A SWIFT response could have saved banks

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RBI has been warning lenders on possible misuse of SWIFT; it has finally fined 36 banks for negligence

- Much before the Rs.14,000 crore letters of undertaking (LoU) scam came to light at the Punjab National Bank in 2018, the Reserve Bank of India (RBI) — first in August 2016 and twice later — cautioned the banks about the possible misuse of the SWIFT infrastructure and directed them to implement safeguards.
- The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is the global messaging software that enables financial entities to send and receive information about financial transactions in a secure, standardised and reliable environment.
- Despite repeated warnings, the PNB fraud, touted to be among the biggest in the industry, happened.
- This prompted the banking regulator to again remind banks on February 20, 2018 (the PNB scam came to light on February 14) about the possible misuse of SWIFT.
- Even the PNB scam failed to wake up banks.
- As a result, the regulator came down heavily on the banks, imposing monetary penalty on 36 banks, including the State Bank of India, ICICI Bank and the Yes Bank — to name a few — for failing to implement the safeguard which was mainly integrating the SWIFT infrastructure with Core Banking Solution (CBS) within a time frame.
- There are four possibilities as to why the banks were penalised, experts said.
- One is for not maintaining the timeline though many of them have complied with the norms now.
- Another is, since the CBS was required to be integrated with SWIFT, the question is whether CBS was equipped for this.
- Third, even if the third-party software was ready, the bank may not have used it effectively.
- And, finally, there could be some small banks who may be not have

started the process.

- In April 2017, under former RBI Governor Urjit Patel, the RBI had set up an enforcement department with the idea to centrally speed up regulatory compliance.
- The purpose was to separate those who oversaw possible rule breaches and those who decided on punitive actions so that the enforcement process operated fairly and was evidence based.

FATF - what lies ahead

- Sources said the RBI action may not go down well with the global inter-governmental agency Financial Action Task Force (FATF) during the country assessment.
- At present, the fourth round of assessment is going on and India is likely to be assessed soon.
- The FATF reviews anti-money laundering, combating the financing of terrorism policies of countries, the compliance of financial institutions of these countries and the supervisory effectiveness in enforcing them.
- Questions will be asked as to why banks are so reluctant to comply with regulatory directions on an important issue such as international wire transfer mechanism, a source said.
- Queries may also be raised as to why the regulator was unable to make lenders comply with its directions in a time-bound manner and as to what steps the regulator is taking so that such incidents do not recur.

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