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Danske Bank Money Laundering Scandal Fallout

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On September 19, 2018, Thomas Borgen, CEO of the Estonian Branch of Danske Bank since 2013, resigned amidst potentially the largest money laundering scandal in European history. Danske Bank's Chairman, Ole Anderson followed suit and stepped down from his position on November 6, 2018. This comes after an agreement between Danske and several of its major shareholders that "extraordinary and extensive changes" are required at the bank.

In 2007, Danske Bank purchased the As Sampo Bank and, as a result, entered the Baltic market for the first time. Consequently, Danske Bank inherited As Sampo Bank's customers. From 2007-2015, there were over 9.5 million payment transactions, totaling upwards of \$236 billion, many of which appeared to be suspicious in nature. After examination, investigators deemed 6,200 of the total 15,000 foreign customer accounts of the Estonian bank branch to be suspicious – including accounts linked to the Russian Laundromat and Azerbaijani Laundromat scandals. Further, there were 42 employees and agents of the bank who seemed to be involved in the suspicious activity.

Following Danske's entrance into the Baltic market in 2007, Estonian financial regulators issued a critical inspection report of the bank. The Russian Central Bank provided information pointing to possible tax and customs evasion as well as money laundering to Danish financial regulators, who then reiterated this to key members of the Danske Bank. However, no action was taken as a result of the report. Further, in 2008 Danske Bank Group elected against migrating Baltic banking activities onto the primary IT platform due to the related costs and resources. Therefore, the bank did not benefit from anti-money laundering procedures that likely contributed to the inability to detect the schemes that took place during the nine-year period. In addition, in 2014, before a business review could be completed, a whistleblower within the Estonian branch, as well as the results of an internal audit, highlighted anti-money laundering control deficiencies. Again, while action was prompted, these allegations and findings were not investigated.

Danske Bank's stock has fallen by 30% in 2018 and nearly 50% from an all-time high in May of 2017. Penalties and potential criminal charges remain likely. The United Kingdom has announced an investigation into U.K.-registered companies involved in the laundering, and the United States could open up an investigation regarding the violation of U.S. sanctions. The effects of this scandal will not be reflected in just monetary value from penalties imposed or loss of market value, but will also be reflected in the loss of customers going forward.

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