering-scheme/>

There are multiple methods of laundering money. For minor amounts of cash there are options like buying goods and services with it, dividing it into small deposits into multiple bank accounts or betting it in casinos etc. But as the amount of cash grows larger, the laundry methods become more complex. When it comes to large amounts of money earned from illegal activities, one option is to hide the money behind a shell corporation or a legitimate business. The ultimate such business is one which wouldn't raise suspicion if a significant amount of its revenue is earned in cash, like a pizza place, an arcade or a laundromat (Money laundering, 2019b).

The step in the process of money laundering called layering is about concealing the source of the money through multiple transactions, often between different countries. Generally, an offshore financial centre such as Aruba, Cayman Islands, Panama or Liechtenstein is involved in these transactions. An offshore financial centre, OFC, is a country or jurisdiction which, according to the International Monetary Fund, provide some of the following services: low or zero taxation, moderate or light financial regulation or banking secrecy and anonymity. Especially the banking secrecy and anonymity is taken advantage of to make tracking the money back to its original source nearly impossible (Offshore financial centre, 2019).

3. Recent money laundering scandals

Money laundering is constantly a topical subject in the news worldwide. Since layering often is such a crucial part of the process, a lot of different countries is involved in every new case of money laundering. And the Scandinavian countries are no exceptions. In many cases, the Swedish, Norwegian or Danish banks doesn't play the main role, but their participation in the scandals are regardless brought to the surface by the national newspapers.

3.1 The Panama Papers

The Panama Papers are 11,5 million documents that got leaked in 2016 by an anonymous source. The documents were taken by the Panamanian law firm Mossack Fonseca and exposed personal financial information that revealed shell corporations used for illegal purposes such as fraud and tax evasion. The Panama papers contained information regarding

people as well as financial institutions all across the globe, including Scandinavia. Both Norwegian and Danish citizens were on the client list of Mossack Fonseca and required further investigations but regarding Scandinavia, the certainly most affected bank was Sweden's Nordea. The documents mention Nordea close to 11.000 times and includes the revelation that Nordea's Luxembourg office had set up almost 400 companies for its clients in the offshore financial centres Panama and the British Virgin Islands. The Swedish Financial Supervisory Authority investigated the actions of Nordea and in 2015 charged them with the largest possible fine, over EUR 5 million, for their serious deficiencies in how they monitor money laundering (Panama Papers, 2019).

3.2 Sweden and Denmark 2010-2014

Despite security actions taken place within the banks and previous warnings from the Swedish financial supervisory authority, in 2017 there was a big mass of money laundering reported by Swedish banks. Sweden's Nordea and Denmark's Danske Bank were identified as the most prominent Scandinavian participants in the international investigation carried out by the Danish newspaper Berlingske in 2017. But three other Swedish banks, Swedbank, Handelsbanken and SEB were also involved. This money-laundering probe also involved banks in Germany, the UK and the US and a total of at least Euro 200 billion was laundered between 2011 and 2014, and the money is thought to originate from criminal activities in Russia. Out of this money, more than USD 1 billion were transferred using accounts with Nordea and Danske Bank to tax havens around the world via shell companies ("All major Swedish banks...", 2017).

3.3 Swedbank 2019

It was recently found that one of the major banks in Sweden, Swedbank, is suspected for enabling systematic money laundering for almost a decade. The money is linked to the Russian tax fraud in 2007 which was found by the tax accountant Sergei Magnitsky. When Magnitsky was assigned to investigate the suspected fraud, he discovered that the people involved was not only known criminals but also judges and police officers. He exposed and testified against the suspects but instead eventually ended up in jail himself, where he died soon after. Long investigations since then and struggling to trace the money has ultimately

revealed the part that Scandinavian banks played. The total amount of USD 26 billion has been transferred between approximately 50 suspected client's account in Swedbank, but also Danske Bank, between 2007 and 2015. ("Suspected money laundering...", 2019).

4. Minimizing the risk of money laundering

If criminal investigators want to search for a money laundering activity, it means they have to go through the three steps of money laundering and it involves collecting documents and data from people, banks and companies. When the investigators access all the documents they have to bring them together to build a comprehensive view of the potential money laundering scheme.

4.1 The Anti-Money Laundering (AML)

There are several regulations that have been introduced to the banks worldwide to prevent the money laundering act. In Scandinavia, the banks are following the law based on the Fourth EU Money Laundering Directive, which clarify that all financial businesses within EU are committed to prevent money laundering. In short, banks are required to ask questions of their customers and make an assessment of the risk of utilizing the bank for money laundering or financing terrorism. It entails that the banks supposedly have a good knowledge of its customers and their bank events, and are being aware of the purpose of the customer's various transactions. If a customer to a Scandinavian bank wishes to make a deposit or receive money, the customer must be able to answer some questions and verify the origin of the money or provide some documents which can clarify the purpose of those transactions (Swedish Bankers' Association, 2017).

For example; in Nordea bank in Sweden they start asking question to a customer before accepting them as a new client and they make sure that they are who they claim to be. Nordea needs to know their source of money and how they intend to use their account. Based on the received information, Nordea assess its customer and evaluate their information to reduce the risk of future illegal activity. Furthermore, if there is any unusual transaction later, Nordea will ask for proper documents and if the customer cannot explain or provide proper documents, they will report the case to a specialist. The specialist will then follow up with the

detailed investigation on the account of the customer and they will then decide whether to terminate the customer relationship or continue with it (Nordea, 2019).

4.2 Our Suggestions and Recommendations

According to this research and what others done regarding the elimination of money laundering we can recommend some ways to fight against money launderers;

The initial step is when a person wants to open a bank account, there must be a prepared questionnaire which as a lot of questions about the account holder's background and specifically the purpose of opening bank account. The answers of these questions can give a clear and proper image of the account holder to the bank. For banks is also necessary to establish a formal and strong policy to avoid money laundering. There must be a sensitive-automatic monitoring on all the customer's transaction and alarm officers when there is suspicious transaction. Definitely after this alarm the suspected customer must come up with all the individual or company's documents to clear and explain his/her transaction. Some people when they want to do money laundering they come with a small business, so banks have to ask them where is money coming from and what is their purpose of doing business.

5. Reading Guide

To learn more about the subject of money laundering in general or the particular money laundering scandals mentioned in section 2 of this report, the reader can primarily turn to the sources in the reference list. For Swedish speaking readers interested in the situation revolving around Swedbank, we recommend watching the reportage called "Swedbank och penningtvätten" done by "Uppdrag Granskning" for Swedish television. To find out more about the leak of the Panama papers, not focusing on scandinavian banks but rather the world and the leak itself, we recommend reading an article called "About the Panama Papers" by F. Obermaier, B. Obermayer, V. Wormer and W. Jaschensky.

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