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Why the 'Vatican Bank' doesn't exist

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ROME -- Over the years, few Catholic outfits have generated intrigue quite like the 'Vatican Bank.' Speculation about its inner workings has boomed again in recent days, with a series of leaked Vatican documents about purported shady transactions, claims of stonewalling of Italian inquests, and alleged loopholes in anti-money laundering laws.

The current issue of *l'Espresso*, Italy's most widely read newsmagazine, captures the mood with an eye-catching cover story under the headline, 'God's Bank: Dossiers, Accusations, and Venom.'

Whatever one makes of those reports, there's a slight problem with the premise: The 'Vatican Bank,' as such, doesn't actually exist.

To be sure, there is something inside Vatican walls called the 'Institute for the Works of Religion' (often referred to by its Italian acronym, IOR). While it supports papal initiatives and the pope's ambassadors in various nations, the IOR also takes deposits, makes investments, and moves money around the world, mostly on behalf of Catholic entities such as dioceses and religious orders.

According to the *l'Espresso* piece, the IOR has roughly 33,000 clients, most of them located in Europe, though some 3,000 are in Africa and South America. All told, the value of its holdings, known as its 'patrimony,' is estimated at roughly \$6.5 billion.

The IOR has been caught up in more than its share of scandals over the years, from the Banco Ambrosiano meltdown of the 1970s to Italy's bribery scandals in the 1990s, and the latest newspaper reports suggest to some that not much has changed. Insiders, however, insist the bad old days are gone, that today the place is run by sophisticated lay professionals committed to playing by the rules.

That's not just for the moral reasons laid out by Benedict XVI, they say, but also because compliance with secular benchmarks of transparency brings down transaction costs, and permits the IOR to compete on a level playing field with other financial institutions in Europe.

In light of the place's history, outsiders may be forgiven some skepticism. To evaluate it accurately, however, requires a grasp of what the IOR really is.

Here, according to experts who are familiar with the legal history and current practice of the place, is why the IOR is more akin to a "foundation" than the common sense definition of a bank.

First, and most basically, the IOR operates as a "non-profit" institution, whereas most banks are for-profit commercial enterprises. As with nonprofit organizations generally, any surplus revenue is supposed to be used to achieve the IOR's aims (defined as support of charity and pious works) rather than distributed as profit or dividends.

Second, a bank is usually defined as a financial institution which takes deposits and makes loans. IOR, however, is barred by its by-laws from using the money of depositors to extend credit. Rather than make loans or issue mortgages, it puts money in relatively low risk investments. For this reason, although it reportedly took a hit like everybody else during the economic meltdown, it never foundered like the banking systems of Europe and the United States.

(The IOR will occasionally issue something called, in Italian, a *pegno*, but it's not so much a loan as a way to resolve a short-term cash flow problem. Basically, it happens if a client, such as a religious order, needs a quick infusion of cash and is willing to put up property of equivalent value as collateral. It's not a "loan," as banks define lending, because it's short-term, risk-free, and does not use depositors' money.)

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Third, because the IOR does not do any lending, it also doesn't hold any reserves. It doesn't maintain a stockpile of currency, or gold, to cover loans and to guard against runs, which real banks are legally required to do. (Cover art for the "God's Bank" piece in *l'Espresso* depicted bars of gold stacked inside the cupola of St. Peter's Dome. It's a great visual, but not literally true.)

Fourth, the IOR is not a private entity like most banks. It's a public entity created by a sovereign, in this case the pope. While its operational side is recognizably modern, with a general manager and board of directors (a five member group including senior bankers, as well as Carl Anderson, head of the Knights of Columbus), sitting on top is a government commission of five cardinals appointed by the pope.

Financial wonks will note that directors of a bank can sit on the board of directors of the IOR, something that would create a fatal conflict of interest if it were really itself a bank.

Fifth, the IOR is not open to the general public. In a normal bank, virtually anybody can walk in and open an account. To put money in the IOR, you must be a Vatican or Holy See employee or official, a representative of a Catholic institute or order, a diocese, or one of the personal gentleman assistants to the pope who serve at ceremonial functions around the apostolic palace. Each person is interviewed, a valid government document showing proof of identity must be provided, and then the general manager of the "Institute" (as it is called around the Vatican), must literally sign off on the application.

Sixth, technically speaking, the IOR doesn't even have what are called "accounts" in common parlance.

When someone deposits money in the IOR, the internal argot is that it's being deposited in a "fund," not an "account." The depositor gets a number, recorded under his or her name, and retains control over the assets, but the idea is that rather than making a normal bank deposit, the depositor is participating in a fund.

(The question of "accounts" is a sensitive one, since the IOR has been fighting off the idea that there are "ciphered" accounts as remnants of a more opaque past. The IOR insists that not only do such secret accounts not exist, but that their computer systems do not even have the possibility to create such a thing.)

Seventh, the IOR, unlike European or American banks, has no networks of clients and subsidiaries throughout the world. In fact, it prohibits the common banking practice of permitting banks to open accounts with it in Italy or elsewhere else.

Why does all this matter?

Without a doubt, \$6.5 billion is not chump change, and it's perfectly reasonable to expect the Vatican to manage that money honestly and responsibly. That's especially so since much of it comes from ordinary Catholics who support religious orders, charitable associations, and other church institutions. Moreover, because IOR has been a source of scandal in the past, even fair-minded people are likely to receive its assurances of reform with a stance of "trust but verify."

Good oversight, however, begins with correctly identifying the nature of the beast. Whatever else the IOR may be, a "bank" it's not.

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