

BCCI saga

Business

A nerve-wracking experience for the clients

By Moazzem Hossain

UK depositors to fight court petition

LONDON, July 20: A major group of depositors with the Bank of Credit and Commerce International (BCCI) will fight a court petition to wind up the frozen bank, lawyers for the depositors said on Friday, reports Reuters.

The Bank of England, Britain's central bank, is due to start proceedings on Monday to close BCCI.

Having regard to the substantial sums they stand to lose if BCCI goes into liquidation, they believe that the shareholders should be given a reasonable opportunity to develop a plan acceptable to the court and the British regulators, lawyer Ian Fletcher of London law firm Richards Butler, said.

BCCI's major shareholders, the Abu Dhabi Government and its ruler, Sheikh Zaid Bin Sultan al-Nahyan, have attacked the swoop on BCCI led by the Bank of England, saying a restructuring plan sent to the British Central Bank on July 3 should have been given time to work instead.

AP reports from London: British officials said Friday an independent inquiry will be held to investigate the seizure of BCCI and Abu Dhabi placed ads in newspapers challenging international action against the bank.

Chancellor of the Exchequer Norman Lamont, in an unusual Friday appearance before the House of Commons, said he and Bank of England Governor Robin Leing-Pemberton had agreed to the review.

The inquiry also would look into the adequacy of British bank regulations and ways of strengthening cross-border bank supervision, Lamont said.

AFP adds from Washington: Federal prosecutors are investigating possible criminal violations involving the Bank of Credit and Commerce International (BCCI) and three US banks it controls.

US attorney Jay Stephens, office confirmed in a statement issued Thursday that it was probing possible violations involving BCCI, First American Bank of Georgia, and the Independence Bank of Encino, California.

The Federal Reserve referred the cases to the US attorney's office, according to the statement.

Rise and fall of BCCI

BCCI was set up in 1972 by a Pakistani financier, Agha Hasan Abedi. His dream was to create the Third World's first multinational bank. Five years later he joined forces with the Saudi billionaire Ghaiith Pharaon, Harvard-educated and operating from what was then the Saudi capital of Jeddah.

Luxembourg, with its liberal regulatory and tax regimes, was the obvious choice for the establishment of the bank.

For five years all seemed well. BCCI first came under scrutiny in 1977 when America's Securities and Exchange Commission brought a civil action against the bank and Abedi.

A decade later, during the "stage party" investigation and court case, BCCI was revealed to have secretly owned Bankshares all along, a disclosure that astonished Washington society — not to mention depositors at the bank's 300 branches.

In May last year, after BCCI had pleaded guilty to the money laundering charges, the Abu Dhabi government took control of the bank. Some \$400 million of new cash was injected by Sheikh Zayed al-Nahyan, President of the United Arab Emirates and ruler of Abu Dhabi, who was already a substantial shareholder in the bank. The Abu Dhabi government now controls 77% of the Luxembourg holding company.

In Britain, after reporting huge losses last year, BCCI closed 17 of its 43-strong chain and axed 500 jobs from its 2,400 workforce. Just a month earlier, it had relocated its international support operations from London to Abu Dhabi, with the loss of a further 600 jobs.

Banks around the world could be left exposed to losses of up to \$2 billion by the BCCI collapse.

For years BCCI has been surrounded by rumours of money laundering, links with the deceased Panamanian president General Noriega and deals with cocaine cartels and corrupt politicians. But none of the allegations stuck until January last year when the five bank executives were finally jailed. BCCI itself was fined \$15m the largest penalty in banking history.

— Courtesy: The Sunday Times

A nerve-wracking experience it is for most of the clients of Bank of Credit and Commerce International (BCCI) in Bangladesh.

About a fortnight is now over following the suspension of the Bank's operations. And yet, there are no firm indications about when its depositors and other clients will be able to resume their operations with the Bank under whatever arrangements the country's central bank would consider it appropriate.

The closure [it is temporary as of now] of BCCI's operations was announced on July 6 by Bangladesh Bank at the request of its majority shareholders in UAE. It caused severe jitters in local trade and industry circles. The action followed the shutdown of its London operation by the Bank

of England on July 5. The announcement by the UK central bank sent shock-waves everywhere. The BCCI had its operations. The reasons for action against the Bank are matters for considerations by the legal authorities. But the effects of the action — that too in such a surprise with everyone seemingly caught unaware — is however a greater cause for concern now. Meanwhile the freeze on multinational operations of the BCCI has raised a worldwide storm.

In Bangladesh, over 40,000 BCCI clients in four of its branches — two in Dhaka and one each in Chittagong and Khulna — are in dire straits. This has undeniably some implications for the overall banking sector in the country. The depositors who put in their hard savings in good faith

and trust with the Bank are the worst victims of unsavoury circumstances. What perplexes them is when they would be able to operate their accounts.

Bangladesh Bank as the custodian of the country's overall banking system has however assured the depositors that it would take all possible steps to ensure safety and security of their deposits. Yet, the situation remains for all practical purposes quite unpredictable. Deposits with the BCCI in Bangladesh stood at about Taka 550 crore at the time of suspension of its operations. It is the largest amount of deposits for any operational foreign bank in the country.

For BCCI clients, normal banking facilities are frozen. Credit financing, import and export facilities and other normal support services are

inoperative. Most of the clients in trade and industry face a great ordeal. And many of the client-units, according to trade and industry circles, will be forced to close down if such disruptions continue for long.

The interim arrangements announced by the central bank to reroute the Letters of Credits (LCs) in import and export trade operations, in the BCCI's pipeline, through Agrani Bank have not come to any practical and tangible benefits. Hurdled per cent margin requirement for the affected business units, for retirement of import documents, in particular, is practically impossible to comply with. There is no arrangement for hypothecation of goods or consignments either.

For the central bank itself, it is obviously a new experience — its first exposure to a

situation of suspended operations for any operational bank and that too of a foreign bank. It has taken moves to complete a number of relevant reports before any final decision on the BCCI will be required to be taken. There is however a strong feeling in some trade and industry circles that the central bank should take some initiative of its own with the UAE authorities for a more open discussion about the future of the BCCI in Bangladesh.

In Pakistan, a high-powered delegation of BCC Emirates (BCC) which is an independent bank visited Karachi and discussed possibilities about the take-over of BCCI operations in Pakistan.

The BCCI in Bangladesh has otherwise been a very profitable operation. Available indications showed that it earned a profit of Taka 20 crore in

1989-90. The profits would however be lower in 1990-91 at Taka 10 crore due to provisioning arrangements in the light of the needs for classification of outstanding loans under the new financial sector reforms. The profits were slashed for all operational banks in 1990-91 for the same reason. Judged by the operational performance of others, BCCI's profits in Bangladesh would be considered quite reasonable.

With 350 banking personnel manning its main office, three other branches and four booths, the BCCI's total outstanding credits in Bangladesh stand at Taka 500 crore. Its credits are largely concentrated in foreign trade financing, besides some industrial projects. It has been operating in Bangladesh since 1976.

Chronology

1972: Bank of Credit & Commerce International is founded by the Pakistani financier Agha Hasan Abedi and incorporated in Luxembourg. Bank of America takes a 25% stake.

1975: American authorities block BCCI's attempt to take over two New York banks, criticising Abedi for failing to disclose details about his company.

1977: Abedi and BCCI join forces with Saudi billionaire Ghaiith Pharaon.

1978: BCCI launches hostile takeover for Financial General Bankshares, Washington's biggest bank. America's Securities and Exchange Commission blocks the bid.

1981: Bankshares taken over by Middle Eastern investors connected with BCCI although the authorities are assured that there will be no links between the two banks.

1983: BCCI buys a Colombian bank. It has branches in Medellin and Cali, known to be centres for the cocaine trade and for money laundering.

1985-7: Manuel Noriega, the Panamanian dictator, becomes a BCCI customer. \$32m of drug money is laundered by the bank.

1988: BCCI is indicted in Florida for laundering drug money. In London, customs officers raid the bank's Leadenhall Street branch and seize evidence of Noriega's deposits.

1989: BCCI loses almost \$500m as the regulatory net tightens and bad debts mount. The bank is revealed as the secret owner of Bankshares in Washington.

1990: Five bank executives are imprisoned after BCCI pleads guilty to charges of money laundering. The bank is fined a record \$15m and taken over by the ruler of Abu Dhabi. An audit reveals huge financial irregularities at the bank. Bankshares makes a loss of \$152m.

1991: Price Waterhouse completes an investigation and uncovers evidence of massive fraud. The Bank of England and authorities in Luxembourg and the Cayman Islands swoop to freeze the bank's assets worldwide.

Investors marooned in the dollar doldrums

LONDON: MANY investors in BCCI who held their money in dollars have found that the deposit protection scheme will not pay out since it only covers sterling deposits.

"Many Asians like to hold money in dollars and my mother had \$ 25,000 in the banks," says one man.

Many British expatriates who invested in BCCI branches in Gibraltar and Luxembourg will be in a much worse position than their counterparts in the UK.

There is no deposit protection scheme in Gibraltar and the Luxembourg scheme pays out a maximum of 500,000 Luxembourg francs (just over \$ 8,300), little more than half what a depositor could expect to get in the UK.

Action may cause international friction

The action against BCCI may cause international friction, since the Bank of England did not consult the Abu Dhabi government until after it had closed the Bank. The governor hoped, however, that the authorities in the biggest of the United Arab Emirates would help in the orderly run-down of BCCI. Abu Dhabi may also be called on to make good some of the losses arising from the fraud. Commercial banks around the world could lose billions on inter-bank trading as a result of the collapse.

4 branches of BCCI locked out in Lanka

COLOMBO, July 20: Employees of the troubled Cayman island-registered Bank of Credit and Commerce International (BCCI) said they were today locked out of the bank's four branches in Sri Lanka, reports AFP.

Hundreds of employees who turned up for work found that the push main BCCI branch here was shut with security guards posted outside to prevent anyone from entering the building.

Although BCCI's Colombo operations were suspended Monday, the employees continued work, mostly clearing business held over from the weekend, one banker said. There has been no word from the Central Bank of Sri Lanka or BCCI's management here about the scandal-ridden bank's future in Sri Lanka.

Depositors' concern mounts

By Shahiduzzaman Khan

The depositors with BCCI in Bangladesh have been showing increasing concern over the fate of their stuck-up money with the bank.

Failing to get a firm date about withdrawal of their deposits from the central bank, the clients made a fervent appeal to the UAE Emir Sheikh Zayed to intervene in the situation. Earlier, they held a rally in front of Bangladesh Bank and met the central bank governor who had assured them that decisions about their deposits would be taken very soon.

Clients involved in foreign trade through BCCI have been asked to operate through Agrani Bank. Many aggrieved clients told The Daily Star that things were not working well with Agrani Bank. Some complained that when they had approached Agrani Bank, they were told to get clearance

from BCCI. As the BCCI head office has become a "prohibited" place, they were not allowed to enter into the bank. How can you expect us to get it done from BCCI after its closure," said a disgruntled exporter.

Export documents of the goods shipped on the eve of BCCI closure are now lying with BCCI. None seems to have taken any initiative in collecting money on account of the bank's closure, said another trader. He is visiting Agrani bank every day for the last five days. Both exports and imports are being hampered following the closure of the bank.

Said a banking expert, for smooth transactions of the import and export business in favour of BCCI, Agrani Bank could not prepare a "modus operandi" as yet causing sufferings to the clients. The bank (Agrani) is not doing it case-to-

case basis and was referring the cases to BCCI without showing any reason," a client was quoted as saying.

The central bank's instruction to encash the security bonds and savings certificates is no way a solution of the depositors' problems as most concern was brewing over the fate of their savings and current deposits, said another banking source.

In an interview with BBC on Friday, Bangladesh Finance Minister criticised the bank of England for having forced the suspension of BCCI in Bangladesh. The finance ministers of the affected countries should have been consulted before closing the bank operations, he observed. About BCCI activities in Bangladesh, the Finance Minister said there was no reason to be frightened (about depositors' money).

Markets face \$2b losses

LONDON: The world's foreign exchange and money markets are facing losses of up to \$2 billion, after the collapse of Bank of Credit and Commerce International. The scale of the damage emerged after investigations by the Bank of England.

Many of the world's largest banks were left with uncompleted bargains with BCCI when it was closed in an international operation on Friday, after the discovery of a massive fraud. They have become unsecured creditors in BCCI's liquidation, and may lose most or all of their money.

BCCI operated in 69 countries and was an active dealer in foreign exchange. A spokesman for the Bank of England said, however, that it thought the losses among British banks would not be serious.

In Britain, the closure has frozen savings worth £ 750 million held by 120,000 investors and small businesses. Investors will only be compensated by the Deposit Protection Board for up to £ 15,000 of their deposits.

Courtesy: Financial Times

BCCI losses estimated at over £ 900 m

LONDON: PRICE Waterhouse, the accountant, completed ten separate reports on the finances of the Bank of Credit and Commerce International before the Bank of England decided to close it down, according to Robin Leigh-Pemberton, the bank governor.

Mr Leigh-Pemberton told a group of Labour MPs that losses from the fraud at BCCI total more than £ 900 million and that there was no alternative but to close the bank.

This is the first estimate by the Bank of the losses involved. The Luxembourg-registered bank was closed by the Bank regulators worldwide after the discovery of a fraud.

— Courtesy: Business Times (Abridged)

Pressure mounts for compensation

LONDON: Outrage at the damage caused by the closure of Bank of Credit and Commerce International mounted as the Bank of England tried to persuade Abu Dhabi to compensate the thousands of

people who had lost money and jobs.

The bank said it had had "constructive discussions" with representatives of Abu Dhabi, which owns 77 per cent of the bank. "We are in a con-

Nahayan urged to save BCCI

The "aggrieved" clients of Bangladesh Credit and Commerce International (BCCI) in Bangladesh have made an appeal to Sheikh Zayed Bin Sultan al Nahayan, Emir of the United Arab Emirates to protect "the honour and interests" of the Bank.

Besides depositors' money of those engaged in various trades are used to rely mainly on the BCCI for all banking purposes because of its significant participation in this country's economic activities," the appeal made on July 17 said.

The clients of BCCI appealed to the UAE President to patronise the BCCI or its successor organisation to play "a similarly important role in the development of our poor country."

The BCCI's present debacle is the outcome of an international conspiracy," they said.

Tragedy for Asians

LONDON: Some of the innocent victims of BCCI's closure said they were shocked to hear of the allegations against the bank, and warned that

their businesses might face collapse. Sixty per cent of East London traders had accounts with the bank.

Businesses that were in credit with BCCI might be able to open accounts with other banks, although the delay involved might cause serious difficulties. Those which had overdraft facilities with BCCI and could not find another banker might face closure.

The Asian community helps each other out, but they might not be able to help everybody. People need money to pay wages and their suppliers.

— Courtesy: Financial Times

Turkey cancels banking permit

ISTANBUL, July 20: Turkey has cancelled the banking permit of Bank of Credit and Commerce International (BCCI), reports Reuters.

The permit under which BCCI A S conducts banking activities and receives deposits has been abrogated, a cabinet decree published in today's official gazette said.

BCCI, active in Turkey for 11 years, has branches in Istanbul, Izmir and Icel.

The Bank of England closed the Abu Dhabi-controlled BCCI in concert with central banks in several other countries on July 5 over allegations of massive fraud in the bank, which had assets of 20 billion dollars and a 69-nation network.

The Turkish decree did not say what the eventual fate of the Bank would be or whether depositors would be compensated.

The semi-official Anatolian News Agency said BCCI would start reimbursing its depositors from next week. It gave no details and BCCI was not available for comment.

The agency said BCCI's deposits and loans were almost equal at 150 billion Lira (34.5 million dollars).

UK banks may need to pay out £ 200 m

LONDON: British banks may be forced to pay out up to £ 200 million to compensate depositors in BCCI, after the bank's closure.

The Deposit Protection Scheme, headed by Robin Leigh-Pemberton, the governor of the Bank of England, is obliged by law to pay out up to £ 15,000 compensation to all the sterling depositors in BCCI's British branches.

The branches had deposits of £ 750 million.

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THE INDEPENDENT BUSINESS
British Press on BCCI crisis

tinuing dialogue," said an official.

But the Bank refused to give details of the talks, which represent practically its only hope of salvaging something from the closure of the bank.

— Courtesy: Financial Times

Victims face a long wait

LONDON: MANY BCCI investors face the humiliating

task of trying to keep creditors at bay while they wait for payments from the compensation fund.

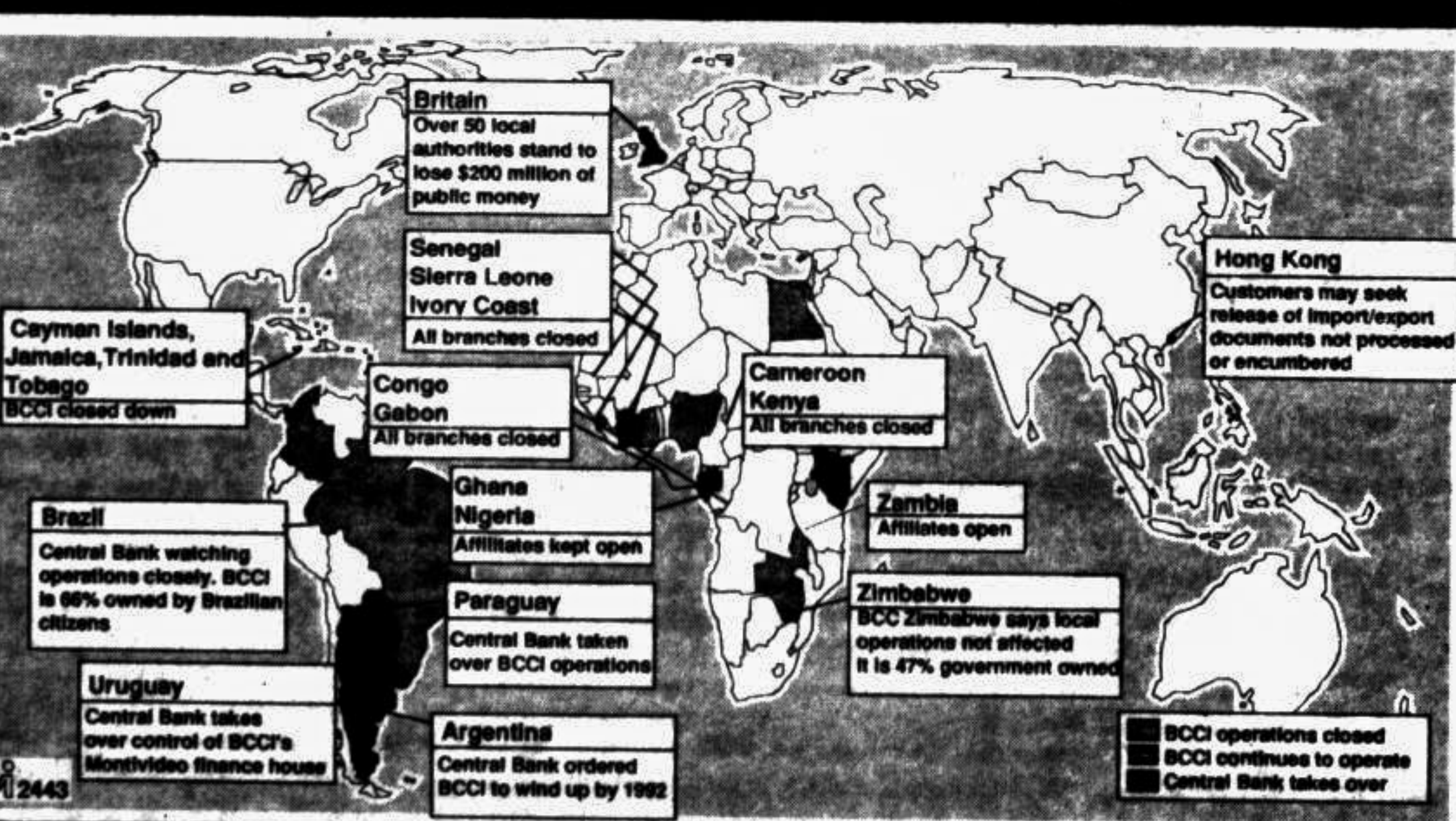
One woman this week told how she and her husband had a lost large chunk of their life savings when he had to flee

from Liberia during political unrest there last year. They invested £ 60,000 in BCCI, raised mainly from the sale of family furniture and jewellery.

There have been other equally harrowing stories. A Nigerian woman, who saved up for years for medical treatment, is now stranded in London.

Her bank account is frozen and she cannot pay for the

BCCI's network: The reaction so far



How Arab countries react to BCCI closure

DUBAI: The recent freeze on multinational operations of the Bank of Credit and Commerce International (BCCI), which is 77.4 per cent owned by Abu Dhabi interests, is seen by some in Arab circles as a further manifestation of North-South rivalry.

Concern in Abu Dhabi and other Arab states centres not on the fact that BCCI faced grave problems, but on the fact that it was shut down amid allegations of global fraud.

The question being asked here, as in England and elsewhere is: how was BCCI allowed by the Bank of England and other monetary regulation

authorities around the world to reach such a state of apparent fraudulence? Theoretically it has been under tight scrutiny since the US convictions on narcotics laundering charges. Why, then, was it discovered so late in the day that BCCI's losses exceeded its entire 1.5 billion US dollar capital?

BCCI has operations in 69 countries. Its reputation suffered when it was linked to the discredited General Manuel Noriega of Panama and convicted of laundering drug money in the United States.

An investigation commissioned by the Bank of England found evidence of large-scale

fraud in a number of countries. This was to conceal losses at BCCI, which has accounts of 20 billion US dollar, worldwide. A Luxembourg subsidiary closed on July 5 had 7.5 billion US dollar, of which 3.2 billion US dollars was in British branches, and a Cayman Islands subsidiary, also closed, accounted for another \$7.5 billion US dollar.

American investigators have said that up to \$13 billion US dollar could be missing at BCCI, which would be the costliest bank failure on record with much of the loss falling on African and other Third World countries.

An effort to reform BCCI structure and operations has been under way since Abu Dhabi interests acquired the majority holding last year. A commitment was understood to have been given to inject fresh capital whenever a need arose.

The Khaleej Times cited banking circles as recalling that even before the BCCI's shares had been bought by Abu Dhabi and some employees had been found guilty of laundering, "there was this nagging doubt that the bank had been targeted for an act of attrition, largely because it was flourishing Third World institution

and needed cutting down to size". The Times conceded, however, that the Bank of England had acted in the shareholders' best interests.

There was no doubt that the Abu Dhabi authorities were worried by BCCI's tarnished image. The newsletter "Mideast Markets" published by bankers Bond Buyer of New York reported on June 3 that Abu Dhabi's rulers were planning to restructure BCCI into three separate banks, to sack existing management and close down its international operations.

The three banks were to be located in London as centre of

to the communities in which the bank operated.

"I have never been self-conscious about my relationship with BCCI and Abedi," Young said. "Every good idea that Carter or I had, Abedi was willing to finance. He was never really giving us cash, but he was encouraging the local banks that he controlled to seed our projects. So I am reluctant to see BCCI as this sinister operation that everybody is making it out to be."

Young said BCCI-owned banks in the five countries arranged to buy the seeds and fertilizer for the experiments.

Courtesy: International Herald Tribune