



Russian Banks Excluded from SWIFT

For Prelims: Society for Worldwide Interbank Financial Telecommunication (SWIFT), System for Transfer of Financial Messages, Cryptocurrencies.

For Mains: Bilateral Groupings & Agreements , Russia's war over Ukraine, Impact of sanctions on Russia, SWIFT and its Significance.

Why in the News?

Recently, in a move to counter [Russia's war over Ukraine](#), the US and the [European Commission](#) issued a joint statement to **exclude some Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging system.**

- The intention behind this action is to further **isolate Russia from the international financial system.**
- The move against Russia is **only partly implemented for now**, with only some Russian banks being covered.
- The option of expanding it further to a pan-country ban is something that the US and its allies are holding back as a further escalatory move.

What is the SWIFT Messaging System?

- SWIFT provides the **trusted messaging platform** that enables financial institutions to **exchange information about global monetary transactions** such as money transfers.
- While SWIFT does **not actually move money**, it operates as a **middleman to verify information of transactions** by providing secure financial messaging services to more than **11,000 banks in over 200 countries**.
 - Most of the world trade takes place with financial messaging passing through SWIFT.
- It was **established in 1973** and is **based in Belgium**.
- It is overseen by the central banks from **eleven industrial countries**: Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States, besides Belgium.
 - **India's** financial system **has access to the SWIFT**.
- Prior to SWIFT, the only reliable means of message confirmation for international funds transfer was **Telex**.
 - It was discontinued due to a range of issues such as low speed, security concerns, and a free message format.

What will be Impact on Russia?

- Russia is **heavily reliant on the SWIFT platform** for its **key natural resources trade**, especially the payments for its oil and gas exports.
 - It will freeze the assets of Russia's central bank, which would stop Russia from "**using its war chest**", referring to its [forex reserves](#).

- Further, the curbs on Russia's central bank will prevent it from dipping into its **forex deposits to limit the effect of sanctions**.
- Targeting only some Russian banks seems to be aimed at both keeping the **option of further escalation open**.
 - it also envisages that the sanctions have the maximum possible impact on Russia, but prevent a major impact on European companies dealing with Russian banks for payments for their gas imports
- There is going to be a **catastrophe on the Russian currency market**.
- Prior to this, **only one country had been cut off from SWIFT — Iran**. It resulted in it losing a third of its foreign trade.

How did Russia React?

- Russia has worked on alternatives, including the SPFS (**System for Transfer of Financial Messages**) — an equivalent of the SWIFT financial transfer system **developed by the Central Bank of Russia**.
- Russia is reported to be **collaborating with the Chinese** on a possible venture which will be a potential challenger to SWIFT.
 - There are plans to integrate it with China's Cross-border Inter-bank Payments System (CIPS).

What are Other Global Alternatives to SWIFT?

- There are **financial technology companies like Ripple, which has been offering its platform based on interledger protocol** (the same technology behind **cryptocurrencies**) as an alternative.
- **Cryptocurrencies** are another avenue for cross border remittances. Russia has also been working on a 'digital' rouble, which is still not launched.

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ALTERNATIVE SYSTEMS MAY GET BOOST

- SWIFT, which offers banks a **fast & secure messaging platform** for fund transfers, is a cooperative with HQ in Belgium
- Used by over 11,000 institutions in more than 200 countries, it **can block specific banks or certain types of transactions**
- Russia set up its own SWIFT counterpart called SPFS, with

plans to integrate it with China's counterpart CIPS. This **would allow trade between the two**



- Russia is also working on launching a **digital version of its rouble**
- India, Russia & China were using the **BRICS grouping to create an alternative to SWIFT** — this could get a boost now

How will the Sanctions Impact India?

- Following the collapse of the **Soviet Union in 1991**, India had entered into a rupee-rouble **trade arrangement** with Russia to ensure that defence and other imports could continue.
- In 2018, a pilot project was run where Indian importers paid in roubles for diamond imports.
- These payments were made to the Indian branch of **Russia's Sberbank, SBI and Canara Bank have a joint venture** (The Commercial Indo Bank), which might be able to help Indians there.

Source: IE

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