

March 13th, 2019 Sample Current Affairs

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

- What is SWIFT?**
- How does the SWIFT infrastructure work?**
- How did RBI responded to the misuse of SWIFT by banks?**
- What is Core Banking Solution?**

GS paper 2 (Government policies and interventions for development in various sectors and issues arising out of their design and implementation)

In this video, you can find detailed answers for all the above questions.

The above article has been retrieved from:

Manojit

Saha. (2019, March , 13). A SWIFT response could have saved banks. Indian Express. Retrieved from <https://www.thehindu.com/business/a-swift-response-could-have-saved-banks/article26488935.ece>

What is the context about?

- Much before the ₹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.

What is SWIFT?

- 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.

How does the SWIFT infrastructure work?

- In order to use its messaging services, customers need to connect to the SWIFT environment.
- Messages sent by SWIFT's customers are authenticated using its specialised security and identification technology.
- Messages remain in the protected SWIFT environment, subject to all its confidentiality and integrity commitments until they are safely delivered to the receiver.
- It does not facilitate funds transfer, rather, it sends payment orders, that must be settled by correspondent accounts that institutions have with each other.
- On receiving this message through SWIFT, banks abroad, mostly branches of domestic banks abroad provide funds to the company.

How did RBI responded to the misuse of SWIFT by banks?

- ❑ 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 about the possible misuse of SWIFT.
- ❑ The RBI came down heavily on the banks, imposing monetary penalty on 36 banks, including the SBI, ICICI Bank and the Yes Bank — to name a few.
- ❑ These banks failed to implement the safeguard which was mainly integrating the SWIFT infrastructure with Core Banking Solution (CBS) within a time frame.
- ❑ The Banking Regulation Act allows the RBI to impose a maximum penalty of Rs. 1 crore for a single breach.

What is Core Banking Solution?

- ❑ Core Banking Solution (CBS) is networking of branches, which enables Customers to operate their accounts, and avail banking services from any branch of the Bank on CBS network.
- ❑ It is regardless of where he maintains his account.
- ❑ The customer is no more the customer of a Branch. He becomes the Bank's Customer.