

Study Group on Information Systems Audit (ISA) Forensic Accounting and Fraud Prevention (FAFP) WIRC of ICAI

Topic : **SWIFT OPERATIONS & RELATED FRAUDS**

Date : Saturday, 28th April 2018

Venue : ICAI Tower, BKC, Mumbai

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WELCOME TO PRESENTATION On SWIFT

by

- S V R Murty

INDIAN CONTEXT

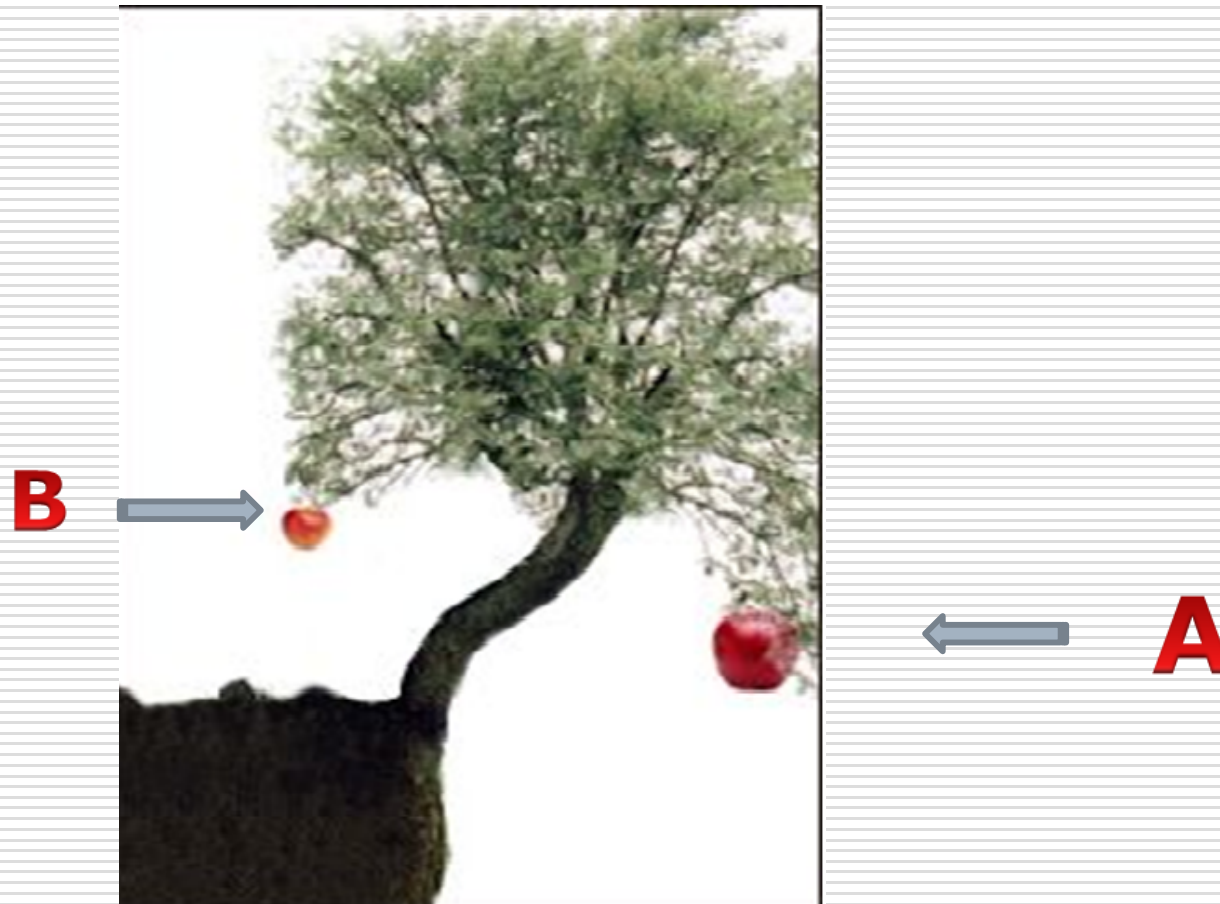
Various types of settlement of payments where only one currency is involved

- Cash
- Cheques
- Demand Drafts
- NEFT
- RTGS
- Credit Card / Debit Card / Online

Overview of Risk Management



Which Apple Would You Choose?



What is SWIFT

Society for Worldwide Interbank Financial
Telecommunication

- Provides network that enables FIs to send and receive information about “Financial” transactions in Secure, Standardised and Reliable environment
- SWIFT Code (BBKUINBBXXX)

SWIFT

- 8 digit Identifier (BBKUIINBBxxx)
- Apprx. 10000 members, in 200 countries
- More than 25 Million Messages per day
- Headquarters in Belgium
- Within India it is not allowed
- Approx. 3.5 Trillion USD per Day

Multi Currency Payments

- Fully Convertible Currencies
- Partly Convertible Currencies
- Pegged Currencies (A dollar peg is when a country maintains its currency's value at a fixed exchange rate to the U.S. dollar. The country's central bank controls the value of its currency so that it rises and falls along with the dollar)

(Example : BHD, AED, HKD, KWD, JOD, OMR QAR etc.) Nepal Rupee to INR (1.6), Butanese Rupee to INR 1)

Settlement Mechanism

1. SWIFT

- CHAPS (U.K.)
- CHIPS (U.S.A)
- FEDWIRE (U.S.A)
- IFSC (India)

EUR

The **euro** (sign: €; code: **EUR**) is the official currency of the eurozone, which consists of 19 of the 28 member states of the European Union: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

IBAN

**International Bank Account Number
(Upto 34 alpha numerical)**

CHIPS

- Clearing House Interbank Payments System (//CH)
- Prevailing in USA – Private clearing house for large value transactions
- Another one being Fedwire Funds Service (//FW or ABA)
- Fedwire is RTGS
- Chips is NEFT

SWIFT – Structure & RMA

- ❖ Structure of the message (Header/ Body/Trailer)
- ❖ Establishment of Relationship Management Application – RMA (erstwhile BKE)
- ❖ Can operations establish it?
- ❖ Time taken for establishing
- ❖ Documents required (KYC-Due Diligence List of Documents)

- 1) Wolfsburg Questionnaire
- 2) W-8BEN -E form
- 3) Copy of Latest Financials
- 4) List of UBOs - Ultimate Beneficial Owner (up to 5pct)
- 5) Name and Contact Details (with e-mail id) of compliance officer.

SWIFT

Msg Type	Description
FIN 0xx	System Messages
FIN 1xx	Customer Payments and Cheques (102, 103, 195, 196, 199, 110)
FIN 2xx	Financial Institution Transfers (200, 202 , 299)
FIN 3xx	Treasury Markets (300 & 320)
FIN 4xx	Collection and Cash Letters (400)
FIN 5xx	Securities Markets
FIN 6xx	Treasury Markets - Metals and Syndications
FIN 7xx	Documentary Credits and Guarantees
FIN 8xx	Travellers Cheques
FIN 9xx	Cash Management and Customer Status

SWIFT – FIN1XX

- FIN 110 – Advice of Cheque
- FIN 111 – Request for Stop Payment of a Cheque
- FIN 112 – Status of a cheque for stop payment of a cheque
- FIN 195 – Queries
- FIN 196 – Answers
- FIN 199 – Free Format Message

SWIFT – FIN2XX

Message series with 2 indicate Financial Institution Transfers

- FIN 200 – Transfer for its own account
- FIN 202 – General Financial Institution Transfer
- FIN 203 – Multiple Financial Institution Transfer
- FIN 210 – Notice to Receive
- FIN 299 – Free Format Message

SWIFT – FIN7XX

Message series with 7 indicate Documentary Credits

- FIN 700 – Issue of Documentary Credit
- FIN 701 – In addition to 700 when the information on the DC exceeds maximum length of 700)
- FIN 705 – Brief advice of DC , the full details of which will follow (700)
- FIN 707 – Amendment to a DC
- FIN 734 – Advice of refusal
- FIN 740 – Authorisation to Reimburse

SWIFT – FIN7XX - Continued

- FIN 742 – Reimbursement claim
- FIN 747 – Amendment to an authorisation to reimbursement
- FIN 750 – Advice of Discrepancy
- FIN 752 – Authorisation to pay / accept / negotiate
- FIN 760 – Guarantee / SBLC
- FIN 767 – Amendment to 760
- FIN 768 - Acknowledgement of a Guarantee / SBLC

SWIFT – FIN9XX

- Message series with 9 Cash Management & Customer Status Messages
- FIN 900 – Confirmation of Debit
- FIN 910 – Confirmation of Credit
- FIN 940 – Statement of Account
- FIN 950 – Statement Message
- FIN 999 – Free Format Message – Anyone to anyone

COMPLIANCE

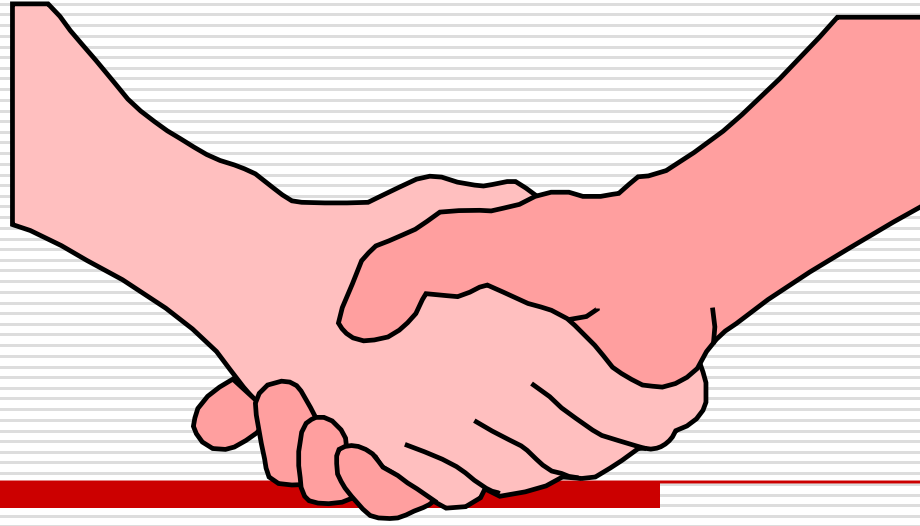
- **Appropriate time restrictions shall be implemented for access to SWIFT. Prudent restrictions on currency-wise message limit shall also be implemented in SWIFT as per the business requirement.**
- **Messages should be auto created (Manual creation is to be discontinued immediately)**
- **STP between Finacle and SWIFT should be completed before 30.04.2018**
- **No generic IDs to be used for accessing SWIFT**
- **Administrator should not have operating rights**
- **Strict compartmentalization between Maker / Checker & Verifier / Approver**

COMPLIANCE - continued

- **SWIFT Messages are to be transmitted only after accounting of the transactions in Finacle.**
- **100% log verification has to be performed by Concurrent Audit and random verification by Internal Audit for all Financial.**
- **On a weekly basis RMD to verify the limit utilisation of all Corporate Clients for their FB / NFB limits set in system.**
- **Frequent re-set of password, recurring printer problem should be examined.**
- **Two separate Nostro accounts should be maintained for operations & Treasury.**
- **Dependence on the vendors for day to day transactions shall be avoided**

COMPLIANCE - continued

- **Approval of Payment messages for different amounts by different functionaries**
- **Reconciliation of payment messages shall be undertaken every 1-2 hours by comparing the outward messages with SWIFT confirmations.**
- **Nostro reconciliation shall be undertaken on real time basis and the escalations of differences, if any identified should be done immediately.**
- **Banks shall subscribe to online monitoring services of correspondent banks so as to monitor the transactions as they happen.**
- **Time restrictions shall be enforced from SWIFT transactions at least for outward messages**



Thank You
Wish You All the Best

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