

Current Affairs search results for tag: economyfinance

1. Society for Worldwide International Financial Telecommunication (SWIFT) (March 1, 2022)

In the aftermath of the Russian invasion of Ukraine many western countries have imposed severe sanctions on Russia. One of the measures announced by the Western countries led by the United States is banning certain Russian banks from using the Society for Worldwide International Financial Telecommunication (SWIFT) network. This is expected to have a crippling effect on the Russian banking and financial services.

What is SWIFT

SWIFT or Society for Worldwide International Financial Telecommunication was devised as a solution for a problem faced by banks and financial institutions doing cross border transactions. Who will provide a standardised, secured and instant communication between banks and financial institutions involved in cross border financial transactions. This led to the foundation of SWIFT to provide a real time messaging system between the member banks for cross border transactions.

How it works

Suppose Mr. Shyam Lal son studies in New York, United States of America. He lives in New Delhi. He wants to send a certain amount to his son who lives in America. Suppose Mr Lal's account is in SBI New Delhi and his son's account is in Citi Bank, New York.

One option is that he carries the money personally to the United States and delivers it to his son. This is not practically feasible.

The other option is that he instructs his bank in India to transfer the money to his son's bank accounts in New York. For this to happen the SBI has to contact and inform the Citi Bank New York that a certain sum is to be transferred from Mr Lal account to his son's account in New York. One option for the SBI is to communicate with the American Bank through telegram. But Telegram has its own limitations and there is the issue of authenticity and security of the message.

To solve this problem 239 banks from 15 countries met in Belgium and decided to set up a Cooperative society called SWIFT in 1973 with its headquarters in [La Hulpe, Belgium](#).

It went live in 1977. It has its data centre at Virginia, United States. This increases the clout of the United States in using SWIFT as a political weapon to punish its adversaries.

What Does SWIFT do

It provides instant communication between the networked member banks for cross-border international fund transfer. The communication is secured and standardised. At present it is present in all the continents with 200 plus countries and territories and more than 10,500 institutions as its client.

What is SWIFT CODE

As everything is done anonymously and through electronic mode it is paramount that the sender bank from whom the fund is sent to the receiver bank who receives the transferred fund has to be identified and verified. Each member banks and financial institutions are provided with a certain code to identify them. It is called SWIFT code or BIC (Business Identifier Code).

It has eleven characters

The first four letters represent the banks. The next two letters represent the country in which the bank is located. The next two characters, which could be either numbers or letters representing the location of the bank's head office and the last three digits represents the location of the bank's branch.

In India IFSC (Indian Financial System Code) has been developed on the SWIFT code model. It is also 11 digit and alphanumeric in nature. IFSC code is used for transferring funds from one bank account to another bank account in NEFT/RTGS.

What will happen if Russian banks are totally debarred from SWIFT network

The American and European governments have initially targeted a few Russian banks and if the conflict in Ukraine escalates they can completely ban Russian banks from the SWIFT network.

If the Russian banks are completely banned then it will have a heavy cost for the Russian economy.

Russia relies on export of oil and gas for much of its foreign revenue. If its banks are not part of the SWIFT then its foreign trade will be severely impacted. It will face problems in making payments for imports or receiving payment for exports.

A case in point is Iran which was banned from the SWIFT network in 2019. The Iranian trade contracted by one third. Similarly it will be catastrophic for Russian trade.

Is there any alternative to SWIFT

At present there is no real alternative to SWIFT at the International level. China has tried to develop its own Yuan based Cross-Border Interbank Payment System (CIPS). But as the majority of the Chinese trade is in the US Dollars the Chinese rely heavily on SWIFT for International transactions.

Even in India, a Parliamentary committee that was looking at the Data Protection Bill 2019 recommended that India should develop an indigenous alternative to the SWIFT payment system to better protect privacy of domestic financial data and boost the Indian economy.

Many countries are trying to develop an alternative to SWIFT but so far none has succeeded.

Is SWIFT In India

Leading banks of India are the members of SWIFT and it is used for cross-border financial transactions.

But to tap the potential of the domestic financial transaction business, SWIFT has also set up a subsidiary company in India named SWIFT India Domestic Pvt Ltd.

SWIFT India Domestic Pvt Ltd. is a joint Venture between SWIFT and Indian Public sector and Private sector banks.

The headquarters of Swift India is at Mumbai, Maharashtra.

It offers instant communication facilities between the member banks for inter-bank fund transfer within India. It aims to be a competitor of SFMS (Structured Financial Messaging System)

Who provides communication between banks within India

To develop a SWIFT-like messaging system service within the banking system in India, RBI asked IDRBT (Institute for Development of Research in Banking Technology) to develop a secured and instant communication system for the financial system in India for inter-bank and intra-bank transactions.

IDRBT was owned by the RBI and its headquarters was at Hyderabad.

SFMS (Structured Financial Messaging System)

IDRBT developed SFMS (Structured Financial Messaging System) for this purpose which went live on 14 December 2001. It provides instant communication for intra-bank transactions.

Intra-bank transaction means when funds are transferred from one account to another account in the same bank. For e.g. Funds are transferred from a person having an account in SBI to a person who also has an account with SBI.

It also provides communication for inter-bank transactions, like when funds are transferred from SBI accounts to Bank of Baroda accounts.

SFMS is used for NEFT (National Electronic Fund Transfer), RTGS (Real Time Gross Settlement) Letter of Credit, etc transactions.

IFTAS

In 2016 IDRBT set up a new company which was called the Indian Financial Technology and Allied Services (IFTAS), headquartered in Mumbai.

It took over the SFMS and **Indian Financial Network (INFINET)** services from IDRBT. In 2019 Reserve Bank of India became the owner of IFTAS.