SWIFT

The article is related to
General Studies-Paper-III
(Indian Economy)

The Hindu

28 February, 2022

Exclusion from SWIFT: what it entails.

The U.S., Europe and several other western nations are moving to exclude Russia from SWIFT, an international network for banks to facilitate smooth money transactions globally.

If a country is excluded from SWIFT, the most participatory financial facilitating platform, its foreign funding would take a hit, making it entirely reliant on domestic investors.

In 2018, certain Iranian banks were ousted from the system despite resistance from several countries in Europe.

Saptaparno Ghosh

The story so far: The U.S., Europe and several other western nations are moving to exclude Russia from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), an international network for banks to facilitate smooth money transactions globally. This could be the strongest economic sanction against Russia over its military moves in Ukraine, as it will potentially cut off the country from receiving international payments.

What is SWIFT?

SWIFT is a messaging network used by banks and financial institutions globally for quick and faultless exchange of information pertaining to financial transactions. The Belgium-headquartered SWIFT connects more than 11,000 banking and securities organisations in over 200 countries and territories.

Each participant on the platform is assigned a unique eight-digit SWIFT code or a bank identification code (BIC). If a person, say, in New York with a Citibank account, wants to send money to someone with an HSBC account in London, the payee would have to submit to his bank, the London-based beneficiary's account number along with the eight-digit SWIFT code of the latter's bank. Citi would then send a SWIFT message to HSBC. Once that is received and approved, the money would be credited to the required account.

SWIFT is merely a platform that sends messages and does not hold any securities or money. It provides standardised and reliable communication to facilitate the transaction.

What happens if one is excluded from SWIFT?

If a country is excluded from the most participatory financial facilitating platform, its foreign funding would take a hit, making it entirely reliant on domestic investors. This is particularly troublesome when institutional investors are constantly seeking new markets in newer territories.

An alternative system would be cumbersome to build and even more difficult to integrate with an already expansive system. SWIFT, first used in 1973, went live in 1977 with 518 institutions from 22 countries, its website states. SWIFT itself had replaced the much slower and far less dynamic Telex.

Are any countries excluded from SWIFT?

Certain Iranian banks were ousted from the system in 2018 despite resistance from several countries in Europe. "This step, while regrettable, was taken in the interest of the stability and integrity of the wider global financial system, and based on an assessment of the economic situation," SWIFT states on its website.

How is the organisation governed?

SWIFT claims to be neutral. Its shareholders, consisting of 3,500 firms across the globe, elect the 25-member board, which is responsible for oversight and management of the company. It is regulated by G-10 central banks of Belgium, Canada, France, Germany, Italy, Japan, The Netherlands, the United Kingdom, the United States, Switzerland, and Sweden, alongside the European Central Bank. Its lead overseer is the National Bank of Belgium.

The SWIFT oversight forum was established in 2012.

The G-10 participants were joined by the central banks of India, Australia, Russia, South Korea, Saudi Arabia, Singapore, South Africa, the Republic of Turkey, and the People's Republic of China.

In 2021, the SWIFT financial messaging platform had recorded an average of 42 million FIN messages per day, as per the data on its website.

The full-year figure was an 11.4% growth on a year-over-year basis.

Europe, West Asia, and Africa, combined sent approximately 4.66 billion messages.

The Americas and the United Kingdom stood second with 4.42 billion interactions, with the Asia Pacific on third with an approximate 1.50 billion messages.

Expected Question (Prelims Exams)

Q. Consider the following statements regarding SWIFT.

1. Swift is a global messaging software used in interbank financial telecommunication.

2. Its headquarters is in Brussels,Belgium.

which of the above statements is correct?

(a) only 1 **(b)** only 2

(c) both 1 and 2 **(d)** None

Expected Question (Mains Exams)

Q. What is swift? Discuss the function and significance of SWIFT. (250 Words)

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.