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### Allegations of massive fraud in the Gulf

## A \$10 billion Saudi fraud claim

Jul 17th 2009  
From Economist.com

### A respected business family claims it has fallen victim to a spectacular swindle



OF THE merchant families that dominate Saudi capitalism, few are as respected as the Gosaibis, a “blue-chip” clan which could borrow on the strength of its name alone. It was, therefore, a shock when in May parts of the family conglomerate, Ahmad Hamad Algosaiibi & Brothers Company (AHAB), defaulted, prompting lawsuits in various countries. But on July 15th the shock turned to astonishment. In documents filed in New York’s state Supreme Court and seen by *The Economist*, AHAB claims that it has been the victim of a “massive fraud” orchestrated for years by Maan al-Sanea, a Saudi billionaire who is married to a daughter of one of AHAB’s founders. The company says Mr Sanea “misappropriated” around \$10 billion in the alleged swindle.

Mr Sanea has his own business, the Saad Group, a vast investment company once reckoned to hold over \$30 billion of assets worldwide, including the second biggest stake in HSBC. He also used to work for the Gosaibis and, besides having married into their family, he freely admits he has “long had personal relations with the partners of AHAB”. But he insists that the business ties between his Saad group and AHAB are now on an “arm’s length commercial basis.”

However, AHAB claims that Mr Sanea was until very recently a “senior executive” of its financial-services arm, the Money Exchange, which chiefly handles remittances by workers inside and outside Saudi Arabia. It says Mr Sanea made use of this position to borrow from banks “using forged or falsified documents”. He then “diverted the funds received to his own use.”

AHAB has made these allegations in response to a lawsuit filed against it in New York by Mashreqbank, a lender based in the United Arab Emirates which was one of the first banks to admit openly to having an exposure to AHAB. Mashreqbank is going to court over a foreign-exchange deal on which it claims AHAB defaulted. It wired \$150m to an AHAB account on April 28th and says it was due to receive 564.3m Saudi riyals a week later in return. But AHAB failed to pay. In its court document of July 15th AHAB responds that it knew nothing about this currency deal until the New York court sought to attach its assets over Mashreqbank’s claim.

Having looked into the matter further, AHAB now says the transaction was one of many organised by Mr Sanea

with "a variety of financial institutions in the United States, the Middle East, and elsewhere", while keeping them off the books to conceal them from AHAB's partners and directors. It says that Mashreqbank alone entered into 52 such deals, totalling \$4.7 billion, between January 1st 2008 and May 1st 2009.

AHAB claims that having these huge amounts of cash constantly sloshing around in the Money Exchange's accounts allowed Mr Sanea to siphon off some of it by, among other things, writing fraudulent cheques, and transferring cash to people, companies and accounts that he "controlled directly or indirectly". It says Mr Sanea told AHAB employees not to record the transactions in the company's books and in July 2006, it alleges, he sent a memo to senior employees of the Money Exchange telling them to withhold any messages intended for the board of directors and "to deliver those communications to him instead". AHAB says Mr Sanea's manoeuvres allowed him "to continue looting AHAB and to conceal the massive scope of his thievery from AHAB and its Board".

AHAB does not accuse Mashreqbank or the other banks that engaged in the currency deals of knowingly participating in the fraud it alleges. However it does claim that in the \$150m transaction at the centre of the court case, Mashreqbank stood to enjoy a "grossly inflated profit margin". And it argues that the transaction "had no legitimate commercial purpose which would have been obvious to both parties in the transaction." It says almost all the other transactions involving Mashreqbank likewise gave it a substantial profit. Mashreqbank's spokesman said on Friday that it felt unable to comment on the matter until it had consulted its lawyers.

A spokesman for Mr Sanea's Saad group, asked to comment on AHAB's accusations, said, "We have not seen or been served with this claim, although it appears from press reports to be a repetition of claims previously presented extensively to the press and elsewhere and which are baseless. If we are served with such a claim, we will respond to it vigorously through specialist counsel, confident in both the true facts and the judicial process." Last week when *The Economist* put similar allegations to Mr Sanea's lawyers, they described them as "scurrilous and utterly untrue".

Although their scale is spectacular, the nature of the allegations will not come as a complete surprise to some bankers in the Middle East. The Gosaibis had previously said that they had found evidence of "substantial financial irregularities" in their financial-services arm. And in a confidential creditors' meeting in Bahrain on June 24th the group disclosed the scale of the problem, according to sources familiar with the matter. They say it left creditors in little doubt about whom it suspected as the author of its misfortunes.

But to make this complaint in black and white, in a New York court document, is an extraordinary twist. Family businesses in the Gulf traditionally settle their disagreements behind closed doors, judging that "the preservation of the family reputation is of paramount importance," as a banker in the region puts it.

In this case, more is at stake. The AlGosaibi group owes more than \$9 billion to more than 120 banks all over the world. The uncertainty over its finances is making some of them wonder if it is worth lending to Saudi Arabia at all. The group's creditors had hoped that the Saudi monarchy would step in to broker a truce between Mr Sanea and his aggrieved in-laws. Instead, an internecine family feud in a normally secretive kingdom will now be pursued in the open through the American courts. Like Ahab's harpoon in "Moby Dick", the allegations that AHAB has fired off may drag Saudi Arabia's financial reputation into the vortex.