

Chalmers University of Technology



**CHALMERS**  
UNIVERSITY OF TECHNOLOGY

## Money Laundering and Anti Money Laundering

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## **Work Description**

The report is written by all the participants in the group. The group has worked together throughout the process and all participants have been equally invested in the report. By individual reading and discussions in the group the report developed to its final state. It is hard to separate the work on the report within the group and who has done which part of the report, due to the high amount of cooperation. All of the four group participants have done 25% of the work.

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# Table of Content

<b>1. Introduction</b>	<b>1</b>
1.1. Background	1
1.1.1. Money Laundering	1
1.1.2. Anti Money Laundering	1
1.2. Delimitations	2
<b>2. The Evolution of Money Laundering</b>	<b>3</b>
2.1. The History of Money Laundering	3
2.2. Financial Action Task Force	3
2.3. Rules on Money Laundering and Terrorist Financing in Sweden	3
2.4. Risk Assessment of Money Laundering in Sweden	4
2.5. Swedish Financial Supervisory Authority	4
<b>3. Money Laundering Within Swedbank</b>	<b>5</b>
3.1. Background	5
3.2. Effects	6
3.3. Analysis and reflection	6
<b>4. Conclusion</b>	<b>8</b>
<b>5. Reading Guide</b>	<b>9</b>

# 1. Introduction

The following section covers the background, purpose and delimitations of the report.

## 1.1. Background

Since the economy originated some individuals and groups have tried to take advantage of the system for their own benefit. One way of utilization, that is interesting to analyze, is Money Laundering and the prevention of it, Anti Money Laundering.

### 1.1.1. Money Laundering

Money laundering is the concept of turning “dirty” money into “clean” money. Dirty money is the kind of money that has been obtained by criminal methods, such as drug operations. The process of doing this is referred to as money laundering, thus by covering up the proceeds of criminal conduct and the sources, to make it appear legitimate.<sup>1</sup>

The process of money laundering is often described in three steps; placement, layering and integration. Placement is about how the money is introduced into the financial system, usually by breaking it into many different deposits and investments. Layering covers how the money is shuffled around to create distance between it. The perpetrators and integration is about how the money is then brought back to the perpetrators as legitimate income or clean money.<sup>2</sup>

### 1.1.2. Anti Money Laundering

Anti money laundering (AML) refers to regulations, laws and processes designed to prevent concealing illegally obtained funds. The primary aim of AML is to criminalize money laundering which includes criminal law measures and implement data protection and privacy issues.<sup>3</sup> The ultimate goal is to conceal crimes ranging from drug trafficking to public corruption which often is strongly associated with terrorist organizations.<sup>4</sup>

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<sup>1</sup> Muhammad Saleem Korejo, Ramalinggam Rajamanickam and Muhamad Helmi Md. Said. ‘The Concept of Money Laundering: A Quest for Legal Definition’ (2021) 24 Journal of Money Laundering Control 725.

<sup>2</sup> Investopedia, ‘What Methods Are Used to Launder Money?’

<sup>3</sup> Muhammad Saleem Korejo, Ramalinggam Rajamanickam and Muhamad Helmi Md. Said, ‘The Concept of Money Laundering: A Quest for Legal Definition’ (2021) 24 Journal of Money Laundering Control 725.

<sup>4</sup> Investopedia, ‘What Methods Are Used to Launder Money?’

## **1.2. Delimitations**

A delimitation done by the group is to focus on the Swedish market. To be able to get a deeper insight to, and to exemplify, the subject, the group decided to focus on a specific event connected to money laundering and AML. Another delimitation done by the group is to choose the event of the money laundering scandal within Swedbank to exemplify the concept of money laundering.

## **2. The Evolution of Money Laundering**

This section covers the background and ground facts about money laundering and AML.

### **2.1. The History of Money Laundering**

Money laundering was criminalized in Sweden in 1991 by changes in the existing receiving regulations. Sweden then followed the United States, which in 1986 was the first country to criminalize money laundering. The criminalization of money laundering in Sweden had also been pressured by the United Nations convention against illicit traffic in narcotic drugs and psychotropic substances, referred to as the Vienna Convention of 1990 which is the first inter-governmental agreement to criminalize money laundering. Sweden had, however, already in 1989, together with 14 other countries started the organization Financial Action Task Force (FATF), which aims to prevent money laundering and its connected criminal acts.<sup>5</sup>

### **2.2. Financial Action Task Force**

The Financial Action Task Force or “FATF” was formulated in 1989 G-7 summit in Paris. It consists of global standards and recommendations regarding AML and Combating Financing of Terrorism “CTF”. Moreover, the FATF is referred to as a muscle which generates the needed laws, regulations and reforms to eliminate money laundering on a global scale.<sup>6</sup> There have been several updates in the FATF to increase its effectiveness due to updated technologies in both AML and money laundering. The recommendations in FATF are integrated and implemented by the Swedish Financial Authority in Sweden.

### **2.3. Rules on Money Laundering and Terrorist Financing in Sweden**

In Sweden today, there are two main laws that regulate combating money laundering. The first main law is “ The Money Laundering and Terrorist Financing (Prevention) Act”. This law is the administrative framework applying to firms in certain sectors. The purpose of the regulations is to prevent firms from being used for money laundering and terrorist financing. Firms that are subject to the Anti-Money Laundering Act are responsible for reporting, without delay, suspected money laundering or terrorist financing in their operations to the

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<sup>5</sup> Markus Forsman, ‘30 År Av Penningtvättsbekämpning I Sverige Och Internationellt - Fungerar Systemet Som Det Var Tänkt?’ (2020).

<sup>6</sup> Muhammad Saleem Korejo, Ramalinggam Rajamanickam and Muhamad Helmi Md. Said, ‘The Concept of Money Laundering: A Quest for Legal Definition’ (2021) 24 Journal of Money Laundering Control 725.

Financial Intelligence Unit within the Swedish Police. Reporting shall be done as instructed by the Financial Intelligence Unit. The other main law is “The Act on Penalties for Money Laundering Offences” which is the criminal law framework covering money laundering and terrorist financing. Under the Act, laundering money is a criminal offense.

Finansinspektionen's task is to supervise the financial firms that are subject to the Anti-Money Laundering Act to ensure their compliance with the rules set out therein to prevent them from being used for money laundering.<sup>7</sup>

#### **2.4. Risk Assessment of Money Laundering in Sweden**

16 government agencies and the Swedish Bar Association have published the report “National Risk Assessment of Money Laundering and Terrorist Financing in Sweden 2020/2021”. The report is based on a survey of threats and vulnerabilities in particular sectors. Risk assessments have been performed for each of these sectors and the risks have been compared in a national context in relation to their potential impacts on society. Among the businesses that are under the supervision of Finansinspektionen, the assessment found that the highest risk level exists in the banking and financial institutions. Banks represent the fundamental financial infrastructure of the country, and more or less all laundered money needs to pass through the banking system at some stage.<sup>8</sup>

#### **2.5. Swedish Financial Supervisory Authority**

The Swedish Financial Supervisory Authority known in Sweden as “Finansinspektionen” is responsible for the financial regulations and authorisation of financial markets in Sweden and is coordinated by the Swedish Government. Regarding money laundering within the financial sector, the SFSA has formulated obligations and regulations that every financial actor has to follow. The first one is risk assessment where actors such as banks and insurances are obligated to analyze the extent of risk within their products, customers, suppliers and geographical factors. Another regulation is “procedures” which illustrates what actions shall be taken toward customer knowledge and monitoring. Other regulations consist of training, customer due diligence, risk classification, monitoring and reporting to the Financial Intelligence Unit.<sup>9</sup>

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<sup>7</sup> ‘Money Laundering | Finansinspektionen’ (21 December 2020).

<sup>8</sup> ‘National Risk Assessment of Money Laundering and Terrorist Financing in Sweden 2020/2021’ (2021).

<sup>9</sup> ‘Money Laundering | Finansinspektionen’ (21 December 2020).

### 3. Money Laundering Within Swedbank

This chapter focuses on the money laundering within Swedbank during 2015 to 2019.

#### 3.1. Background

In february 2019 SVT, the Swedish Television Stock Company, published an article presenting suspected money laundering in Swedbank AB. One of the largest banks in Sweden was suspected for being used for extensive and systematic money laundering for more than 10 years. Nearly USD 5.8 billion was funneled between shady accounts in both Swedbank and Danske Bank in some of the Baltic countries. Moreover, approximately USD 26 million of that amount was linked to the Russian tax fraud that was uncovered by the accountant Sergei Magnitsky.<sup>10</sup>

The Swedish Financial Supervisory Authority (SFSA) began an investigation regarding management and performance of Swedbanks and its Baltic subsidiary banks AML-processes. Although SVT presented transactions dating back to 2007, the investigation only covered the years from 2015 to the first quarter of 2019. The result and decisions were served to the public in Mars 2020. The investigation showed that Swedbank hadn't identified nor managed the money laundering risk in its Baltic companies up to a sufficient level. Their system was deficient to control its customers and therefore didn't live up to the money laundering regulations.<sup>11</sup>

The investigation also indicated that internal reports during the period showed lack of resources and control of money laundering risks, yet this wasn't reported to the SFSA as it should. The investigation suggested that it had become a strategy to not communicate their shortcomings to the market, so called obscuration, which in itself is a crime. Additionally the CEO during this period, Birgitte Bonnesen, was accused of spreading the erroneous image that Swedbank hadn't any problem with its AML-processes in the Baltics.<sup>12</sup>

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<sup>10</sup> Joachim Dyfvermark, Linda Larsson Kakuli and Axel Gordh Humlesjö, 'Suspected Money Laundering in One of the Largest Banks in Sweden' (SVT Nyheter 20 February 2019).

<sup>11</sup> 'BESLUT' (2020)

<sup>12</sup> Robert Triches, 'Birgitte Bonnesen Åtals För Grovt Svindleri' (Dagens industri 4 January 2022)



### 3.2. Effects

The negative effects for companies and organizations being caught involved in money laundering are multiple. First and foremost are financial sanction fees often used as a punishment following such criminal actions. If the violation is severe the organization can be deprived of their bank permission. However also negative publicity and shattered corporate reputation will have an effect on the actors result and future of their business.<sup>13</sup> The SFSA found that a suitable punishment for Swedbank was a sanction fee of 4 billion SEK.<sup>14</sup> Additionally, Swedbank also received a “Warning” from the SFSA, which is given if the violation isn’t severe enough to remove the bank permission.

The disclosure of money laundering through Swedbank also greatly affected its stock price. Swedbank AB is listed on the Stockholm Stock Exchange and from the reveal in february 2019 to the SFSA:s report 19th of Mars 2020 the stock price fell by close to 50%.<sup>15</sup> Thus it's clear that the effects for the stakeholders were more than noticeable.



Figure 3.1. The stock price of Swedbank AB from the disclosure of involvement in money laundering to the SFSA:s final decision.<sup>16</sup>

### 3.3. Analysis and reflection

This part will cover some of our own thoughts and reflections about the money laundering through Swedbank AB.

What strikes us as very interesting is how difficult it is to judge the extent of this money laundering case. SVT claimed that approximately 6 billion USD was transferred through

<sup>13</sup> Rohit Mahajan and KV Karthik, ‘Money Laundering Risks You Cannot Ignore’

<sup>14</sup> ‘Swedbank Får Sanktionsavgift För Allvarliga Brister I Arbetet Att Motverka Penningtvätt | Finansinspektionen’ (19 March 2020).

<sup>15</sup> ‘Detta Har Hänt Sedan Första Avslöjandet Om Misstänkt Penningtvätt I Swedbank’ (28 August 2019)

<sup>16</sup> ‘Historiska Kurser - Aktier - Nasdaq’

Swedbank AB, while the economics journalist Birgitt Forsberg states that over 3 000 billion SEK, approx. 300 billion USD, worth of transactions have at least one red flag. This shows the complexity in identifying transactions and customers who could be laundering money. It might also give an explanation to why Swedbank kept their knowledge about the situation quiet. Up to 3 000 billion SEK worth of illegal transactions has of course been a very profitable operation.

FI decided to issue Swedbank a warning and a fine of 4 billion SEK. There are divided opinions whether this was a sufficient consequence or not. Although that is one of the largest sanctions to ever be given by the SFSA, the fine only corresponds to approximately 1% of the company's liquidity at the end of 2020. However, even though ML is a serious crime, there are many innocent customers within Swedbank who'll be affected as well. Therefore, it gets very complex because of the many different factors to consider before issuing a penalty. Too severe punishment would cause a huge loss for Swedbank's shareholders and private customers, but on the contrary, a too low punishment would allow this to happen all over again.

## 4. Conclusion

Money laundering is a problem that gets more complex the more you get into it. There have been several scandals within the subject in recent years, and the digitalization makes it possible to launder money in new and different ways. The banks processing the money are often portrayed as the “bad guys” in the scandals, even if they aren’t the ones doing the first criminal act. However, the banks are the ones that should have the knowledge, capacity and resources to report potential money laundering. In the case of Swedbank, they were aware of the situation, and should have reported the potential money laundering or at least been transparent with their lacking routines regarding AML.

Another conclusion that can be drawn is how small the consequences of Swedbank's money laundering activities seems to have been. The penalty of a warning and a 4 billion SEK sanction fee seems not to have affected Swedbank in a big manner. In fact, the sanction fee only corresponds to 1% of the company's liquidity, or 25 % of the revenues, during 2020. Not even Swedbank's reputation seems to have been affected, and the bank receives new customers continuously. An interesting question is if the largest banks in Sweden are protected by their sheer size. Withdrawing one's bank permission would affect the Swedish economy in ways that probably makes it an impossible penalty.

Money laundering is of many reasons a financial risk. Financial institutions actually, unawarely or awarely, assist criminal organizations by letting them channelize big amounts of money through their system, while claiming their share. Money laundering increases the risk of illegal drug trafficking, human trafficking, corruption and other criminal activities. This increases social costs for the government, for example law enforcement and healthcare needs more resources as drug trafficking expands. For financial corporations and institutes money laundering is a risk that can destroy the future operations of the organization, although large banks seem to be protected by their importance in the financial system.

## 5. Reading Guide

The book “Anti-Money Laundering in a Nutshell” written by Kevin Sullivan is a comprehensive guide for those who are serious about immersing themselves in money laundering. Sullivan draws on a distinguished career as an AML agent and consultant to teach personnel in financial institutions what money laundering is, who does it, how they do it, how to prevent it, how to detect it, and how to report it in compliance with federal law.

“Swedbank : penningtvätten och lögnerna” is a book written by the financial journalist Birgitta Forsberg. Forsberg has followed Swedbank a long time and is one of the journalists who revealed the money laundering within Swedbank. The book came out in 2020 and covers the scandal within Swedbank until that year. But it’s not the first book from Forsberg regarding Swedbank. She released another book in 2010 covering the financial crisis during which Swedbank almost collapsed due to high exposure of loans in the Baltic States.

For deeper insight into the investigation of Swedbank, the final report from the SFSA is the best resource. The report initially explains current laws and regulations applicable to the case. Following this, the report step by step goes through each type of regulatory compliance that the investigation covers.

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