

The Importance of Accurate SWIFT Codes and Banking Information in International Trade Payments: Risks, Case Studies, and Best Practices

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In the fast-paced world of international trade, the timely receipt of payments is crucial for maintaining cash flow and ensuring smooth business operations. However, payments can easily get stuck or delayed in the international banking network if critical information, such as

SWIFT codes and other banking details, is not correctly provided on invoices and other transaction documents.

This article explores how payments can be disrupted due to incomplete or incorrect banking information, the potential financial impacts, and offers case studies to illustrate these risks in both Letters of Credit (LC) and non-LC transactions.

Understanding SWIFT Codes and Their Role in International Payments

SWIFT (Society for Worldwide Interbank Financial Telecommunication) codes are unique identification codes used by banks globally to process international transactions. These codes ensure that money is transferred accurately to the correct bank and branch. A SWIFT code typically consists of 8 or 11 characters, which include the bank code, country code, location code, and sometimes a branch code.

For businesses engaged in international trade, providing the correct SWIFT code and other essential banking information (such as the IBAN number, bank name, and address) on invoices and payment instructions is critical. Failure to do so can lead to delays, payment rejections, or even the complete loss of funds.

Risks Associated with Incorrect or Missing SWIFT Codes and Banking Information

1. Delayed Payments

One of the most common consequences of incorrect or missing SWIFT codes is delayed payments. When a payment instruction lacks the correct SWIFT code, the funds may be held up in the banking system as the processing banks attempt to identify the correct destination.

- **Case Study:** A German automotive parts supplier shipped a consignment to a buyer in Brazil under an open account payment term. The invoice provided to the buyer incorrectly listed the supplier's SWIFT code. As a result, when the buyer made the payment, it was delayed for over two weeks as the intermediary and receiving banks attempted to

verify the correct SWIFT code. This delay strained the supplier's cash flow and led to a temporary suspension of further shipments until the payment was received.

2. Payment Rejections and Returns

If the banking details provided are incorrect, especially the SWIFT code, the payment may be rejected by the receiving bank and returned to the sender. This process can be time-consuming, leading to further delays and potential financial penalties.

- **Case Study:** An Indian textile exporter received a Letter of Credit (LC) from a buyer in the United States. The exporter provided the necessary documents for payment under the LC, including an invoice with banking details. However, the SWIFT code listed was outdated due to a recent bank merger. The payment was rejected by the receiving bank in India and returned to the issuing bank in the U.S. The correction process took several weeks, during which the exporter faced financial stress due to the delayed receipt of funds.

3. Lost Payments

In some cases, incorrect SWIFT codes can lead to payments being routed to the wrong bank or account, potentially resulting in lost payments. Recovering these funds can be a complex and lengthy process, involving multiple banks and sometimes even legal action.

- **Case Study:** A South African electronics importer made a payment to a supplier in China for a shipment of goods. The invoice provided by the Chinese supplier had a typo in the SWIFT code, which caused the payment to be routed to the wrong bank in another region of China. The payment was not immediately traceable, and it took the importer and supplier over two months to recover the funds with the help of their respective banks. The delay caused significant disruptions in the importer's supply chain and led to strained relations with the supplier.

4. Increased Banking Fees

When a payment gets stuck or is delayed due to incorrect information, additional banking fees may be incurred for processing, correcting, or

returning the funds. These fees can add up, especially in cases involving multiple intermediary banks.

- **Case Study:** A Canadian machinery exporter issued an invoice to a buyer in Japan, but the invoice omitted the required IBAN number. The payment was delayed as the intermediary bank requested additional information to process the transaction. The exporter incurred additional fees for the banking services required to resolve the issue, which reduced the overall profit margin on the transaction.

SWIFT Codes and Letters of Credit (LC) Transactions

Letters of Credit are a secure method of payment in international trade, where the bank guarantees payment to the seller upon the presentation of specified documents. However, even in LC transactions, incorrect SWIFT codes or missing banking information can cause significant delays and complications.

- **Case Study:** A pharmaceutical company in Switzerland received an LC from a Middle Eastern buyer. The LC stipulated payment against the presentation of a Bill of Lading, Commercial Invoice, and other documents. The Swiss company provided the correct documents, but the invoice included an incorrect SWIFT code for their receiving bank. As a result, when the issuing bank in the Middle East attempted to transfer the funds, the payment was delayed due to the need to clarify and correct the SWIFT code. This delay caused the pharmaceutical company to miss important deadlines in its supply chain, resulting in financial penalties.

In LC transactions, accuracy in documentation is paramount. Any errors, including those related to SWIFT codes, can prevent the bank from releasing funds, leading to delays and potential financial losses.

SWIFT Codes in Non-LC Transactions

In non-LC transactions, such as open accounts or direct transfers, the reliance on accurate SWIFT codes and banking information is even more critical, as there is no bank guarantee to safeguard the payment process.

- **Case Study:** A technology company in the United Kingdom sold software licenses to a client in Australia on an open account basis. The invoice sent to the client contained an incorrect SWIFT code for the UK bank. When the Australian client made the payment, the funds were sent to the wrong bank, leading to a significant delay in locating and redirecting the funds. The UK company faced a cash flow shortage during this period, affecting its ability to meet payroll and other financial obligations.

Best Practices for Ensuring Accurate Payment Processing

To avoid the risks associated with incorrect or missing SWIFT codes and other banking information, businesses engaged in international trade should adopt the following best practices:

- 1. Double-Check Banking Information:** Always double-check the SWIFT code, IBAN, and other banking details before issuing an invoice or payment instruction. This can prevent errors that could lead to delays or lost payments.
- 2. Use Pre-Filled Templates:** Utilize pre-filled invoice and payment templates that automatically populate with the correct banking information to reduce the risk of manual entry errors.
- 3. Verify with the Bank:** If there is any doubt about the accuracy of banking details, verify the information with the bank before processing the transaction.
- 4. Stay Updated on Bank Changes:** Be aware of any changes to your bank's SWIFT code, especially in cases of mergers, acquisitions, or rebranding, and update your records accordingly.
- 5. Include Full Banking Details:** Ensure that invoices include all necessary banking information, such as the SWIFT code, IBAN, bank name, branch address, and account number, to facilitate smooth payment processing.
- 6. Educate Clients:** Educate international clients about the importance of accurate banking information and provide clear, detailed payment instructions.
- 7. Utilize Electronic Invoicing:** Consider using electronic invoicing systems that automatically generate and validate banking information to minimize the risk of errors.

Conclusion

In international trade, the timely receipt of payments is vital for maintaining healthy cash flow and sustaining business operations. However, payments can be significantly delayed or even lost if SWIFT codes and other critical banking information are incorrect or missing from invoices and payment instructions. As illustrated by the case studies, such errors can lead to delays, increased banking fees, and financial losses, impacting both the buyer and the seller.

By adopting best practices for ensuring the accuracy of banking information and staying vigilant about potential changes, businesses can minimize the risk of payment disruptions and ensure smooth financial transactions across borders. Whether dealing with LC or non-LC transactions, the accuracy of SWIFT codes and other payment details is crucial for the success of international trade operations.

References

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