

Private bankers and politically exposed persons

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Private bankers need to know as much as possible about the customers that pass through their doors, and the wealth that they carry. So each customer who wants to open an account is subjected to considerable processes of due diligence. If the customer is a businessman who has made his wealth through his company, that wealth is relatively easily checked. But if a customer says he is a politician or a public administrator, the bank raises the level of its due diligence.

Politicians are of course not by definition crooked, and many banks – though not all – will open an account for a person in public office who can show he is honest. But banks have seen enough politicians to know that they do not usually earn sufficient money to justify an account in a private bank. Many Asian bankers rue the day they admitted to their portals representatives of the late President Ferdinand Marcos of the Philippines. The Marcos's were later found to have stolen billions of dollars from their country, and the private banks that took their money experienced great reputational damage as the Philippines sought later to reclaim the laundered loot.

When a politician comes to see a banker today the reflex to be suspicious is automatic, and the checks are especially arduous. Indeed, financial watchdogs have even devised a term to help bankers pinpoint those in the public sector who needed to be watched extra carefully. They are called Politically Exposed Persons or peps. The Wolfsberg Principles, which were devised by a group of private banks to serve as an authoritative set of guidelines on money laundering, identify peps as, 'individuals holding or having held positions of public trust, such as government officials, senior executives of government organisations, politicians, important political party officials as well as their families and close associates.'

Before a bank accepts or rejects the pep and his money, he will want to check it out thoroughly. The process can be complex. The first stage involves creating a profile of the individual, his contacts, advisers, professional history and business interests. The majority of peps will co-operate with this process and provide references to assist the bank. Banks say that high profile figures largely understand the process of due diligence even if they may resent it on the grounds that it breaches their privacy.

The task becomes harder for the banker when the customer's political involvement is less clear-cut. Banks has to assess a customer's influence or access to public wealth even if he tells them he is no more than a low level official in a country's civil service or a junior politician. 'The fringe peps are the problem,' says Martyn Bridges of Bridges and Partners, a London based consultancy. 'The members of the family or discreet advisers pose the biggest problems for banks. They have a real difficulty doing due diligence with them.'

At this stage banks can take a number of routes. First, they can use their own managers in the pep's country to make discreet enquiries about the individual and the provenance of his funds. One private bank said it had a team of bankers dedicated to the investigation of peps and other high net worth individuals. The bank's second route is to use a database of peps to run the name in question. One of the largest online databases is IntegraScreen, based in Hong Kong, which lists biographies of many hundreds of thousands of Asian and Middle East peps. Much of the material has been collated by people who have local languages and who work with public record material, says IntegraScreen's

managing director Scott Graham. But the process is far from foolproof. Graham: 'Names in some languages can be spelt in many different ways, so even if a 'match' is obtained with the relevant individual, the bank should not assume he is guilty or suspicious. This should form only the first level of investigation.'

Technology is now available that can assist the process of checking peps more thoroughly, says David Porter, head of risk at the UK consultancy Detica, 'Pep matching focusses on "structured" data, that is well behaved, orderly data stored in databases. There is also the parallel world of "unstructured" verbal data, that is the content of e-mail messages, text messages, instant messaging and telephone conversations. Technology now exists that can go through these kinds of data streams, understand the concepts being discussed and spot suspicious words or phrases. Unstructured data is the next frontier!'

Peps from countries which have been black-listed by the Financial Action Task Force rings instant alarm bells. Many go to private banks in Singapore and Hong Kong for quite genuine reasons, for example they might fear a change of regime in their home country resulting in their money being confiscated, or their assets expropriated. But others will be handling black money for which they seek the imprimatur of a blue chip bank in a well-regulated region. Tan Sin Liang, a partner with the Singapore law firm SL Tan and Co, says 'Singapore's strength becomes its weakness. Singapore is a very stable country politically, but some of its neighbours are not so clean and their corrupt politicians may try and abuse it. There is a tension between the government's efforts to attract wealth into this country and the risk that they might attract the wrong kind of wealth. Crooks don't distinguish between the two. The banks' challenge is to keep out the crooks.' Tan says the government of Singapore 'doesn't want to be extreme and outlaw Pep money. But on the other hand it doesn't want trouble with Peps that misbehave.'

Peps who are given a clean bill of health following the due diligence process do not automatically win the bank account he desires, says Urs Brutsch, global head of clients, ABN AMRO Private Banking. He says that every application from a pep has to be signed off by ABN AMRO's Global Head of the International Private Clients business and no more than one in ten of peps is accepted onto the books. The bank who gives the pep an account continues to treat him as a high risk customer, examines his transactions with particular care, and conducts an annual review of his account. Bankers says that the pep who conducts unusually banking transactions, such as moving money between many different accounts or different jurisdictions, especially if they are in offshore or blacklisted countries, will not last long as a customer in any reputable private bank.