Chapter 2
Strategic Management to Prevent Money Laundering:
The Role of Effective Communication

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ABSTRACT

In this chapter, the SWIFT, which is the financial communication system used by all financial institutions, will be explained. Today, most of the countries and financial institutions take precautions to avoid money-laundering and financial crimes. The SWIFT system will be examined in relation with financial communication, compliance, money laundering, know your customer, and sanctions. Public became aware of the sanctions when HSBC has agreed to pay $1.92 billion dollars to state authorities in 2012 for transferring dollars illegally into US. Banks apply “Know Your Customer” procedures to avoid such risks. In relation with sanctions, precautions of SWIFT system will be defined. SWIFT has started a new application namely KYC Registry which enables to have necessary information about the customers in international trade, through cross borders. The reasons why this application must be used, how risk will be mitigated, by sharing information with maximum transparency and SWIFT’s new KYC application will be defined.

INTRODUCTION

Globalization has increased integration and interaction between countries and companies located in different countries. Through integration the flow of goods has increased between different countries. In other words, international trade has increased as well. As trade increased, international trade finance, payment of goods, services between countries has increased, which required different currencies of payments to be transferred all over the world. Financial communication has increased as well. Along with the advantages, international trade risks and financial communication volume has also increased. Globalization has triggered money laundering activities through financial systems as well. This led international
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institutions, state officials and financial officials to take precautions to avoid money laundering, which can be defined as anti-money laundering process.

This paper aims to investigate the financial communication system, which is named as SWIFT system and the anti-money laundering procedure to avoid money laundering risks.

BACKGROUND

Society for Worldwide Interbank Financial Telecommunications (SWIFT)

The main system which is used by all financial institutions is called Society for Worldwide Interbank Financial Telecommunications (SWIFT). SWIFT is a non-state organization in the form of a cooperative serving financial sector for forty years, which enables a safe and secure system, where financial institutions can communicate with each other, transmitting payment orders and issuing letter of guarantees, letter of credits etc. via standardized SWIFT message types. SWIFT is a network, which is accepted as the most secure and trusted network system all over the world used not only by banks, securities institutions and by corporate customers as well (Scott, Zachariadis, 2017). Today SWIFT is an integral part of financial system infrastructure. SWIFT has been established in 1973 to replace the telex system. The telex/telegram system was not automated and was not standardized. It required a lot of manuel work, considering the ten thousand telex messages per day (Kuk, 2016) which is an average of 29.3 million FIN messages per day as of August 2018 and with total of 7.1 billion messages in 2017 (Swift.com, 2018). SWIFT had a large effect on profibitability and performance of banks (Scott, Van Reenen, & Zachariadis, 2017).

SWIFT has been established in 1973. In 1973 international trade volume increased to a total of 1173 billion dollars. With total export volume 579 billion dollars and total import volume of 594 billion dollars as per World Trade Organisation statistics (World Trade Organisation, 2017). International trade volume was only 321 billion dollars in 1963. With total export volume 157 billion dollars and total import volume 164 billion dollars. Total international trade volume is 31 263 billion dollars covering 15 464 billion dollars of export and 15 799 billion dollars of import as of 2016.

With the increase in international trade, financial communication between financial institutions has increased accordingly. Along with the standardization of international trade rules set by international organisations like ICC, like Incoterms, payment terms etc to facilitate international trade with standard rules and to avoid risks like documentary risk in international trade (Meral, 2018). Globalization affected international trade positively. With the increase in international volume, an automated, secure system network which is in compliance with the international trade standard rules was a necessity for financial institutions. SWIFT was an innovative solution to all. It is a nongovernmental institution, can be defined as a cooperative of financial institutions, replaced the telex system which was previously used. Establishment of SWIFT emerged from the increase in international trade, which forced the system to replace it with a modern, innovated, automated, safe and secure system infrastructure. SWIFT has a co-operative status, located in Belgium, working with membership of financial institutions, provides a secure service system to financial institutions.

SWIFT, in complyance with the international trade rules has set standards for SWIFT messages as well. SWIFT has categorized all message types used in financial communication by financial institutions into 10 main categories as follows (Swift.com, 2018):