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HSBC Struggling to Overhaul its Anti Money-Laundering System

By Chloe Gouache, LL.M. Candidate 2015 | February 13, 2015

Despite spending hundreds of millions of dollars to overhaul its anti-money-laundering system, the message to HSBC from U.S. officials is clear: it's still not enough.

In 2012, HSBC found itself under investigation after failing to catch upwards of $881 million in drug money that was allegedly laundered through its U.S. bank. In addition, its employees were accused of tampering with data from transactions involving countries such as Iran in order to evade U.S sanctions. As a result of the government's findings, the company entered into a five-year deferred-prosecution agreement, which included a $1.9 billion payment, to settle the allegations.

Since 2012, HSBC has been attempting to bolster its anti-money-laundering controls in order to appease the DOJ. Several measures have been taken, including upgrading HSBC's outdated technology systems, organizing anti-money-laundering training programs for its senior managers, installing screen-savers that remind employees to "ask the right question," and handing-out parrot-decorated "I am a Changed Bird" certificates to employees to promote compliance awareness. However, HSBC has found it particularly challenging to conform its businesses in places like Malaysia and Oman to American anti-money-laundering standards.

In order to effectuate its planned changes, HSBC hired thousands of new compliance staff including major figures such as Jonathan Evans, the former head of the U.K.'s counterintelligence service and a former U.S. prosecutor. Today, 10% of HSBC's worldwide workforce is assigned to compliance and legal roles. In addition, a "Financial System Vulnerabilities Committee" has been created with broad powers to oversee a wide variety of issues in addition to HSBC's anti-money laundering measures, including tax affairs, possible terrorist funding, and relationships with governments and regulators.

Despite these efforts, HSBC's monitor, Michael Cherkasky, is expected to say in his next report to the Department of Justice that HSBC could be doing more and suggest ways it could improve. The report primarily targets HSBC's operations in six locations including Hong-Kong and the U.S., as well as its private banking and trade-finance businesses.

But such criticism seems to be a normal part of the process of such a monitorship and has not surprised HSBC's management. In fact, Stuart Levey, HSBC's chief legal officer, said he would find it "hard to imagine that [HSBC] would have a monitorship where, after two years, they're not saying 'You have more to do.'" He added that the bank remained "on track to meet the terms of the monitorship and deferred prosecution agreement" and was "making excellent progress on anti money-laundering."

HSBC is not the only bank facing these types of issues, as Standard Chartered PLC and J.P. Morgan Chase & Co. have also been put under the same kind of monitorship due to deficient

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compliance systems. It appears that many banks are beginning to feel strained by such compliance and risk management costs, thanks to increasing pressure from U.S. regulators.