

Scandinavian banks tainted by scandals

FRANKFURT

2 institutions are accused of helping crime lords and oligarchs launder money

BY JACK EWING

Scandinavia has long had a reputation as one of the most progressive regions in the world, known for generous parental leaves and bicycle superhighways.

So it has been a shock to see Scandinavian banks mired in a growing money laundering scandal, accused of helping Russian oligarchs, corrupt politicians and crime lords send hundreds of billions of ill-gotten dollars to offshore tax havens.

Danske Bank, the largest bank in Denmark, was caught first in suspicious activities at its subsidiary in Estonia. In the past few weeks, the scandal has spread to Swedbank and its subsidiaries in the Baltics. Swedbank's chairman, Lars Idermark, resigned Friday, saying that the media storm surrounding the money laundering allegations was a distraction from his day job as chief executive of a forest products company.

Mr. Idermark's exit came less than a week after the bank had fired its chief executive, Birgitte Bonnesen, who had previously supervised Swedbank's operations in the Baltic countries.

The revelations are stunning for what had been respected institutions. How did the Swedes and Danes get sucked into underworld relationships? Why are American investigators — federal and New York State — poring over their accounts? And how does this all harken back to the fall of Communism in Central and Eastern Europe two decades ago?

Here are answers to those and other questions.

TROUBLE IN ESTONIA

Danske Bank has admitted that its Estonian subsidiary helped thousands of customers, most of whom were not residents of Estonia, to launder tens of billions of euros from 2007 to 2015.

Over the years, Danske Bank managers ignored or played down warnings about suspicious transactions by Estonian regulators, the Russian central bank, partner banks and its own internal auditors. The Estonian operation processed transactions worth 200 billion euros, or \$225 billion, involving foreigners, and it generated profits far out of proportion to its size. The Danish bank regulator took little action and its money laundering unit was woefully understaffed.

Danske Bank did not acknowledge the problems until 2017, after the Danish media reported on them. The full scale of the wrongdoing did not become publicly known until September 2018, when Danske Bank released an investigation conducted by an outside law firm. The bank admitted that it had "clearly failed to live up to its responsibility" and the chief executive, Thomas Borgen, resigned under pressure.

WHY WAS SWEDEN SCRUTINIZED?

The allegations against Swedbank, which also involve its operations in the Baltics, have come to light in recent months after reports by Swedish public television.

But the New York Department of Financial Services had been looking into possible money laundering at Swedbank for at least a year.

In February, the department sent Swedbank's New York subsidiary a letter with extensive questions about transactions involving Russian businesspeople and officials, offshore companies and banks in Ukraine, Cyprus

and other countries that have been considered money laundering hubs.

The action by the New York regulator is part of a larger inquiry stemming from the activities of Mossack Fonseca, the law firm whose efforts to help the super-rich avoid taxes were exposed by the so-called Panama Papers, a trove of bank documents leaked to investigative journalists.

The report by Swedish television suggested that Swedbank had also been a conduit for payments by the deposed Ukrainian president, Viktor Yanukovich, to his erstwhile adviser, Paul Manafort, the former Trump campaign chairman who has been convicted of tax evasion and bank fraud.

A spokesman for the Department of Financial Services would not comment on the connection to Mr. Manafort, but the regulator's letter to Swedbank in February requested information about transactions involving Mr. Yanukovich.

Swedish prosecutors say that the country's statute of limitations prevented them from pursuing money laundering charges against Swedbank, since the suspected activity ended in 2014. But they are conducting a related investigation.

Unidentified Swedbank employees are suspected of tipping off a select group of large investors that a scandal was about to break, a possible violation of insider trading laws. Last month, officials from the Swedish Economic Crime Authority raided Swedbank headquarters in Stockholm and seized documents as part of that investigation.

Sweden's financial industry regulator, known as Finansinspektionen, is also investigating, as are the Estonian authorities.

Swedbank declined to comment.

WHY AMERICAN INVESTIGATORS?

The Justice Department and other American officials have long done the heavy lifting when it comes to money laundering enforcement in Europe. The local authorities have often not been up to the task.

Almost all big international banks, including Danske Bank and Swedbank, have subsidiaries in the United States and use the subsidiaries to process transactions in dollars. That gives federal and state investigators a legal foundation to travel far outside their borders. The Americans have done so aggressively.

European lenders like ING Group in the Netherlands, Deutsche Bank in Germany or BNP Paribas in France have paid \$16 billion in fines for money laundering or sanction violations since 2012, according to a study published by Moody's Investors Service. More than three-quarters of that sum was imposed by the United States Justice Department or other American authorities, Moody's said.

The dominance of American investigators reflects the conflicted state of European enforcement. Responsibility rests primarily with national regulators, which often lack the resources and training to tackle money launderers or are unwilling to police big, politically connected lenders. Or they are prone to corruption themselves.

"The banks and supervisory authorities have been very complacent," said Nicolas Véron, a senior fellow at Bruegel, a think tank in Brussels.

BARRIERS FELL WITH SOVIET BLOC

The collapse of the Soviet bloc almost three decades ago opened up Eastern Europe to banks in Western Europe.

It was virgin territory — with millions of customers who previously had little or no access to credit — and the Western banks carved up business along geographical and historical lines. The Scan-

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dinavian banks took the Baltics, while Austrian banks worked in Hungary, Slovakia, Romania and other places that had once been ruled by the Hapsburg dynasty.

At the same time, Russia evolved into a crony capitalist economy, breeding oligarchs and officials who wanted to move money to havens outside the country. A logical place for them to go was Estonia, which has a large Russian-speaking population. Tallinn, the capital, is six hours by car from St. Petersburg.

Danske Bank became a major force in Estonia in 2007 by acquiring the Finnish bank Sampo, which had a large foothold in the country. Sampo's Estonian subsidiary was already a destination for foreign money. More than one quarter of its deposits in Estonia belonged to nonresidents, and the proportion continued to grow after Danske took over.

But Danske's oversight of the Estonian subsidiary was weak. Many of the transactions by foreign clients were obviously fishy, the bank's own investigation found.

Some customers were known crimi-

nals, or the money came from banks notorious for money laundering. Large numbers of customers had the same address or phone number, an indication they could be fronts. Some clients would transfer money to Estonia, then immediately transfer it again, often to an offshore account. That was a sign that lenders were being used to obscure the money's origin.

Further complicating matters, Danske allowed its Estonian operation to maintain a separate information technology system. Many documents were written in Estonian or Russian, making it difficult for compliance officers in Denmark to know what was going on.

Now, operations that once seemed like lucrative outposts on the frontiers of capitalism have turned into liabilities for the Scandinavian banks.

Danske pulled out of the Baltics earlier this year. Swedbank has said it remains committed to Estonia, Latvia and Lithuania.

Reporting was contributed by Emily Flitter in New York, Stanley Reed in London and Christina Anderson in Stockholm.