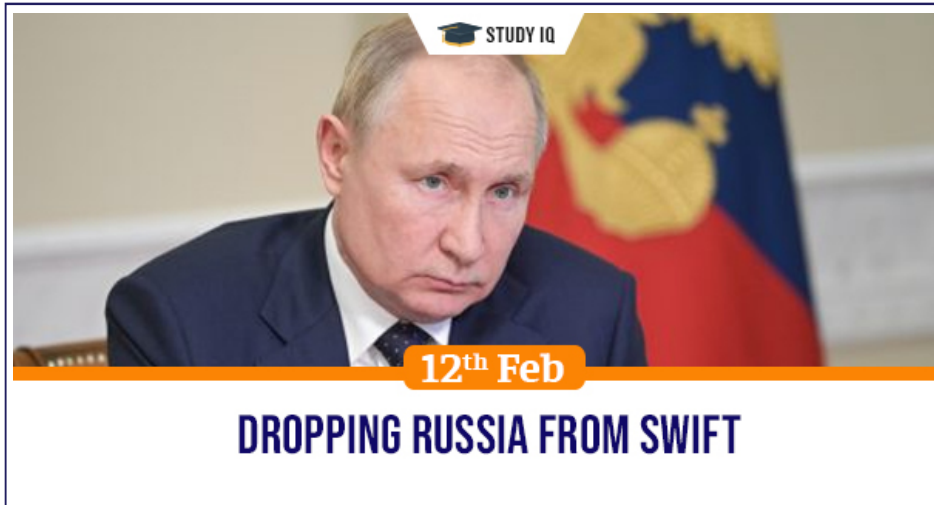


DROPPING RUSSIA FROM SWIFT



Issue

There are fears that Russia will be removed from SWIFT payments system in case it invades Ukraine.

Background

SWIFT is a not-for-profit Belgian co-operative that provides secure messaging services for payments between banks.

Details

- It is not the first time SWIFT has been at the centre of controversy. Earlier in 2012 and 2018 it was barred from providing payment service to Iran aftermath of the sanctions.
- While there were discussions earlier if SWIFT could be forced to suspend services to Russia, it was felt that it would not impact Russia.

Significance of SWIFT

- The SWIFT operates messaging system for banks for payment requests and keeping a record of them on servers in Europe and the US.
- Even though there are other cross-border payments services, SWIFT plays a central role in banking.

Impact on Russia

- Russia accounts for 1.5 per cent of total transactions on SWIFT. Russia has an alternative messaging system called SPFS.
- SPFS handles about one fifth of Russian transactions but is less sophisticated and incapable of completely replacing SWIFT.

Response of SWIFT

- SWIFT considers itself to be neutral and any decisions on exclusion of Russia have to be taken by respective governments and competent authorities.
- US Dollars constitute about 40% of its payment flows and thus Washington has effective powers to control it.

Society for Worldwide Interbank Financial Telecommunication (SWIFT)

SWIFT is a financial intermediary and executor of transactions between banks worldwide. It is also involved in selling software and services to financial institutions.

Working

SWIFT does not involve in fund transfer but only sends payment orders, which must be settled by correspondent accounts.

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