# The war's collateral damage: the end of SWIFT as we know it

## While tough sanctions on Russia may be justified by its invasion of Ukraine, excluding Russian banks from SWIFT will encourage the development of alternative systems by China and others.



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SWIFT, the Society for Worldwide Interbank Financial Telecommunication, is a messaging system connecting more than 11,000 financial institutions in more than 200 countries and territories.

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Created in 1973 by a group of American and European banks as a single standardized communication system free from the control of any single institution, SWIFT has been functioning since 1977. Each day, an average of more than 40 million SWIFT messages are sent to enable trillions of euros to change hands between companies and governments around the world. Hence, it is the system that allows banks to be informed about the transactions that are being executed. It doesn't move money, it moves information about money.

Leaving banks without SWIFT is like leaving us without the internet — or Generation Z without social networks. Disconnecting a bank from SWIFT essentially leaves it without its voice or ears. Monetary flows are still possible in theory, but without complementary information (where it comes from, where it goes, what it is for) banks are not able to operate. This is precisely why it is so important that financial institutions around the world have an agnostic and secure system that they are a part of no matter what.

SWIFT is headquartered in Belgium and, while it is jointly owned by more than 2,000 banks and financial institutions, it is governed by the central bank of Belgium in conjunction with the following countries' central banks: Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. With this arrangement, SWIFT has ensured and enabled safe international transactions throughout its 45 years of existence for most any bank. During these years, it has been keen to be neutral, not taking sides in disputes. Before the war in Ukraine, this rule of neutrality had only been broken once: in 2012 Iranian banks were banned due to their country's nuclear program.

Now, we are all aware that the current war in Ukraine has caused a partial ban of Russian banks from SWIFT: seven banks are out of the system. This measure is intended to inflict severe economic damage — we should remember that the equivalent measure caused Iran to lose almost half of its income from oil exports, as well as 30% of its foreign trade.

But we should also be aware of the collateral damage that will be caused in the medium and long term: namely, encouraging alternative systems. In 2012, on the heels of the Iranian ban, China created a payment system called CIPS (Cross-border Interbank Payment System). Launched in 2015, CIPS is administered by the People's Bank of China and is mainly used by Chinese banks, although it also counts some foreign banks as shareholders. In 2014, coinciding with a threat to exclude Russia from SWIFT due to its annexation of Crimea, the Russian Central Bank started developing a system called SPFS (for System for Financial Message Transfer). SPFS was launched in 2017 and currently has a high rate of adoption within Russia. Recently, some international financial institutions in Russia's area of influence

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also joined SPFS. And some large Russian banks now offer access to SPFS via their subsidiaries in Germany and Switzerland.

In absolute terms, the international expansion of both systems is still very limited. We can only speculate about how quickly these systems could be connected to other systems or how easily both systems could be interconnected right now. In any case, there's little doubt that the current ban will accelerate the development of these and probably other systems. And this comes at a time when some were already saying SWIFT's days were numbered because blockchain and cryptocurrencies are opening up new possibilities. But I doubt that finding international agreement in the 21st century on new systems will go as smoothly as it did back in the 1970s.

With the war, the world will lose many things. Collateral damage in financial services is the end of SWIFT as we know it. A global system with truly open technology and private governance is extremely difficult to establish and even more difficult to maintain. Neutrality — always including everybody — is key to the system's credibility and survival. Just one exception triggers the incentive to develop alternative systems. Hence, while we applaud the fact that the European Union has executed one of the harshest economic sanctions possible, we should start working on containing the fallout. The financial world is losing its single secure messaging system.

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