

Money Laundering in Chief: Scandal at the Commonwealth Bank of Australia

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The Australian banker is a smug species, arguably more than his international peers. Caught off guard by the financial disasters of the late 1980s and early 1990s, the Australian banking system has become an expression of a classic oligopoly, manipulating prices and squeezing customers. Such an Australian banker is perky as well, self-assured that any inappropriate, let alone illegal behaviour, might be passed off as an effort to do better, to buck trends, to be audacious.

Over the last few weeks, AUSTRAC has had little time for that audacity. The financial intelligence agency and regulator had picked up on suspicious transactions made through the Commonwealth Bank of Australia's "intelligence deposit machines" numbering over 53,000 and exceeding the legal \$10,000 limit. The machines in question were part of a CBA modernisation scheme, involving 40 new deposit ATMs that would permit the register of cash deposits in real time.[1]

The bubbly language from such individuals as chief information officer, Michael Harte, has been that of frat boy enthusiasm, the optimist without limits. "If you don't open channels, if you don't have rich relationship data and real-time services you cannot lead the market and you cannot change the game."

Harte's point has been breakneck speed, acceleration, briskness. Transactions need immediacy. Money should not be kept in transit, a state of costly languishing that renders the bank unattractive for the client. "With real-time banking at the core, we have enabled instant transfer of value between parties. We aren't holding money for days; we know our customers don't want this. We know banks and others are disliked for this."

Such enthusiasm has bucked and fronted the law. Harte's program has fallen foul of a conventional problem in this field: the mechanism, fashioned as such, is not necessarily conducive to the regulators. In all likelihood, it might hold such regulation in contempt, enabling money to be given a good rinse or bolstering the financial security of designated terrorist organisations.

Not that the CBA is indifferent to playing the card of brute cynicism: having set up a system achingly attractive for abuse, it advertises the opposite with professional panache. "At CommBank we are committed to fighting money laundering and terrorism financing." [2] A look shot, it would seem, both ways.



True to form, the machines have been used by a range of parties not otherwise on the “approved” list. Not that the CBA were ignorant of the fact. By admission of CBA chairwoman Catherine Livingstone, the board were first alerted to the money laundering risks posed by the intelligent deposit machines in the second half of 2015.[3]

Various sumptuous morsels can be found in the weighty 583 page statement outlining AUSTRAC’s grievance against the CBA. Among them are instances of one customer placing vast sums of cash through the Intelligence Deposit Machines outside the doors of the Leichardt Marketplace branch in Sydney’s inner west.

Foiled by an unusually attentive branch manager, the person in question made his dash, and deposited the rest of his proceeds at the bank’s Mascot branch. By the end of that June day in 2015, \$670,420, comprising 13,000 notes or so of mostly \$50 notes, had found its way into the CBA.[4]

The daring individual behind the venture was Yeun Hong Fung, a man so enterprising he had used 29 identities to launder money derived from methamphetamine sales to Hong Kong-based accounts.[5] This was no mean feat for a man who had been deported three times yet able to return to Australia on 34 occasions using false passports.

Such feats were not a point of concern for CBA chief executive Ian Narev. Things, he suggested, happened all the time. Far from it for him or members of the board to take note, let alone inform investors, of the seriousness of such financial misconduct.

“In an organisation of this size,” he said with casual contempt, “there are individual items that come to the attention of the board and management from regulators and others all the time.”

The Australian Securities and Investments Commission (ASIC) has gotten industrious on this point, promising to investigate the bank’s celebrated modern practices, notably whether it complied with the disclosure provisions outlined in the Corporations Act. The licensing requirements “to act efficiently, honestly and fairly” will be part of the remit.

“I want to inform the committee,” explained ASIC’s Greg Medcraft to a parliamentary joint committee last week, “that ASIC has commenced inquiries into this matter and any consequences this matter has for the laws we administer.”

The teeth behind the investigation will come from AUSTRAC, which promises, should the evidence stack up, heavy fines. On Monday morning, the bank shed its first appointed casualty, announcing the very mild, obvious if delayed sacrifice of Narev.

Chairman Livingstone informed the press that the “succession” plan had been brought forward, meaning that Narev would be stepping down at the end of this year. His pay packet has also been given a decent pruning – 50 percent of it, to be precise. Short-term bonuses for all senior executives for the 2017 financial year were also shelved.

All this is small beer, given that one of Australia’s golden institutions has found itself caught in mid-flight. In an effort to achieve Harte’s dream of speed and efficiency in moving capital, it embraced that old wisdom from the Roman Emperor Vespasian about money having no smell: *pecunia non olet*, as it were.

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Notes

[1] <http://www.afr.com/technology/commonwealth-banks-money-laundering-woes-are-a-slip-in-a-bank-t-eck-race-it-is-used-to-winning-20170804-gxpfvd>

[2] <https://www.commbank.com.au/about-us/opportunity-initiatives/opportunity-from-good-business-practice/sustainable-business-practices/anti-money-laundering-and-counter-terrorism-financing.html>

[3] <http://www.abc.net.au/news/2017-08-11/asic-to-investigate-cba/8796542>

[4] <http://www.afr.com/business/banking-and-finance/austrac-case-how-drug-syndicates-turned-commonwealth-bank-into-a-money-pump-20170810-gxtnht>

[5] <http://www.afr.com/business/banking-and-finance/austrac-case-meet-fung-and-his-mate-foong-20170810-gxt5f1>

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