



# Sky Views: A new Nordic drama is brewing – and it is bad news for two big banks

Friday 29<sup>th</sup> March 2019 01:07 AM

## Ian King, business presenter

Most of us think of Denmark and Sweden as ideal countries in which to live. They are beacons of tolerance with enviably high living standards that frequently top global indices measuring happiness, healthiness and well-being.

Central to this view - held, not least, by most Danes and Swedes themselves - is that they are clean, honest, incorruptible countries.

Yet growing evidence suggests this latter assumption may need revisiting. Danske Bank, Denmark's largest lender, has been mired for months in a money-laundering scandal that cost its former chief executive, Thomas Borgen, his job in October last year.

And yesterday saw Swedbank, Sweden's fourth-largest lender, dismiss its chief executive, Birgitte Bonneson, after it too was implicated in money laundering.

The two cases have many similarities and increasingly appear intertwined.

The Danske case involves about €200bn (£172bn), mainly thought to be from Russia, having passed through its branch in Estonia between 2007 and 2015.

The sums being transferred were enormous - about 10 times the size of the Estonian economy - and yet nothing apparently occurred to Danske's management that something suspicious might be going on.

This was despite countless warnings from two larger banks carrying out transactions in the country on Danske's behalf - Deutsche Bank and JP Morgan - that something was amiss.

The Swedbank case also centres on the Baltic region.

Swedish broadcaster SVT has revealed that at least €135bn (£103bn) worth of transactions involving so-called "high-risk non-resident" clients, mainly Russians, went through Swedbank's branch in Estonia between 2008 and 2018.

A lot of that money flowed between accounts at Swedbank and Danske in the Baltic states - suggesting a connection between the two.

SVT also reported this week that Swedbank's branch in Lithuania funnelled millions of dollars from accounts in Ukraine that may have been linked to the country's deposed former president, Viktor Yanukovich, who is now in exile in Russia and facing treason charges at home.

SVT said some of the money had found its way to accounts linked to Paul Manafort, Donald Trump's convicted former campaign chairman, who had previously worked for Mr Yanukovich.

Swedbank is also now being investigated by US authorities for misleading them.

The New York State Department of Financial Services is said to have not received the full story after contacting the bank in April 2016 asking for more information on transactions it facilitated involving Mossack Fonseca, the Panamanian law firm at the centre of the Panama Papers scandal, in the Baltics.

Embarrassingly, Swedbank now faces separate accusations of breaking insider trading rules, having apparently tipped off a number of its shareholders about the money-laundering allegations.

Other Nordic lenders are also in the spotlight. Nordea, Sweden's biggest bank, also faces accusations that money from dubious sources flowed through its branches in Estonia, Denmark and Finland from a now-defunct Lithuanian bank.

Some of that money is said to have been linked to corruption uncovered by Sergei Magnitsky, an accountant, who was beaten to death in a Russian jail in 2009.

The emerging theme in these scandals is one in which the Baltic branches of major Nordic banks appear to have been used by Russians to siphon money acquired in dubious circumstances out of the country and into the West.

Sweden and Denmark are now belatedly beefing up their financial regulators and equipping them with more resources.

But the scandals also raise questions about why such European lenders seem unusually exposed to the threat of money laundering.

American banks have a far better record in preventing money laundering, perhaps because regulatory oversight - in the form of the Financial Crimes Enforcement Network, an arm of the US Treasury department - is so tough.

Asian jurisdictions, such as Singapore, also have a strong reputation in this field. In the EU, though, it is a different story. Partly this may be because Russian entities, in particular, have identified European lenders as a weak link.

The aftermath of the financial crisis revealed, for example, how the banking system in Cyprus was awash with Russian money. Yet there is also a case for arguing that EU-based lenders have been targeted because there is no common oversight of lenders within the EU.

Responsibility for tackling money laundering is delegated instead to individual financial intelligence units that collect information on suspicious or unusual financial transactions.

Countries where these may not be especially well-resourced then become a target. Local branches of a big international bank, such as Danske's and Swedbank's branches in Estonia, represent obvious weak links.

Eoin O'Shea, whose consultancy Temple Grange Partners advises clients on matters related to global compliance, risk and regulation, told Sky News recently that he fears Ireland may become a target, post-Brexit, because of the number of financial institutions relocating their EU hub from the UK to Ireland.

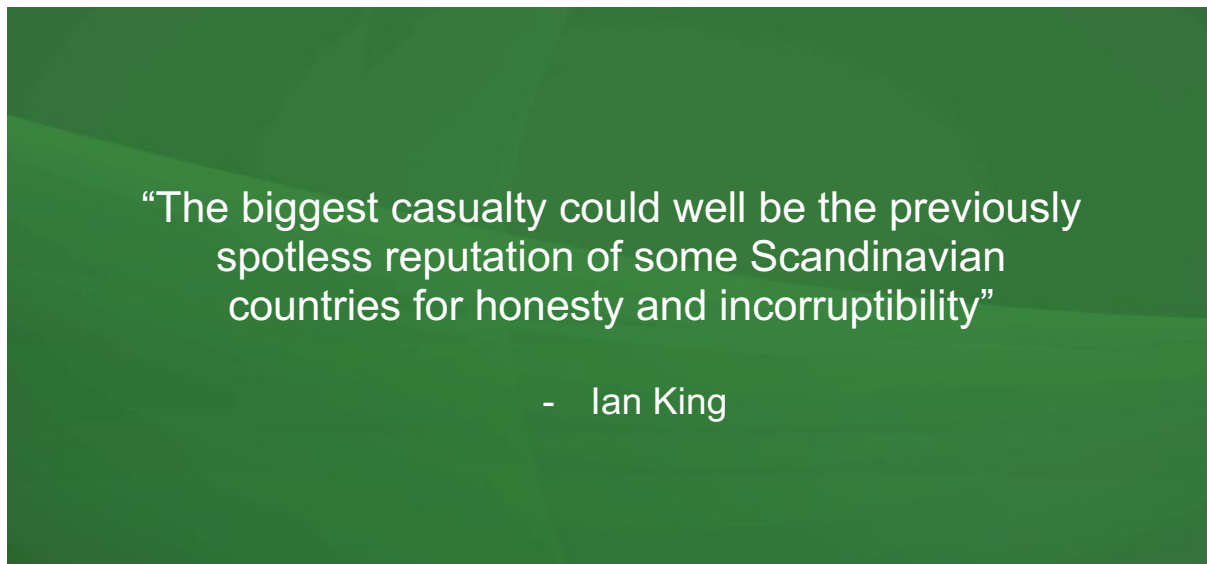
Large sums of money are being transferred to Ireland in this process - Barclays, for example, recently moved £166bn worth of assets to its Dublin subsidiary - and the scale of this activity will provide an irresistible opportunity for some wrongdoers to try to shift large sums around under the guise of Brexit preparations.

Apart from shareholders in Danske and Swedbank, who have seen the value of their investments tumble, people living in Baltic states are also the victims in these scandals.

Take Latvia. The governor of its central bank, Ilmars Rimsevics, was [arrested in February last year](#) amid allegations of corruption after one of the country's biggest lenders, Norvik Bank, tipped off local police about what it regarded as suspicious transactions.

Yet Mr Rimsevics was recently reinstated in his position and the Latvian authorities have failed to make public what evidence they may or may not have gathered against him. Mr Rimsevics has also, at the same time, been reinstated to the governing council of the European Central Bank.

But the upshot of all this is that few people now want to do with Latvian banks.



Very few major international banks now offer what are known as "correspondent banking" services - where they clear foreign currency transactions for smaller banks through major financial centres - on behalf of Latvian lenders.

Oliver Bramwell, the British chief executive of Norvik Bank (which is now called PNB Banka), told Sky News last week that this is now starving Latvian banks of capital. That ultimately means that households and businesses in the country could be denied access to credit.

The biggest irony of these scandals is that, in contrast to lenders in the US and Europe, the Nordic banks had a good financial crisis. They sailed through the catastrophe without difficulty and emerged as some of Europe's most profitable lenders.

Yet some of their number now stand accused of having seriously lax compliance systems and of having enabled money laundering.

Other examples of wrongdoing may come to light in coming weeks and months.

Should that happen then, in time, the biggest casualty could well be the previously spotless reputation of some Scandinavian countries for honesty and incorruptibility.