

How understanding wire transfers can help trace lost funds

*Asset recovery investigators use many different techniques to track and trace money that has gone missing in the financial system. In this article, **Kenneth Barden** explains how dissecting wire transfer instructions can lead to a better understanding of where and how funds were transferred, providing valuable information to verify and locate assets.*

Popular culture has long held that wire transfers are a good way to transmit funds from criminal activities into offshore accounts where the money trail can quickly grow cold. Numerous films have created the perception that all a criminal had to do was enter a numeric code into some computer and magically funds were instantly taken from one bank account and deposited into one or more foreign accounts in the blink of an eye. With this magic number only the true beneficiary of the receiving account knew of the whereabouts of the funds, forever depriving the true owner of any chance of recovery.

But wire transfers have never been quite that simple, and in many cases the actual transfer of funds required a second set of activities, through correspondent banking relationships, which took a little longer than a Ubi ink of an eye. Nevertheless, for many years transfers by wire instructions could hamper an investigation, primarily because of myriad rules regarding how wire transfer instructions were designed and processed.

To combat this perception, and in response to International efforts to combat money Laundering and other abuses of the financial system, changes have been made to standardize wire transfer instructions on a global basis and to introduce measures of integrity, not only to prevent abuses, but also to minimize errors that could result in the delay of funds being transferred, or worse, misdirecting the funds to an unintended destination.

Generally, transfers of money by “wire” involve the issuance of a line of code that contains instructions from the sending financial institution at the request of the party making the transfer. This line of code details the transaction to be conducted, in terms of dates, amounts, currency, the parties involved, including the beneficiary and the receiving financial institution, as well as directions as to how the funds are to be transferred. In most cases, the actual funds are then transmitted through a series of settlements made by financial institutions, enjoying correspondent relationships, or through third party institutions until the funds sent by the sending institution are actually deposited to the credit of the beneficiary in the receiving institution.

Until the late 1990s, these instructions could greatly vary from jurisdiction to jurisdiction, as each country would often develop its own coding system. The lack of standardization

made the job of an investigator trying to track the flow of funds much more difficult. The investigator needed to conduct a great deal of research to ascertain the meaning and formats of these coded instructions. And by the time they did, the funds had often already been sent on to another destination, requiring yet another round of detective work.

Since 1997, significant efforts have been undertaken to standardize these instructions for the transfer of funds, by utilizing regular formats and codes that could easily be identified as pertaining to specific financial institutions or types of transactions.

The IBAN system explained

Initially created as a program to standardize banking instructions between member jurisdictions of the European Community, the International Bank Account Number (IBAN) system was created to provide a clear and unambiguous means of identifying bank accounts across national borders, while minimizing the risk of errors produced in the transcription process. The IBAN system began with the European Committee for Banking Standards (ECBS), but has now evolved into an international standard recognized by the International Organization for Standardization (ISO) [ISO 13616, 1997 and ISO 13616-1:2007]. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is the organization designated by the ISO as the primary authority for IBAN assignment.

The IBAN system establishes a protocol through the use of a standardized format for account identification, containing validation information to avoid errors of transcription. It consists of an alpha country code, followed by two check digits that are calculated using an algorithm, and a Basic Bank Account Number (BBAN) with up to thirty alphanumeric characters. The BBAN includes the domestic bank account number and routing information needed to get a payment from one bank to another, wherever it may be. One of the key features of the IBAN system is that any IBAN will contain check digits, which can be validated in any country according to a single standard procedure. Check digits within the code enable the sending bank (or its customer) to verify the validity of a routing destination and account number from a single string of data at the time of data entry. This verification system has virtually eliminated routing and account number errors, reducing the number of such errors to less than 0.1 % annually.

A wire transfer instruction utilizing the IBAN system will also contain all the key bank account details such as Bank Identifier Codes, branch codes and account

These can provide an investigator with extremely valuable information.

When transmitted electronically, an IBAN is written as one long line of characters with no spaces; however, when printed on paper, the IBAN is generally expressed in groups of four characters separated by a single space, with the last group being of variable length. An example of an IBAN for a bank in Greece would be written as: GR16 0110 1260 0000 0001 2300 625.

Verifying the institution and location

With the use of algorithms, an IBAN can be validated at the point of data entry. There are several online validation websites (such as <http://www.ibancalculator.com/>), as well as a number of software products that can check the IBAN to determine whether:

- a) The country code is valid
- b) The number of characters in the IBAN corresponds to the number specified for the subject country
- c) The format follows the format specified for the subject country
- d) The account number, bank code and country code combination are compatible with the check digits.

Any deviation from the protocol will be a strong indicator that either an error has been made in the transcription or that the information may be other than as intended. For instance, an account ledger may indicate that payment was being made to a bank account in London, but the validator indicates that the instruction is for transfer to a bank in Malta.

Another number that can be assigned to banks for identification purposes when transferring funds is the Bank Identification Code (BIC), which is often incorrectly referred to as a SWIFT code (the former nomenclature). The BIC is a string of eight alphanumeric characters representing a series of three codes used to identify banks, typically the institution in which the funds are held.

It is identified using a four-letter code, usually associated with the initials of the institution, but not always. Next is a two-letter code representing the country in which the institution is located. Finally, a location code defines more specifically the state, province or time zone of the financial institution housing the transaction. It is comprised of two characters that can be either numeric or alphabetic, or a combination.

Every financial institution globally has an assigned BIC number, regardless of its affiliation with SWIFT; however, institutions that are not connected with the SWIFT Network are often distinguished by the addition of an extra digit "1" at the end of the location code

Useful investigation tools

SWIFT provides several online tools to verify whether a BIC is valid, and to decode the name and location of the institution to which the BIC is directed. One helpful tool can be found at <http://www.swift.com/bsl/index.faces>. The investigator can enter the BIC as well as the name of the institution and determine whether there is a match. If the information does not match, that may strongly indicate that there may have been some irregularities in the transaction. For instance, the account ledger may suggest the transfer to one account at a particular bank, but the BIC evidences a different receiving bank.

Additional information on transactions and parties In light of international efforts to fight money laundering, additional information is now being incorporated into wire transfer procedures. In most jurisdictions, banks and other financial institutions are required to obtain certain information about the customer and the amount, source, and purpose of the funds being transferred, as well as information about the beneficiary. This information is generally required to be kept and available for investigation should the need arise.

SWIFT has implemented standardized messaging protocols and formats -special codes for differentiating between information and direction, and encryption to prevent security breaches during data transmission. To identify the different types of SWIFT messages, there are numbers assigned to each of them. For example, if a message is identified as MT 103," the MT" prefix stands for Message type," and the three-digit number that follows denotes a specific SWIFT message type (in this case, "103" means a single customer/credit transfer). Other examples include MT800's, which only deal with Travellers Cheques, whilst MT300's only deal with Foreign Currency Exchanges. Within a message type, specific field codes are used to demarcate important information. For example, field 50 (ordering customer) is a key field to focus on for tracing laundered funds because it may include more than just the customer name and address.

SWIFT has downloadable tools that Can help the investigator understand each of these codes and how they fit within the format of a transfer Instruction. For instance, codes Applicable to transfers for corporate Accounts can be downloaded at http://www.swift.com/solutions/by_customer/corporates/overview/ssmtig.pdf

The next step

IBAN and SWIFT messages although called "wire transfers" do not, in themselves, transfer the money. Instead, they are instructions from the sending bank as to how the funds should be transferred. Correspondent banking relationships are then used for the actual transfer of funds. As a result of this, there will generally be additional documents that will evidence the actual transmission and receipt of the subject funds.

Accordingly, understanding the codes used in wire transfer instructions will often lead the investigator to uncover additional documentation maintained by each financial institution, such as advice statements confirming a wire transfer and the debit and credit memos sent by banks to their originating or beneficiary customers. These documents may be useful in ascertaining account numbers and the identity of the originating and beneficiary customers.

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For most of the past 15 years, Ken has worked internationally advising financial regulators and law enforcement in various countries in Asia, Europe and the Middle East on how to fight corruption and money laundering, while building integrity into their financial systems. Mr. Barden has recently been selected by the United States Agency for International Development to serve as Senior Anticorruption Advisor at USAID headquarters in Washington DC.

Asset Recovery

: 20: PAYREF XT78305

: 32A: 091010EUR#1010000#

: 50: [CUSTOMER NAME AND ADDRESS]

:59: [BENEFICIARY NAME AND ADDRESS]

Code Interpretation

20	Transaction reference number (coded number assigned by the originating institution to identify the transaction)
32A	Value date, currency code, and amount of the transaction
50	Ordering customer (party ordering the SWIFT transaction)
59	Beneficiary (party designated as the ultimate recipient of the funds)

In addition to the above codes, other codes may include

52D	Ordering bank (financial institution initiating the SWIFT)
53D	Sender's correspondent bank
54D	Receiver's correspondent bank
57D	the financial institution at which the ordering customer requests the beneficiary be paid
70	Details of payment
71A	Details of charges for the transaction
72	Instructions from the sending bank to the receiving bank

The chart presents an example of what a SWIFT message looks like and some common codes used therein. An Investigator should peruse the SWIFT website (www.swift.com/solutions) where a number of different formats and code identifiers can be accessed and explored further.