3-20-2009

Massive Fraud Involving Stanford Bank Hits Latin America, Caribbean Hard

LADB Staff

LADB Article Id: 50887
ISSN: 1060-4189

Massive Fraud Involving Stanford Bank Hits Latin America, Caribbean Hard

by LADB Staff
Category/Department: Region
Published: 2009-03-20

Details released by the US Securities and Exchange Commission (SEC) regarding the fraud perpetrated by financier Robert Allen Stanford through his network of financial institutions has shaken various countries in the region where the Stanford International Bank (SIB) has operated. The largest number of fraud victims were in South America (Venezuela, Peru, Ecuador, Colombia, and Surinam), but damages also reached the Caribbean and Central America (Panama, Aruba, Curacao), and Mexico.

The SEC said the fraud amounted to US$9.2 billion, 75% of which was deposits by Latin Americans. In Venezuela alone, where the opposition to President Hugo Chavez has encouraged capital flight, swindled savers have lost between US$2.3 billion and US$3 billion between 29% and 37% of the total. In the past year, the region has also been affected by the huge financial crisis unleashed in the US and by the gigantic Ponzi scheme of Bernard Madoff, awaiting sentencing by a New York judge after pleading guilty to fraud.

Many in the region are blaming US regulatory agencies for not acting quickly enough to stop such operations that seriously damage fragile regional economies. Stanford's criminal scheme was not much different from Madoff's selling certificates of deposit and "offering improbable and unsubstantiated high interest rates," said the SEC when it asked a federal judge to stop operations and freeze the financier's assets. Inter Press Service reported that the US regulatory agency had found that SIB was offering its clients three-year certificates of deposit at a 5.3% annual return when most banks were offering at most 3.2%.

In making such offers, the financier assured his potential clients that in recent years he had obtained extraordinary returns much higher than the market average. Touting fictitious earnings ensured attracting new clients whose savings allowed him to keep the wheel spinning, typical of a pyramid scheme.

Various sources said the SEC was aware of this criminal operation but allowed it to continue in response to a request from the Federal Bureau of Investigation (FBI), which reportedly was following a lead that could have enabled it to prove that Stanford was laundering money for the Mexican Gulf drug cartel, perhaps the most active and violent of the groups that now control drug trafficking (see SourceMex, 2006-07-26).

Finally, after learning in early February that Stanford had moved large amounts of money from his accounts, the SEC decided to act and asked the US District Court for the Northern District of Texas to shut down the group's activities.

LADB Article Id: 50887
ISSN: 1060-4189

Latin American governments respond

Although Latin American governments did not coordinate their actions to respond to the collapse of the Stanford Group, most adopted similar measures. Venezuela's Superintendencia de Bancos y otras Instituciones Financieras (SUDEBAN) took control of Stanford Bank Venezuela and on Feb. 19, the day after the crisis broke, and announced the immediate sale of the bank. The SUDEBAN action, following a massive run on the bank by clients, was intended to guarantee stability in the local market. By March 8, the Economy Ministry had already begun the auction process. In Peru, the Comision Nacional Supervisora de Empresas y Valores (CONASEV) suspended all Stanford Group activities, and the government opened an investigation into its alleged ties with drug trafficking.

Authorities in Ecuador and Panama ordered the cessation of all SIB operations, including those related to the stock exchanges. In Colombia and Mexico, authorities delayed any intervention in the respective Stanford subsidiaries even though in Bogota the company voluntarily halted its currency-exchange and stock-market activities and in Mexico many lawmakers were demanding rapid action.

Finally, the government of Mexican President Felipe Calderon opted to initiate an investigation (see SourceMex, 2009-03-18). The Eastern Caribbean Central Bank (ECCB Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, Santa Lucia, St. Vincent and the Grenadines) took over SIB subsidiaries in Antigua and Barbuda, where Stanford had set up the SIB home office and operated three local banks, a newspaper, two restaurants, a cricket stadium, and a construction company and had become the country's largest private employer. In Aruba, Curacao, and Surinam the group's offices were closed.

A story in the Colombian daily El Tiempo, with information from AP and Bloomberg agencies based on sources reportedly close to the investigations, said this was not the first time Stanford had attracted the attention of the authorities. "The wealthy businessman, who rubbed elbows with lawmakers and had been knighted by the nation of Antigua and Barbuda, had been the object of investigation by federal authorities for years," said El Tiempo.

"Stanford lied about the origins and the history of his companies not just about his finances to gain the confidence of investors. The business' promotional material spoke of a 70-year history, but, in reality, there is no documentation showing its existence before 1980," added El Tiempo.

The Spanish ABC electronic newspaper quoted US TV network ABC as saying that Stanford made US$8 million in "electoral contributions," including to former presidential candidate Sen. John McCain (R-AZ) and Sens. Christopher Dodd (D-CT) and Charles Schumer (D-NY).

After obtaining the court order against Stanford, the SEC said it was considering "an additional case" against the financier. That referred to US$1.2 billion in sales by SIG advisors of a proprietary mutual fund wrap program called SAS (Stanford Allocation Strategy), a form of investment that has become common in Venezuela, especially among medium-sized savers. The mutual funds have hundreds of investors whose combined contributions allow them to enter the stock market. According to information gathered by Venezuelan journalist Victor Salmeron of the daily El

LADB Article Id: 50887
ISSN: 1060-4189

Universal, in contrast with a conventional mutual fund, SAS pooled clients' money and reallocated it in the portfolio of other larger funds.

Venezuelans hardest hit by fraud

Everything indicates that Venezuelans are the largest number of victims of this fund. But in Peru, Colombia, Ecuador, Surinam, and the islands of Aruba and Curacao prestigious law firms are now poised to file class-action suits against SIB on behalf of the victims. SUDEBAN in Venezuela said it does not know how much money Venezuelans might have deposited in the mutual fund but estimates that a sizeable number of victims of Stanford's schemes lost all their savings.

"Every time the world economy suffers some tumult, the victims are found in our countries or they are our countries," said an anonymous letter to the editor in the Argentine daily Clarin. It is not known whether Argentina has any victims of the SIB fraud.

The end of the administration of former President George W. Bush and the arrival of President Barack Obama to the White House had raised great hopes, and the systematic criticisms of the US had disappeared from the press. Now, however, newspapers are running criticisms against the SEC. And, for the first time since Obama took office, there are criticisms of him but mostly for another reason, the Buy American program.

"The Buy American clause included in Obama's stimulus package has been the first institutional expression of a growing tendency toward protectionism in the world economy. Although the measure was modified by Congress, the US 'buy national' is the manifestation of the defense reactions the global crisis is provoking in the powerful countries that tend toward isolationism," wrote economist Alfredo Zaiat in the Argentine daily Pagina 12.

Critics of Obama's program are found not only in Pagina 12. The executive secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) Alice Barcena said that the US president's economic stimulus package "is going to have effects on Latin America, some worrisome, like those resulting from Buy American."

The inclusion of that clause, which promotes the purchase of US steel and other inputs used in building roads and bridges, is one of the controversial aspects of the US$787 billion stimulus program approved by the US Congress Feb. 13. Major US associates and allies consider it a protectionist measure. Although Barcena says that the different recovery measures that have been taken, especially in the US, "are indications that the world crisis is touching bottom in the financial arena," she warns that "the social recovery will not be as quick as the economic."

-- End --