Strengthening the SWIFT Mechanism

What is the issue?

- Punjab National Bank's fund transfer scam was made through weaker SWIFT mechanism in India. Click here to know more
- India need to take effective measures to address the issues with SIFT mechanism.

What is SWIFT?

- Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a secure financial message carrier.
- The SWIFT is a global member-owned cooperative that is headquartered in Brussels, Belgium.
- It was founded in 1973 by a group of 239 banks from 15 countries which formed a co-operative utility to develop a secure electronic messaging service and common standards to facilitate cross-border payments.
- It transports messages from one bank to its intended bank recipient, it carries an average of approximately 26 million financial messages each day.

How does SWIFT work?

- In order to use its messaging services, customers need to connect to the SWIFT environment.
- There are several ways of connecting to it
    1. Directly through permanent leased lines, the Internet, or SWIFT's cloud service (Lite2)
    2. Indirectly through appointed partners
- Messages sent by SWIFT's customers are authenticated using its specialised security and identification technology.
- Its core role is to provide a secure transmission channel so that Bank A knows that its message to Bank B goes to Bank B and no one else.
- Bank B, in turn, knows that Bank A, and no one other than Bank A, sent, read or altered the message en route.
- Banks need to have checks in place before actually sending messages.

What happened in PNB case?

- In the PNB case, one of its biggest failures was the missing link between SWIFT and the bank's backend software.
- This allowed fraudulent use of a key credit instrument letters of understanding or a loan request to another bank through the SWIFT network to transfer funds.
- The loophole in the software framework of the bank was the patchy implementation of its Core Banking Solution (CBS) and its non-linkage with SWIFT.

What are the regulations made in SWIFT?

- SWIFT established the customer security programme (CSP) in early 2016 to support customers in the fight against a growing cyber threat.
- SWIFT published a detailed description of the mandatory and advisory customer security controls and made it critical customers prioritise the security network.
- This framework describes a set of controls for its customers to implement on their local infrastructure.

What is India's stand in this regard?

- After the fraud, PNB adopted strict SWIFT controls, it has also created a separate unit to reauthorize most messages sent over SWIFT by branches.
- Many other banks are expected to fast-track the integration between SWIFT and their backend systems.
- To strengthen internal controls, the RBI has set April 30 as an "outer limit" for all public sector banks to integrate SWIFT with core banking solutions.
- Indian banks need to adopt the best practices to protect end-to-end transaction ecosystem within their firms, including payments, securities trade and treasury.

Source: The Hindu

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