



IAS PARLIAMENT

Information is Empowering
A Shankar IAS Academy Initiative

Block Chain Platform to avert Bank Frauds

What is the issue?

- SWIFT India partnered with fin-tech company MonetaGo for a pilot project using Block Chain technology.

What is SWIFT?

- SWIFT, or the Society for Worldwide Interbank Financial Telecommunication provides messaging services to domestic market infrastructures, banks and corporate.
- It enables the financial community to exchange automated, standardized financial information securely and reliably.
- Further, the SWIFT system helps reduce costs and risks while improving compliance.

What is the pilot project plans to do?

- The banking sector is planning to create a block chain platform with SWIFT India to prevent frauds and ensure transparency and security of real-time transactions.
- SWIFT India is a leading provider of secure financial messaging services for the global financial sector.
- Now it has partnered with fin-tech company MonetaGo for a pilot project.
- The first block chain project in the country went live recently.
- In that project MonetaGo developed a block chain platform for the Trade Receivables Discounting System (TReDS) or bill discounting exchanges.
- This is a significant move as the banking sector has been hit by a spate of frauds in recent years.

Why such Block Chain Platform is needed?

- **Bank Frauds:** Earlier this year, Punjab National Bank was hit by Rs 140 billion Letter of Credit (LoC) fraud.
- It was revealed that diamond exporters Nirav Modi and Mehul Choksi, with the help of a Punjab National Bank (PNB) employee, ensured that the Letters

of Credit that were routed through the SWIFT system were not reported in the Core Banking System (CBS) of PNB.

- Experts opined that the Rs 140-billion fraud could have been avoided had there been an integration of PNB's CBS with its SWIFT system.
- **Security issues:** SWIFT has also been hit by a cyber scam in which hackers tried to steal \$100 million from the Bangladesh central bank two years ago by gaining unauthorized access to SWIFT codes.
- **Digital infrastructure:** India's rising focus on developing digital infrastructure which is supported by both policy and technological innovation makes the platform inevitable.
- **Better analysis of Information and Transactions:** This work will have a positive impact on the information available to the banking industry at large.

What is other such venture of the SWIFT in Block Chain platform?

- SWIFT partnered with 34 international banks — including Commerzbank, Societe Generale, Deutsche Bank and JPMorgan Chase — to create a blockchain platform for Nostro accounts.
- Nostro accounts are accounts held by a domestic bank on behalf of a foreign bank, to facilitate trade financing and other cross-border transactions.

What are the merits of using Block Chain Platform?

- The block chain system, especially in the case of Nostro Account improved the
 1. speed of cross-border transactions
 2. reduced costs
 3. Made the process of reconciling between different accounts more efficient.
- Block Chain platform uses a technology called the distributed ledger technology (DLT) with respect to the banks.
- DLT allowed for real-time liquidity monitoring, easy reconciliation, transaction status updates, full audit trails and visibility of expected and available balances.
- However, DLT is strongly dependent on the existing systems of the banks.
- There is a need for integration of the DLT with existing systems while banks improve their existing technology infrastructure from the bottom-up.
- While the test case was successful, block chain technology is still at a nascent stage.
- It requires considerable development before it could be allowed to handle billions of dollars worth of daily cross-border transactions between banks.

Source: Business Standard



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative