

The ethical analysis  
and evaluation of:  
hsbc money  
laundering scandal



## HSBC Money-Laundering Case

HSBC is a bank that originated from Hong Kong in 1865 with the original purpose to

help trade between Europe and Asia take place. From these roots, HSBC has blossomed into

existing branches in nearly 66 countries and territories (HSBC, 2019). HSBC had essentially

started as a local bank in Hong Kong and grew into one of the most well-known multinational

banks in the world. Despite the bank's growth and successes, it later struggled as they battled

through several ethical dilemmas within the last decade. HSBC and its upper management could

have taken more precautions to help prevent the most recent situation from taking place.

The most recent HSBC ethical scandal took place when the bank essentially allowed

itself to be used to launder a river of drug money that was being fluctuated out of

Mexico. This was the third time in the last decade that HSBC had been fined and penalized for

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lack of supervision. This is also the third time of which the bank has been told to improve

monitoring of transactions that deem to be suspicious. The previous two times HSBC was under

this circumstance was during 2003 and 2010. During 2003, the Federal Reserve Bank of New

York and New York State Regulations ordered HSBC to better monitor suspicious outflows of

funds from accounts. In 2010, they were notified to do the same by the Office of the Comptroller

of the Currency (OCC) (Viswanatha & Wolf, 2012).

### What are ethics and why are they important in global banking and business?

Ethics is defined as a set of moral principles that ultimately lead to a decision a person

or business makes. While often illegal decisions are unethical, not all unethical decisions are

illegal. In the business world, managements are forced to make decisions on a daily basis.

Some of these decisions are much harder to make than others, at business decisions can often

affect the everyday lives of people who work in that business. Global Banking decisions affect

the lives of many people as well.

Global Banking transactions take place between financial institutions and corporations all

over the world. Unfortunately, not every decision made in these transactions is ethical. As a

result, finances of the general public are affected and can cause damage to someone's personal

life. In this example, HSBC's lack of supervision from its compliance department was unethical

for not taking enough security measures to monitor suspicious transactions that were taking

place. The lack of supervision was unethical because of the consequences that come with this

discovery, along with the fact that this money was being laundered by two cartels of Mexican

and Colombian descent.

It is unethical on HSBC's part to be unaware of the money laundering taking place in the

respective branches in Mexico along with all of the other branches. These branches essentially

helped cartels that were up to no good in order to fund their drug operations along with possible

other operations that the cartels may be responsible for. This is why not enforcing compliance

on suspicious accounts and transactions is considered unethical. In conclusion, ethics is

extremely important in the business world as it could either strengthen or weaken your

productivity, which will then affect the overall success of the bank of business.

#### What was the case about?

HSBC Holdings Plc had to pay an extremely large amount of money for allowing itself to

be used to launder drug money from a Mexican cartel along with a Colombian cartel. Mexico's

Sinaoa cartel along with Colombia's Norte de Valle cartel were involved in this scandal as a

significant amount of money was laundered between the two of them

(Viswanatha & Wolf, 2012). At the time when HSBC was discovered to have been inadvertently

helping these cartels, it was discovered that HSBC did not have any sort of program against

money laundering. Even though there were understood risks with accounts of civilians in that

area, the bank had put the accounts in the “ lowest risk category”

(Viswanatha & Wolf, 2012).

HSBC after the matter invested in a new compliance monitor to help the department

monitor accounts. A total of \$665, 000, 000 went to regulators for civil penalties

(Viswanatha & Wolf, 2012). These regulators were the OCC, Federal Reserve, and the Treasury

Department. Bank officials reportedly ignored several warnings from within the bank’s

operations that HSBC’s compliance monitoring systems were out of date and needed to be

improved. Traffickers in Mexico reportedly had used boxes that fit the size of the teller windows

inside HSBC branches in Mexico, yet the suspicions were not yet intriguing enough to turn to

action. In conclusion, the problems stemmed from lack of assistance for the compliance

department in HSBC.

### Who were the individuals and companies involved?

There were several parties involved in this scandal. HSBC was responsible for being careless and allowing the “ Norte de Valle” Colombian cartel, along with the “ Sinaoa”

cartel to launder a significant amount of money in branches located in Mexico

(Viswanatha & Wolf, 2012). As a result, HSBC had to pay fines from the OCC, the Federal

Reserve, and the Treasury Department. The main party to blame for this taking place would be

the compliance department of HSBC. HSBC had only up to two compliance officers in charge of

500-600 accounts belonging to customers at the time. HSBC’s compliance department also only

had up to four compliance officers reviewing alerts for potentially suspicious wire transfers from

the accounts the customers had (Viswanatha & Wolf, 2012).

When and where did it happen? How much money was involved?

HSBC's most recent money laundering scandal took place in 2012 and involved branches

in Mexico. HSBC was also penalized for processing transactions in Iran, Libya, Sudan, and

Burman (McCoy, 2012). It is illegal to process transactions flowing in or out of these countries.

The total amount laundered between the " Norte de Valle" and " Sinaoa" cartels was about \$881

million (Viswanatha & Wolf, 2012). To retain a new and improved compliance monitor, HSBC

had to spend \$1. 256 billion dollars (Viswanatha & Wolf, 2012).

Also, HSBC had to agree to pay \$665 million for civil penalties to regulators, the OCC,

Treasury Department, and the Federal Reserve (Viswanatha & Wolf, 2012).

As a result, the



grand total HSBC had to agree to pay in order to continue business operations was \$1.92 billion.

When accounts based from Mexico were placed in the lowest risk category, it excluded \$670

billion dollars' worth of transactions that had taken place (Viswanatha & Wolf, 2012). The

prosecutors decided to use deferred prosecutions, meaning HSBC would be able to continue

operations if it paid the total of \$1.92 billion along with taking steps to improve compliance.

### Why did it happen?

The cartels engaging in these transactions do this in order to fund operations for their

own reasons, none of which are ethical. This should not have happened as there are laws and

procedures placed to prevent these situations. However, it lasted as long as it did due to lack of

due diligence from the compliance department at HSBC. In 2008, the CEO of HSBC Mexico

received notice that Mexican law enforcement had a recording from a Mexican cartel leader

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stating HSBC was the best place to launder their money (Viswanatha & Wolf, 2012). However,

no further action from HSBC's part took place as upper management made the mistake of not

intensifying security measures.

#### How did it come to the attention of the media?

When authorities cracked down on the case, HSBC had to go to a hearing in order to

agree on a settlement to decide if they would be able to continue business operations again. Since

this was the third time in the past decade HSBC had problems tracking down suspicious

transactions, it came to the attention to the media. HSBC branches can be found in 66 countries

and territories, therefore if the bank would have had to close, it would have affected a large

amount of people across the world (HSBC, 2019). It also brought attention to the media when the

cost of shares were not nearly as drastic as expected. HSBC shares only dropped 0.56% as HSBC

told investors that they had saved \$1.5 billion for incoming settlement fees regarding the scandal

(Viswanatha & Wolf, 2012).

What was the outcome of the case?

The outcome of the case was positive as HSBC was able to increase compliance staff

to ensure better quality security. HSBC is now under new senior leadership and they have

progressively taken steps in the right direction to prevent the bank from being vulnerable to

laundering scandals in the future. HSBC created a new position in senior management

titled the head of financial crime compliance. This is the designated officer to report money-laundering suspicions (McCoy, 2012). While they did have a compliance

department in charge of monitoring these accounts previously, it was extremely understaffed and

ill-equipped to be able to monitor everyone's accounts as much as needed.

HSBC Holdings Plc

has managed to bounce back from these scandals and still continues to conduct in business with

civilians across the world. As of 2019, the bank stands as the seventh largest bank by \$2.37

trillion in total assets (Berger, 2019). HSBC now currently employs 235,000 people

(Berger, 2019).

#### How could this case have been avoided?

There are several ways this series of events could have been avoided. As previously

stated, earlier senior management of HSBC had ignored several tips and warnings to increase

compliance staff and investigate suspicions that arise. New senior management was placed

immediately and that is when HSBC began to start to get itself together. If the CEO of HSBC in

2008 had taken action from the recording Mexican law enforcements spoke about, this particular

scandal could potentially have been prevented or stopped earlier than it did.

This case could have

been prevented, as it gave notice to banks all around the world that compliance is not to be taken

lightly.

### What can we learn from the case?

The biggest lesson learned from this ethical scandal was that compliance in bank's is not

always as enforced as it may need to be. Some CEO's do not invest as much in their respective

compliance departments to increase the value of the bank and its revenue.

HSBC Holdings Plc's

old senior management was acting greedy, as it commonly happens in the finance world. Senior

management needs to act on any leads that come from law enforcements regarding any kind of

money-laundering suspicions. A weak compliance department has the potential to cost a bank

billions of dollars.

Gangs, cartels, and others up to no good are unethical and are always going to find

creative ways to finance their own agendas. Banks always need to be on the look out for any

suspicious, as these people who are up to no good may not always be funding these laundering

scandals for drugs. Cartels and gangs will often money-launder the sale of drugs and other illegal

things for them to accomplish other illegal activities they may want to engage in. Banks could

potentially save lives if they are enforcing their compliance department, as these cartels are

unethical and do not have remorse for human life.

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