

Money Laundering in an International Commercial Bank: A Case Study

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ABSTRACT

The case concerns a large international bank (the bank) which was fined and penalized \$1.3 billion by the federal and state government for laundering over \$6.7 billion through the US financial system in violation of federal regulations. The bank used its compliance group to modify anti-money laundering rules and systems to allow transactions from rogue countries, thus circumventing international financial reporting requirements. During a ten-year period, instructions were given to key bank employees to avoid using certain names and to revise internal documents by removing such names from documents and electronic records.

The case illustrates the importance of complying with government regulations and how internal controls limitations such as management override and collusion, can effectively circumvent internal controls and reporting requirements.

Keywords: fraud, money laundering, bank fraud, anti-money laundering systems, Bank Secrecy Act



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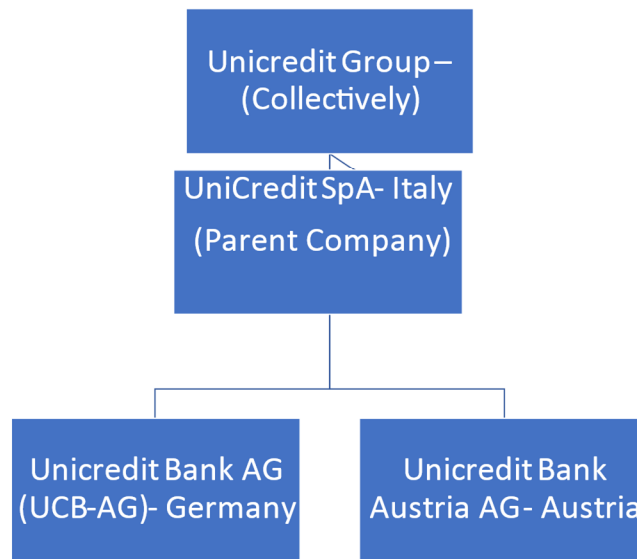
BRIEF COMPANY OVERVIEW

UniCredit SpA (the bank) is an international banking group based in Milan, Italy, and is the country's largest and the 34th largest bank in the world (based on assets). The bank was created in 1998 through a merger between Credito Italiano and Unicredito. The current bank traces its roots to 1870 when a predecessor entity, Banca di Genova (later renamed Credito Italiano), opened for business. Although the bank operates in over 50 countries, it is considered a pan-European commercial bank with operations mainly in Western, Central, and Eastern Europe. The bank provides client solutions primarily through its three divisions: Corporate and Investment Banking, Commercial Banking, and Wealth Management.

THE ALLEGATIONS

Two of the bank's European subsidiaries (noted in Figure 1 below) purportedly worked with sanctioned entities in such countries as Iran, Libya, Cuba, Myanmar, and Sudan, to transfer funds across international borders while disguising the identity of such entities, in violation of international financial reporting requirements.

Figure 1: Partial view of the bank's European subsidiaries



UniCredit Bank AG (UCB-AG), the bank's German subsidiary operating in Munich under the name HypoVereinsbank, allegedly conspired to violate the International Emergency Economic Powers Act (IEEPA) and to defraud the US government. The IEEPA, enacted October 28, 1977, is a United States federal law which provides the President with broad authority to regulate a variety of economic transactions following a declaration of national

emergency in response to any unusual and extraordinary threat to the United States which has its source in whole or substantial part outside the United States.

UCB-AG did so by processing hundreds of millions of dollars through the US financial system on behalf of entities designated as weapons of mass destruction and others subject to US economic sanctions. One such entity, the Islamic Republic of Iran Shipping Lines, was sanctioned over weapons of mass destruction.

During a 10-year period (2002-2012), UCB-AG knowingly and willingly moved approximately \$393 million through the US financial systems on behalf of the sanctioned entities, most of which were specifically prohibited by the United States Government from accessing the US financial system. It used a scheme, formalized in its own bank policies, to conceal the identity of the sanctioned entities in such transactions. One approach was to use names of companies which UCB-AG knew would appear unconnected to the sanctioned entity despite being controlled by such entity.

An example of the nefarious transaction occurred on or about October 6, 2008, in which UCB AG caused an unaffiliated bank located in New York City, to process a \$1,761,943 transaction on behalf of a sanctioned entity in Iran by concealing the entity's identity. UCB-AG failed to seek or obtain a license or permission from the Office of Foreign Assets Control. It is worth noting that the Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury, administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States.

The bank's Austrian unit, UniCredit Bank (Austria) was also accused of conspiring to circumvent U.S. restrictions on transactions with Iran during the same 10-year period (2002-12). It intentionally used a non-transparent payment method, called cover payments, to conceal the involvement of sanctioned of sanctioned entities (including banks and other entities) located in or doing business in Iran and other countries subject to US sanctions, to process transactions through U.S. financial institutions.

An example of a suspicious transaction occurred on approximately October 2, 2008, in which UniCredit Bank caused an unaffiliated US financial institution, also located in New York City, to process approximately \$3,609,492 for a sanctioned Iranian entity while concealing the entity's involvement. It also failed to seek or obtain a license or permission from OFAC for such transaction.

UniCredit Bank also created a policy manual which specifically instructed employees to process transactions disguising the names of sanctioned entities mainly by not using any Iranian names. It also removed the names of such entities from any messages with U.S. financial institutions. Ultimately, the bank's own compliance group changed its anti-money laundering system so that transactions with sanctioned entities would not be reported to government regulators.

THE FALLOUT

In 2019, the bank and its subsidiaries agreed to plead guilty and pay a \$1.3 billion fine to federal and New York state criminal charges for illegally moving hundreds of millions of dollars through the US financial system in violation of sanctions programs. (The sanctioned programs

include the Libyan Sanctions Regulations, the Iranian Transactions and Sanctions Regulations, the Syrian Sanctions Regulations, the Sudanese Sanctions Regulations, the Burmese Sanctions Regulations, the Cuban Assets Control Regulations, the Global Terrorism Sanctions Regulations, and the Weapons of Mass Destruction Proliferation Sanctions Regulations]. The guilty plea ended a six-year investigation into the bank's anti-money laundering practices; a joint investigation by the Internal Revenue Service and the Federal Bureau of Investigation.

LEARNING OUTCOMES

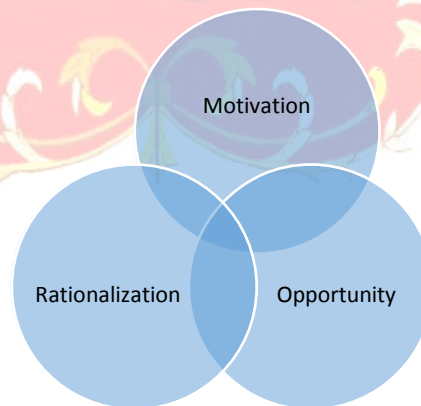
Students will be able to:

1. Understand money laundering and the importance of anti-money laundering initiatives in organizations
2. Understand the fraud theory and use the theory to assess the circumstances that led to the money laundering practices within the referenced organization

DISCUSSION QUESTIONS

Students are asked to respond to the following questions:

1. What is money laundering? Does the information in the case support the definition?
2. Using the fraud triangle below, discuss (a) the opportunities that enabled the fraud to occur, (b) the motivation that encouraged the company to commit the fraud, and (c) the rationalization used by the company in conducting the fraud.



3. Comment on your overall impression of this global bank for engaging in the activities discussed in the case incident.

Interested faculty may contact the authors for a copy of the teaching note

EPILOGUE

As part of the guilty plea, the bank agreed to pay \$1.3 billion to regulatory bodies including OFAC, the Federal Reserve, and the New York State Department of Financial Services.

The individual units were also charged as part of the agreement. UCB-AG agreed to waive indictment and accept a one count felony criminal information charge, to enter into a written plea agreement, and to accept responsibility for its conduct. It also agreed to forfeit \$316 million and pay a fine of \$468 million. The Austrian unit, UniCredit, forfeited \$20 million and agreed to compliance and sanctions enhancements.

The bank agreed to implement a remediation and enhancement plan to strengthen its policies, procedures, supports and controls to ensure full compliance with economic sanctions and internal control requirements. It also agreed to further develop methods to prevent and detect illegal activities.

DISCLAIMER

This fraud case and the teaching notes were prepared by the authors and are intended to be used for class discussion and not for providing an opinion on whether the case was handled appropriately or inappropriately. The events described in this case are based on a real-life situation as reported in various newspapers and blogs.

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