

The Role of Reciprocal Mutual Agreement (RMA) in Banking

The Reciprocal Mutual Agreement (RMA), often known as a SWIFT RMA, is an essential part of international banking. It is a type of bilateral key exchange that forms the cornerstone of secure financial messaging.

Defining the Reciprocal Mutual Agreement

A reciprocal mutual agreement (RMA) is a business relationship established between two financial institutions that want to exchange financial messages and transactions securely. It acts as a 'handshake' that facilitates and controls the communication between two banks through the SWIFT network.

The Importance of a RMA in the Banking System

RMA plays a significant role in the banking sector due to the following reasons:

- **Security:** RMA provides a security layer for financial communication by authorizing the exchange of messages between two institutions;
- **Control:** It allows institutions to control the types and volume of messages they exchange, thereby managing operational risk effectively;
- **Compliance:** It helps in meeting regulatory compliance by ensuring that all communication is conducted with recognized and trusted partners.

How does RMA Work?

RMA works as a permit for the exchange of financial messages between two institutions. Here are the steps involved in the process:

- **Establishment of RMA:** First, an institution sends an RMA request to the other institution. The latter then needs to accept the RMA request to establish a connection;
- **Validation of Messages:** Once the RMA is set up, every outgoing message from either institution is checked against the existing RMA. If there's an RMA relationship between the sender and receiver, the message is forwarded. If not, the message is blocked;
- **Maintenance of RMA:** The institutions regularly review their RMAs to ensure that only valid RMAs are in operation.

Key Aspects of RMA in Banking

The key elements of RMA in banking include:

- **RMA Key Exchange:** The RMA key is an authorization that allows the exchange of specific types of messages between two institutions;
- **RMA Plus:** Introduced by SWIFT, RMA Plus allows banks to specify which message types they want to send or receive from their counterparties, adding an extra layer of control and risk management;

- Management of RMA: Banks need to manage their RMAs effectively to mitigate risks and ensure compliance. This includes reviewing, approving, and cancelling RMA's as needed.

RMA and Fraud Prevention

RMA plays a crucial role in fraud prevention. Since it acts as a filter for all outgoing and incoming messages, it ensures that only authorized institutions can communicate. This reduces the likelihood of fraudulent messages being sent or received.

Conclusion

RMA is a crucial aspect of international banking, ensuring secure and controlled communication between financial institutions. By understanding the importance of RMA, institutions can better manage risks, ensure compliance, and prevent fraud.

FAQ

Can a bank establish RMA relationships with any other financial institution

No, the establishment of an RMA is at the discretion of the banks involved. They will consider factors such as risk, compliance, and business need before establishing an RMA.

Does RMA guarantee the content of the messages exchanged?

No, RMA only authorizes the exchange of messages. The content of the messages is the responsibility of the sender.

Can RMAs be revoked?

Yes, either party in the RMA relationship can choose to cancel the RMA at any time.

Does the establishment of RMA involve any costs?

There may be costs associated with the establishment and management of RMAs, but these are usually minimal and part of the banks' operating costs.

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