The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

A Murdered Central Banker's Warning Changed Everything for SEB

By Bloomberg

December 02, 2019

The Baltic region was being used as a conduit for money launderers, the deputy chairman of Russia's Central Bank said before he was shot dead. **News Oresund / Wikicommons**

Not all money laundering scandals are equal.

When the world learned that billions in dirty funds had flowed through Danske Bank A/S and Swedbank AB, it proved disastrous for the two lenders. But when SEB AB was accused of similar offenses, people were more forgiving.

The difference can be traced back to a single point in time. SEB's chief executive officer, Johan Torgeby, says his bank made a clear choice back in 2006. That's when SEB started to tackle the kind of non-resident flows that have been at the epicenter of every Nordic-Baltic laundering scandal. Torgeby says SEB's choices are largely thanks to a dead central banker from Russia.

Dodgy Flows -

- Danske had about $220 billion in Estonian non-resident flows in 2007-2015
- Swedbank reportedly had about $155 billion in high-risk transactions
- SEB says it had about $93 billion in Estonian non-resident flows in 2005-2018

SEB, like Swedbank, is based in Stockholm. Together, the two dominate the Baltic banking market in which large-scale money laundering is alleged to have taken place. For Russian criminals eager to get their funds to the West, the setup was perfect, providing access to some of the world's most respected lenders via a region that was geographically close and familiar.

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In 2006, SEB received a warning from Andrei Kozlov, a deputy chairman of Russia's Central Bank who was visiting Estonia. Kozlov made clear that the Baltic region was being used as a conduit for money launderers. Oligarchs and criminals from the former Soviet Union were systematically targeting the region to channel questionable funds into the West. Once there, the money would be plowed into luxury real estate, yachts, fur coats and even private school tuition.

"Three days after Kozlov, we started to work with police," Torgeby said in an interview.

Not long after he visited Estonia, Kozlov was shot dead. A subsequent trial attributed the murder to bankers angered by his efforts to fight money laundering.

The warning from Kozlov "was a really important event," Torgeby said. It "kind of kick-started what we today would call the modern way of trying to limit risks associated with money laundering."

SEB is still trying to figure out what went on over a decade ago, and is still going through "a lot of documents" from 2005 and 2006, he said. Management is "trying to do a forensic review of what happened 15 years ago."

According to ABG Sundal Collier, the decline in SEB's non-resident flows after 2006 show it was serious about trying to stop criminals from using its Estonian unit. ABG says that should limit the risk of costly probes and "huge fines."

SEB was founded in 1856 by the Wallenberg family, which owns large chunks of corporate Sweden. The Wallenbergs were quick to throw their support behind the lender after it emerged that about $30 billion in non-resident Estonian flows were exposed to the risk of money laundering. Swedish media also claim that about $50 million that moved through SEB can be linked to Russian tax fraud that Sergei Magnitsky died trying to investigate. Magnitsky was the lawyer of Hermitage Capital Management co-founder Bill Browder, who has made it his mission to chase down those tied to the case.

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To be sure, the $30 billion in suspicious flows that SEB itself identified may well be enough to attract the attention of U.S. investigators, according to Elliott Stein, senior litigation analyst for Bloomberg Intelligence in New York.

“The key question will be how much of that touched the U.S. financial system via SEB,” he said. “The possibility that U.S. sanctions may have been violated also increases the likelihood that the U.S. would be interested.”

But SEB’s decision to quell the flow of suspicious transactions well over a decade ago may influence how the U.S. responds.

“The statute of limitations is five years for money laundering but if earlier transactions are considered to be part of the same scheme as later transactions, they might be considered part of a continuing offense, which would essentially make the statute of limitations issue moot,” Stein said. “But if the bank took steps to stop the activity by 2017, that could help mitigate a penalty.”