

REPUTATION DAMAGE: The Price Riggs Paid



A Case Study prepared by World-Check, the market pioneer and industry standard for PEP screening and customer due diligence — serving over 1,600 financial institutions and government agencies in more than 120 countries, including 45 of the world's 50 largest financial institutions.

© 2006 World-Check (Global Objectives Ltd) All Rights Reserved.
For permission to re-publish in whole or part please email contact@world-check.com
World-Check is a registered trademark.

CONTENT:

Section	Page
FOREWORD:	
By David B. Caruso Former Executive Vice President of Compliance & Security at Riggs Bank	
INTRODUCTION:	
RIGGS: 'Things fall apart'	1
UNDERSTANDING THE ISSUES AT RIGGS:	
TWO LEADERS, TOO MANY?	2
• RIGGS & PINOCHET	2
• RIGGS & OBIANG	3
PRIOR TO ITS 'PRESIDENTIAL PROBLEMS'	4
THE SAUDI ARABIAN DIPLOMATIC ACCOUNTS	4
THE RESULTS:	
SHAREHOLDER SUITS AND FINES.	5
RENEGOTIATING THE MERGER.	8
UNDERSTANDING THE EFFECTS:	
REPUTATION FALLOUT	8
TIMELINE	10
LESSONS TO BE LEARNT	
11	

WORLD-CHECK: AN OVERVIEW

FOREWORD

by David B. Caruso

Former Executive Vice President of Compliance & Security at Riggs Bank

Riggs is a story about the price paid when an Anti-Money Laundering ("AML") compliance program lacks proper oversight by management and the board of directors. As you will read in this paper the outcome of such failure in the case of Riggs was rather dramatic and as in any good drama there were lots of twists and turns in the various plots and sub-plots. Who could have imagined that one, relatively small bank in Washington DC, could have participated in the questionable financial activities of two of the more notorious dictators of the last quarter century?

One of the many things my staff and I learned over the two years we were at Riggs busy trying to build a compliance program and ultimately uncovering almost all of the facts you'll read about in this paper, is how harmless most poor business decisions seem at the time they are made. Bad decisions and their ramifications take years to be understood. In the case of Riggs it took almost 20 years for errors in judgement to come to fruition.

Beginning in the 1980's Riggs management and ownership launched efforts to dominate embassy and diplomatic banking in Washington DC. It seemed like a good idea at the time. It was prestigious, glamorous, and offered the bank's ownership the opportunity to hobnob with the world's political, economic, and diplomatic elite. It even provided justification to buy a Gulfstream V jet. Riggs entered into this market without ever understanding the risks it posed. Therein lies the failure.

Understanding the money laundering, fraud, and terrorist financing risks presented by your customers, your products, your services, and the locations where you operate is the most essential responsibility of an organization in today's environment.

In the aftermath of Riggs many believed that banking embassies or diplomats was in and of itself high risk. I don't believe that nor do I believe banking PEPs is automatically high risk. What is true is that these customers present a potential for higher risk, and it is the job of compliance, management, and the board of directors to understand what those risks are, how to mitigate them, the costs of mitigation, and whether proper risk management is sustainable.

As you read this paper keep in mind that the failures of Riggs to properly identify its risk and manage them is not unique. Ask yourself how well your institution knows all of its risks and how well they are controlled.

David B. Caruso was the Executive Vice President of Compliance & Security at Riggs bank from June 2003 through May 2005. Caruso and his staff were hired to address concerns raised by U.S. regulators of the Riggs relationship with the Saudi Arabian embassy and royal family. Over the next two years Caruso and his senior staff uncovered the fraud involving a Riggs banker and government officials of Equatorial Guinea as well as much of the history between Riggs and Chilean dictator Augusto Pinochet.

Caruso and his staff used World-Check to help identify PEPs and other high risk customers at Riggs Bank.

INTRODUCTION

By David Leppan,
CEO and Founder of World-Check

'Things fall apart'

For many years, compliance officers have tried to place a value on their institutions' reputations, often in an attempt to convince reluctant board members and CEOs to approve increased compliance budgets. This case study offers a unique and valuable snapshot of the cost of reputational damage and the fallout caused by an array of AML issues including the lack of proper controls and procedures.

Riggs Bank was no ordinary bank. It was an historic cornerstone in the U.S. financial community with its origins, as a brokerage house, dating back to 1836, and its depository and checking services dating to 1840 (Corcoran & Riggs). Often referred to as the *'bank of presidents'*, some 20 presidents held accounts at Riggs, including Abraham Lincoln and Dwight D. Eisenhower. It was Riggs that in 1868 supplied the U.S. government with gold bullion to purchase Alaska from the Russians. Riggs was an institution. It banked 95% of all embassy accounts in Washington. But in less than three years, things went horribly wrong for this institution, its management and its shareholders.

What were the issues? Could your institution face the same fate?

In the pages that follow, we will outline several key events and AML issues that dramatically affected Riggs' name, reputation and ultimately its share price.

There is nothing unique about the issues that plagued Riggs and before you jump to the hasty conclusion that *'none of this could happen to or at our bank'*, might I suggest you read on.

There is much to be learnt from what happened at Riggs. Compliance Officers and more importantly the CEOs and Board Members of all financial institutions should take the time to read this case study illustrating the true cost of reputation damage.

***'The most important bank in the most important
city in the world'***

Riggs Bank Advertising Campaign, 1983

UNDERSTANDING THE ISSUES AT RIGGS:



TWO LEADERS, TOO MANY?

Riggs, known as the '*bank of presidents*' ended up with 1 or 2 world leaders too many: the Chilean former dictator (1973-1990), General Augusto Pinochet and Equatorial Guinea's president (since 1979), Brigadier General Teodoro Obiang Nguema Mbasogo.

Our understanding of the relationships between Riggs and these two leaders is derived entirely from open source research. Our aim with this case study was not to highlight the exact or detailed nature of the relationships or the bank's shortcomings but rather to provide an overview of the reputation damage caused to Riggs during a period of a few years, and more importantly, understand how many of the world's institutions are knowingly or unknowingly facing the very same risk..

Riggs & Pinochet

It is reported that Pinochet (or family members/representatives) held a total of 28 accounts¹ at Riggs spanning 25 years (earliest account opened in July 1979) and totalling approximately US\$8 million. The *bigger picture* however is to be appreciated in a Riggs memorandum in 2002, which stated that the value of the Chilean business at Riggs had "average balances exceed \$100 million"².

It was while Riggs's International Private Banking Department was under review during a routine regulatory examination in April 2002 that the Pinochet accounts came to light.

Riggs had failed to disclose the existence of accounts associated with a Politically Exposed Person (PEP) in response to a direct request by its regulators. A Senate report alleged that managers at Riggs Bank had not only failed to comply with AML legislation but that they had actively aided Pinochet in laundering funds through offshore accounts and with altered account names. To make matters worse, accounts had been opened on Pinochet's behalf in the names of Ashburton Company Ltd. and Althorp Investment Ltd., both shell companies formed with the help of a Riggs offshore subsidiary³.

Pinochet's accounts were terminated after serious concerns about the oversight of the accounts was raised by the Office of the Comptroller of the Currency (OCC). The OCC had 3 main issues with the way Riggs had dealt with the Pinochet accounts. These were:

¹ <http://edition.cnn.com/2005/WORLD/americas/03/16/pinochet.funds/>

² <http://hsgac.senate.gov/files/PINOCHETREPORTFINALwcharts.pdf>

³ <http://www.guardian.co.uk/pinochet/Story/0,,1488929,00.html>

- choosing - on the basis that the bank felt Pinochet was no longer a PEP - not to disclose the Pinochet accounts when the OCC requested a list of all PEP customers.
- no suspicious activity/transaction reports were filed when Pinochet moved large sums of money from accounts at Riggs to other foreign institutions. No disclosures were made about sums moved from the U.K. and Spain ahead of attempts to seize Pinochet's funds by Spanish authorities.
- lack of documentation on the source of the Pinochet funds.

By the time the investigation was concluded, Riggs would face the largest fine for non-compliance handed down to a bank in the U.S.

Riggs held around 95%⁴ of the embassy business in the US and 40% in London⁵.

The question is not as simple as whether or not your institution is doing business with corrupt dictators and politicians. The more pedestrian question is whether your institution is meeting the standard laid out by your regulator.

Riggs & Obiang

In 1995 Equatorial Guinea opened its first accounts at Riggs. This *client* was to become Riggs's biggest depositor with, at its highest point, a balance of around US\$700 million. Riggs held the Equatorial Guinea government treasury accounts as well as the private accounts of President Obiang, his family and senior government officials. Some 60 accounts were reported to have contained 'gifts' made to the leadership of this country by U.S. oil companies.

Equatorial Guinea's oil production had increased tenfold after the discovery of a new oilfield in 1995 (Zafiro field). Diplomatic relations which had been broken off by the Clinton Administration in the mid-90's were re-established in 2003 under President Bush as oil from alternative sources became of great importance.

Accounts held in the first family's name or in the name of offshore shell companies, which had been established reportedly with the assistance of Riggs for the first family,

⁴ US Senate Report: Money Laundering and Foreign Corruption: Enforcement and Effectiveness of the Patriot Act: Case Study involving Riggs Bank

⁵ <http://www.bizjournals.com/washington/stories/2004/12/27/story1.html?page=2>

had seen cash deposits of almost US\$13 million between 2000 and 2003. In addition, large payments by oil companies had been made directly into private accounts or accounts held by officials.

After an investigation by Riggs' new Compliance staff got underway, the senior banker responsible for the Equatorial accounts, Simon P. Kareri, was fired in January 2004.

The US Senate Report of July 14th, 2004, found Riggs "had serviced the Equatorial Guinea accounts with little or no attention to the bank's anti-money laundering obligations...". It was apparent Riggs had been aware of the proceeds of large scale bribery and corruption. The Report went on to state that the bank had "exercised such lax oversight of the account manager's activities that, among other misconduct, the account manager was able to move more than \$1 million from an account belonging to a ruling family member at Riggs to another bank for an account opened in the name of Jadini Holdings, an offshore corporation controlled by the account manager's wife."

January 27th, 2005, Riggs pleaded guilty to one felony count of failing to file suspicious activity reports and agreed to be fined US\$16 million⁶. The fine was the largest amount ever imposed on a bank of Riggs' size.

On 3rd June 2005, Kareri and his wife, Ndeye Nene Kareri were indicted on 27 counts of conspiracy to defraud the bank and other related charges including bank fraud, wire fraud, money laundering and income tax evasion. If convicted they face up to 30 years in prison and a million dollar fine⁷.

Simon P. Kareri also opened an account in 1997 at Riggs for Foutanga Dit Babani Sissoko, a businessman and politician from Mali who was accused of embezzling almost US\$250 million from the Dubai Islamic Bank.

PRIOR TO ITS 'PRESIDENTIAL PROBLEMS' ...

The Saudi Arabian Diplomat Accounts

The allegations that triggered the initial investigation into Riggs by US authorities appeared in a *Newsweek* article in December 2002 ('9-11 Hijackers: The Saudi Money Trail' By Michael Isikoff). The article suggested a 'steady stream' of monthly payments had been uncovered that were being made to Omar Al Bayoumi, who had had dealings with two of the September 11th hijackers, namely Khalid Almihdhar and Nawaf Alhazmi. The money, it was reported, had come from the accounts of Princess Haifa Al Faisal, wife of the former Saudi Ambassador to the U.S., Prince Bandar and daughter to the late King Faisal of Saudi Arabia.

The article went on to state "*After Al Bayoumi left the country in July 2001--two months before the September 11 terror attacks--payments for roughly the same amount began*

⁶ <http://www.usdoj.gov/tax/usaopress/2005/txdv050530.html>

⁷ http://www.usdoj.gov/usaofdc/Press_Releases/2005_Archives/Jun_2005/05182.htm

flowing every month to Osama Basnan, a close associate of Al Bayoumi's who also befriended the hijackers. A federal law-enforcement source told NEWSWEEK that Basnan--who was recently convicted of visa fraud and is awaiting deportation--was a known "Al Qaeda sympathizer" who "celebrated the heroes of September 11" at a party after the attacks and openly talked about 'what a wonderful, glorious day it had been'."

March 2004, Riggs announced it was closing all Saudi accounts⁸.

In late November 2004, Saudi officials acknowledged that the Princess had given money to the family of Osama Basnan. The money, it was explained, had been given as a donation towards medical expenses⁹.

Princess Haifa Al-Faisal was finally cleared of the allegations¹⁰. The 9/11 Commission Report stated: "We have found no evidence that Saudi Princess Haifa al Faisal provided any funds to the conspiracy, either directly or indirectly."



1997: Riggs bought J.Bush & Co, a company owned and run by Jonathan Bush, uncle to the current U.S. President and brother to former President Bush¹¹.)

THE RESULTS: SHAREHOLDER SUITS AND FINES

SHAREHOLDERS TAKE ACTION

In April 2004, a shareholders' derivative complaint was filed against Riggs. The suit alleged that 11 directors "breached their fiduciary duties of loyalty, honesty and care and caused a waste of corporate assets and other harms to Riggs by failing to conduct appropriate due diligence of the Bank's Middle Eastern and Equatorial Guinea customers and by failing to exercise reasonable control and supervision over Riggs and its officers and employees in connection with Riggs' compliance with applicable banking laws, including the BSA and federal anti-money laundering laws"¹².

This was to be the first of several shareholder suits brought against the bank and its management.

⁸ <http://www.washingtonpost.com/wp-dyn/articles/A29674-2004Jun9.html>
⁹ <http://www.washingtonpost.com/ac2/wp-dyn/A31591-2002Nov23>
¹⁰ <http://www.saudiembassy.net/2004News/Press/PressDetail.asp?cYear=2004&cIndex=246>
<http://www.time.com/time/nation/article/0,8599,393590,00.html>
<http://www.saudiembassy.net/2002News/Press/PressDetail.asp?cYear=2002&cIndex=59>
¹¹ <http://www.washingtonpost.com/ac2/wp-dyn/A28396-2004May14?language=printer>
¹² <http://www.gardencitygroup.com/cases/pdf/RNC/RNCNotice.pdf>
<http://washington.bizjournals.com/washington/stories/2004/04/19/story3.html>

THE OCC FINE

13 May 2004, Riggs was fined US\$25 million by the OCC for numerous violations of the Bank Secrecy Act¹³ relating to the Saudi Arabian and Equatorial Guinea issues and the lack of suspicious activity reporting¹⁴. No criminal activities were uncovered within the Saudi transactions.

This amount was the largest civil monetary penalty ever brought against a U.S. financial institution for violations under the Bank Secrecy Act (BSA), the statute requiring financial institutions to guard against money laundering¹⁵.

The OCC's report stated that the banks internal controls "were, and continue to be, seriously deficient"¹⁶. "Riggs failed to properly monitor, and report as suspicious, transactions involving tens of millions of dollars in cash withdrawals, international drafts that were returned to the bank and numerous sequentially numbered cashiers' checks"¹⁷.

Riggs's former chairman and largest shareholder, Joseph Allbritton resigned from the Riggs National Corporation Board as did Timothy Coughlin, president of Riggs National Corporation.

TIME TO GET OUT OF THE BUSINESS

By mid-June 2004, Riggs had received preliminary proposals from 7 potential institutions looking to acquire it.

On July 15th, 2004, the Riggs Board accepted a bid from PNC (The PNC Financial Services Group, Inc.) of a combination of cash and PNC common stock. The amount offered was US\$24.25 per Riggs common stock.

The very same day, the U.S. Senate Committee on Government Affairs Permanent Subcommittee on Investigations issued its report, "Money Laundering and Foreign Corruption: Enforcement and Effectiveness of the Patriot Act; a Case Study involving Riggs Bank". The report concluded that Riggs had assisted Pinochet in "*evading legal proceedings related to his Riggs Bank accounts and resisted OCC oversight of these accounts,*" and that the bank had, while managing several accounts for the Equatorial Guinea officialdom "*allowed numerous suspicious transactions to take place without*

13 <http://www.occ.treas.gov/toolkit/newsrelease.aspx?Doc=5AOF8K.xml>
<http://www.occ.treas.gov/FTP/EAs/ea2003-79.pdf>
14 http://www.usatoday.com/money/industries/banking/2004-05-14-riggs-fine_x.htm
<http://www.msnbc.msn.com/id/4687305/>
15 <http://www.fincen.gov/riggs6.pdf> <http://www.fincen.gov/riggsassessment3.pdf>
16 <http://www.occ.treas.gov/ftp/eas/EA2004-44.pdf>
17 <http://www.occ.treas.gov/toolkit/newsrelease.aspx?Doc=5AOF8K.xml>

notifying law enforcement.” Finally the report stated that Riggs had “*ignored repeated directives by federal bank regulators to improve its anti-money laundering program.*”¹⁸

SEPTEMBER 11TH CLASS ACTION

On September 10th, 2004, claims were made against Riggs on behalf of the victims of the September 11th attacks (Vadhan). The class action was later dropped. By mid-June 2005, the claims were dismissed and PNC, by then Riggs’ new owner, made a contribution as part of the agreement to a charitable foundation.

A second action (Cantor) was filed on September 13th. By April 2005, this action had been resolved.

YET MORE SHAREHOLDER SUITS

By November 2004, a civil lawsuit had also been filed against former Riggs officers and directors by shareholders (‘Freeport Partners’). The complaint alleged that the banks action “*was the proximate cause of a decline in value of Riggs ... and therefore resulted in injury to Plaintiff’s property*” and that this “*made the sale of Riggs necessary and reduced the price at which that sale could be made.*”¹⁹

November 2004 brought a similar class action and derivative complaint from other shareholders (‘The Delaware Plaintiffs’).

THE SPANISH CRIMINAL ACTION, ANOTHER FINE AND THE CEO RESIGNS

On 27th January 2005, Riggs Bank and two members of the Allbritton family, the banks largest shareholders, agreed to pay \$9 million into a fund for victims of Augusto Pinochet, to settle a case over the bank’s role in hiding the former dictator’s ill-gotten gains.²⁰

On the same day, Riggs pleaded guilty to a single felony count of failing to submit accurate suspicious activity reports. A fine of US\$16 million was levied which was paid on March 29th, 2005. The judge in the case, Ricardo Urbina, referred to the bank as “*a greedy corporate henchman of dictators and their corrupt regimes.*”²¹

7th March 2004, the chairman and CEO of the parent company of Riggs Bank, Robert L. Allbritton resigned. The bank’s biggest shareholder was left without any direct board representation²².

¹⁸ <http://hsgac.senate.gov/files/ACF5F8.pdf>

¹⁹ http://www.washingtonpost.com/wp-dyn/content/article/2005/10/12/AR2005101202163_pf.html
<http://www.gardencitygroup.com/cases/pdf/RNC/RNCNotice.pdf>

²⁰ <http://www.washingtonpost.com/wp-dyn/articles/A53805-2005Feb25.html>

²¹ <http://www.bizjournals.com/washington/stories/2005/03/28/daily13.html>

<http://www.washingtonpost.com/wp-dyn/articles/A11383-2005Mar29.html>

²² <http://abcnews.go.com/Business/wireStory?id=559779>

<http://www.washingtonpost.com/wp-dyn/articles/A15462-2005Mar7.html>

The Washington Business Journal reported on 26th March that Riggs had “spent more than US\$5 million trying to come into compliance, but regulators still aren’t satisfied.”²³

RENEGOTIATING THE MERGER

Early 2005, Riggs submitted its latest financials and an update on its compliance and legal issues to PNC. In early February, PNC revised its offer from US\$24.25 per Riggs share to US\$19.32 per share. The offer was rejected and Riggs filed a suit against PNC.

On February 10th, Riggs accepted PNC’s revised offer of US\$20 per share. PNC had reduced the price per share by more than US\$4.

The revised offer and Riggs’ acceptance thereof brought a second amended shareholders class action by the ‘Delaware Plaintiffs. The action argued that the board had breached their duty to maximize shareholder value after agreeing to the reduced PNC offer.

By March 2005, the ‘Delaware Plaintiffs’ and Riggs had reached a settlement. PNC would finally pay the action group US\$2.7 million²⁴.

On May 13th, 2005, Riggs merged with PNC²⁵.

On July 21st, the Freeport Partners Action reached an agreement in principle with PNC.

October 2005, PNC, the new owners of Riggs agreed to pay US\$5.25 million to settle the final shareholder lawsuit it faced²⁶.

UNDERSTANDING THE EFFECTS - REPUTATIONAL FALLOUT

From late 2002 until Riggs was sold to PNC in mid-2005, we witnessed a series of investigations that resulted in fines and settlements totalling US\$59 million.

In two year’s time legal and consulting fees topped \$35 million.

However the true cost of reputation damage is clearly reflected in the drop in share price.

June 15th 2004, Riggs accepted an offer made by PNC of US\$24.25 per share. February 10th 2005, Riggs had accepted a renegotiated price of US\$20 per share.

An approx. 20% drop in a matter of 8 months.

Instead of achieving US\$779 million, the shareholders finally accepted approx. US\$643 million.

²³ <http://www.bizjournals.com/washington/stories/2004/03/29/story2.html?page=1>

²⁴ <http://www.gardencitygroup.com/cases/pdf/RNC/RNCNotice.pdf>

²⁵ <http://www.federalreserve.gov/boarddocs/press/orders/2005/200504262/attachment.pdf>

²⁶ http://www.cmht.com/cases_riggsarticle.php

During a two year period, the banks CEO, Robert Allbritton resigned (Mar.05), its Chief Legal Officer, Joseph M. Cahill was replaced (Dec. 04), the COO and Executive Vice President (and former MD of Riggs Europe), Robert C. Roane was suspended (Sept. 04), and the banks former chief bank examiner and executive vice president, R. Ashley Lee was put on paid leave (Aug. 04). In addition the manager of Riggs' African and Caribbean division, Simon P. Kareri, was fired and ultimately charged with 27 counts ranging from money laundering to fraud (June 05)²⁷.

*"You have rid Chile from the threat of totalitarian government and an archaic economic system based on state-owned property and centralized planning," **Riggs chairman Joe L. Allbritton wrote Pinochet on Nov. 14, 1997.** "We in the United States and the rest of the Western hemisphere owe you a tremendous debt of gratitude and I am confident your legacy will have been to provide a more prosperous and safer world for your children and grandchildren."²⁸*

THE FINAL BILL

Approx. US\$130 million in lost share value.
Approx. US\$59 million in fines, penalties and settlements.
Numerous very public resignations.
Hundreds of embarrassing newspaper articles and headlines.
Millions in consulting, auditing and legal fees.
Millions in software and other AML solutions.
A very tainted reputation, and ultimately, one of the most respected banks in the U.S. closed its doors and its name ceased to exist after more than 160 years of business.

"PNC is buying damaged goods and they understood that going into the transaction," said Gerard Cassidy, an analyst at RBC Capital Markets. "The amount of damage has increased and it's worse than the fines. The fines are the easiest part. The bigger question is the damage that is being done to Riggs' reputation"²⁹.

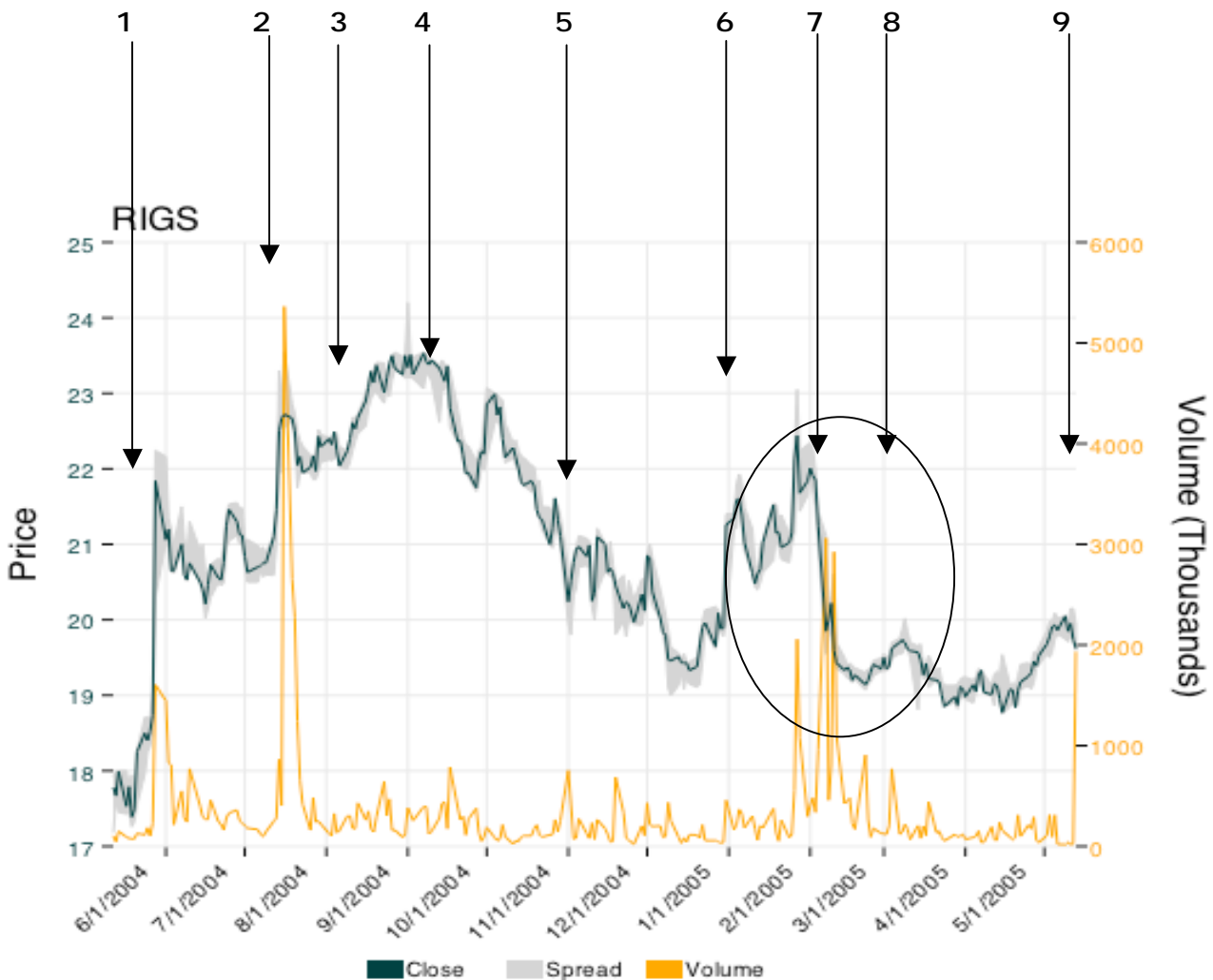
²⁷ <http://www.washingtonpost.com/wp-dyn/content/article/2005/05/27/AR2005052701471.html>

²⁸ <http://www.chile-usa.org/p46.htm>

²⁹ http://www.zwire.com/site/news.cfm?newsid=13905880&BRD=2185&PAG=461&dept_id=415891&rft=6

TIMELINE

1. May 04: \$25 million OCC fine for non-compliance: Saudi Arabia & Equatorial Guinea
2. July 04: PNC agree to pay \$24.25 per share. Riggs stock closes at \$22.44 (up 32cents).
3. Aug. 04: US begins Riggs probe.
4. Sept. 04: Spanish judge asks US to file charges against Riggs. Riggs sued over 9/11.
5. Civil suit, class action and derivative complaint brought against officers and directors by shareholders.
6. Jan. 28th: Riggs admits guilt in failing to report suspicious transactions & accepts fine \$16m. Riggs also agrees to pay US\$9 million to fund for victims of Pinochet.
7. 7th Feb - Riggs shares drop 5% after PNC deal collapses. 8th Feb. - Riggs shares tumbled \$1.21, or nearly 6 percent, to \$20.02. 10th Feb. PNC agree to buy Riggs at \$20 per share. Shares in Riggs fell 59 cents, or 2.9 percent, to \$19.63 on the Nasdaq.
- 28th - \$9 million fine: Pinochet
8. Mar. 05: Riggs admits 28 Pinochet accounts, not 9. CEO resigns. Mar. 29th Riggs pays the \$16m Pinochet fine.
9. 13 May 05 – Riggs acquired by PNC



Copyright Marketocracy

http://www.marketocracy.com/cgi-bin/nphpvs?1&D&MO_Stock_Chart&550,400&stockID=3290&ticker_symbol=RIGS&maxDays=365

Reputation Damage: 'The Price Riggs Paid'

LESSONS TO BE LEARNT:

What must be apparent is that Riggs' issues were less about banking on behalf of PEPs and much more about what the regulator expects from an institution. Riggs was fined primarily because of a lack of vigilance and procedure only made worse by the purposeful attempting to conceal activities of great concern to the regulator once under investigation. As compliant as Riggs might have been on OFAC, its basic KYC, AML and suspicious reporting procedures were grossly lacking.

Some of the following suggestions may seem basic but there are too many institutions that have not yet committed themselves in the way the regulators would approve of.

LEGAL & COMPLIANCE RISK:

- Ensure your employees are well (and regularly) trained on legal and compliance issues.
- Ensure the Legal & Compliance departments are properly staffed, have the systems and procedures in place to meet all legislative requirements and that they have a budget to do so. Cutting corners will cost you more in the long run...including, quite possibly, your job and your own reputation!
- Ensure compliance are empowered to do what needs to be done within your institution.
- Ensure your compliance team is not made up of *only* lawyers. Former enforcement and agency staff may be far better trained in investigative methods and are more likely to know how to catch a thief/fraudster/money-launderer etc. Compliance is not only about complying with the law. It's about understanding and evaluating risks.

PEP RISK:

- Ensure your institution is 100% aware of all of its customers that are PEPs - in the broadest sense - no matter how many years ago they were in office.
- When asked by regulators to disclose all PEPs, do so. Rather err on the side of caution.
- Do not assist or turn a blind eye to PEPs concealing their identity whether by using alternative spellings of their names, aliases or corporate structures.
- Do not assist PEPs in setting up (offshore) corporate or trust structures without being prepared to disclose your assistance in the matter.
- Report all major transactions and large cash deposits related to a PEP especially if they are deposits/gifts by large corporations.

- Ensure multiple sign offs on all PEP business by officers that are well trained in compliance and legal requirements.
- When dealing with diplomatic account holders, be aware of the geo-political risks and conditions in their country.
- Within banking institutions, set up PEP-Desks i.e. a PEP Department with a team of private bankers who are well trained in compliance issues and know how to deal with PEPs.

CORRESPONDENT RISK:

- Ensure you carry out regular audited due diligence on all correspondent banks, their ownership and management.
- Continue to review your correspondent banks and the countries they are based in for risk issues.
- The same is true for referrers of business, law firms and other service providers.

EMPLOYEE RISK:

- Ensure checks and balances are in place and that no (private) banker or trader goes unsupervised, no matter how much of a 'star' they are.
- Bankers responsible for PEPs need additional scrutiny. Have several people sign off on all major PEP transactions.
- Ensure your employees are well trained in their legal and compliance requirements.
- Should you bank deal with PEPs from heightened risk countries, ensure your employees are educated and kept updated on the risks that country poses.
- It is often the case that employees pay an unfairly high price for failure by an institution or its management. One seldom hears about how many people have lost their jobs because of a scandal that brought their employers to their knees.

One should also consider...

SHAREHOLDER RISK

- the risk of management being sued because of incompetence or non-compliance.

MANAGEMENT RISK

- the risk of being sued by shareholders, being investigated by the government and ultimately going to jail

JURISDICTIONAL RISK

- in smaller jurisdictions a case of this nature and magnitude would have a knock-on effect on the entire financial community.

...however of primary concern must be one's ...

REPUTATION RISK:

- Understand that your institution is only as good as its name and reputation.
- Ensure all board members, management and employees understand this.
- Set out to improve your reputation every day and do so by measuring, understanding and mitigating your risks.
- Never underestimate the 'bad guys' – they are craftier than you think. They set out everyday to do what they need to do. You have to set out every day to prevent them from doing it at your institution.
- Set up a Damage Control Team to include internal and external marketing teams for *when it does go wrong*. Have a strategy to put out fires.
- Understand that a good compliance team should not be seen as a department that *'costs money'* but rather as a *'reputation protection'* department that could save you millions (and your job!).
- Accept that the mass media would love nothing more than to cover their front pages with articles of 'greedy bankers doing business with the bad guys'.
- As your institutions shares plummet, the company is put up for sale and lawsuits are brought against you, remember you were warned.

WORLD-CHECK

OVERVIEW

World-Check was founded in late 2000 to meet the specific requirements of the Swiss financial industry.

Today, 5 years on, World-Check intelligence is relied upon by 1600 institutions in more than 120 countries, including over 200 government, enforcement and regulatory agencies in over 90 countries.

45 of the world's 50 largest financial institutions choose to use World-Check. We serve more institutions than all other PEP vendors put together.

World-Check's coverage includes PEPs, money launderers, fraudsters, terrorists and sanctioned entities — plus individuals and businesses from over a dozen other categories. World-Check offers a downloadable database for the automated screening of an entire customer base, as well as a simple online service for quick customer screening.

Please visit www.world-check.com for further information
or contact World-Check at contact@world-check.com

www.world-check.com