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FT Alphaville Swift

The impact of throwing Russia out of Swift

The messaging network has become the embodiment of the “weaponisation of finance”



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Vladimir Putin's declaration of war on Ukraine has revived calls to kick Russia out of Swift. The measure is seen as among the most severe that the US, EU and UK could take.

Denying Russian banks access to Swift is far from a given. It would, for instance, undermine Europe's capacity to pay for Russian oil and gas, perhaps raising energy prices in the process. Imposing a ban would also require strong consensus. At present, it's only the UK that really wants it and some EU members remain set against it.

As we on FT Alphaville are not geopolitical experts, we really can't tell you what the final call will be.

But we do know a little about the plumbing that lies behind international payments. And given the pace of change seen over the past week, we thought it worth trying to explain now why getting booted out would be so painful to Moscow.

So, what is Swift?

Swift, or the Society for Worldwide Interbank Financial Telecommunications to give it its full name, went live in 1977.

It's owned by banks and based in Belgium. Each of the 11,000-plus financial firms that's a member has a Swift terminal to communicate with the other banks in the network, as well as its own Swift code. It's not actually a payments system, but a messaging platform. However, the relative strength of its security features and the breadth of its usage (financial intermediaries in every country bar North Korea are now members) mean that it enables banks to send trillions of dollars'-worth of money across borders daily. It's also used for foreign exchange settlement and trade finance.

Unsurprisingly then, the threat of banning access often comes up whenever the US or Europe want to show they're willing to get tough on their enemies. While Swift claims it's not politicised (and can in theory ignore any demand to ban a state from its network as long as it is not illegal under Belgian law), it has in the past been accused of pandering to Western interests. Notably those of the US.

What's the extent of Russia's reliance on the system?

Access to Swift matters primarily because it enables Russian energy companies to get paid for selling their oil or gas globally without too much hassle. To get a better grip on why this is so important to Putin (and Western leaders), it's worth reading [this piece](#) from Bloomberg's Javier Blas (hat-tip to Adam Tooze):



In the 24 hours after Vladimir Putin signed a decree recognizing two breakaway Ukrainian territories, the European Union, the U.K., and the U.S. bought a combined 3.5 million barrels of Russian oil and refined products, worth more than \$350 million at current prices. On top of that, the West probably bought another \$250 million worth of Russian natural gas, plus tens of millions dollars of aluminum, coal, nickel, titanium, gold and other commodities. In total, the bill likely topped \$700 million.

According to [JohannesBorgen](#), Swift's 291 Russian members represent 1.5 per cent of flows, and are sixth globally in terms of payment messages sent on the platform. He thinks that equates to about \$800bn-worth of payments a year. As a reminder, Russian GDP was \$1.5tn in 2020 (though, of course, not all of that \$800bn will be flowing to Russia).

If you want to get a sense of where those hundreds of billions flow to and from, then the latest statistics from the Bank for International Settlements (Q3 2021) are [here](#).

Are there alternatives to Swift?

In theory, yes. There's no reason why other messaging services, email, or telephone couldn't serve as options in the event of a Swift ban. In practice, if you want to send money around the world relatively quickly, reliably, and cheaply, then not really. Ambitions to create a rival payments network have, so far, been useless. This isn't down to the tech (or even the platform's standardisation of payment instructions into a convenient lingua franca). Rather it reflects the balance of power in global finance.

Here's a story to illustrate the point, taken from former Swift CEO Gottfried Leibbrandt and Natasha De Teran's excellent book, *The Pay Off*.

When the Trump Administration reinstated financial sanctions on Iran (sanctions which included cutting off access to Swift for certain Iranian banks), European Commission officials came up with a plan for a vehicle to handle transactions in currencies other than the dollar. The Instrument in Support of Trade Exchanges, or INSTEX, was set up to enable European businesses to trade with Iran. It remained unused for a full year after it was launched. It took the pandemic for the first INSTEX transaction to occur, involving the export of medical goods to Iran in March 2020. Naturally, it failed to prevent tensions between Tehran and the West escalating.

So what explains banks' reluctance to bypass Swift, even for transactions that are above board? For Leibbrandt and De Teran, it's all about the omnipotence of the greenback.

About half of all global payments are made in dollars. Along with about 90 per cent of trade finance. When instructions are sent via networks such as Swift, many of those dollar payments need to be made between institutions that do not have accounts with one another. What that means is that a correspondent bank — probably with operations in the US, policed by the American authorities — will act as an intermediary. What the INSTEX example hints at is that, even for transactions that are legal, parties are unwilling to take the risk of alienating the US authorities by processing payments for businesses based in countries that have fallen foul of Washington.

What follows from this is that there is plenty the US can do — and is doing — even without a Swift ban. The Treasury has, for instance, [already cut off](#) access to processing payments through the US financial system for Sberbank and VTB. Given Sberbank and VTB's heft, this action alone will make life for many Russian exporters difficult, regardless of whether there is eventually a ban on the payments network.

But currently there are loopholes, notably for transactions involving energy products — the vast majority of which are made in dollars. Berlin has voiced fears that stopping Russian oil and gas suppliers from being paid in dollars would trigger a surge in European energy costs. With that in mind, the US did not cut off access to the US financial system for Gazprombank, Russia's third-largest, which facilitates payments for the energy company of the same name. Joe Biden also [indicated](#) that, at present, the sanctions enable energy transactions between Russian suppliers and their customers to still take place under some circumstances.

If the conflict escalated, and the US, the UK and EU did push for an outright ban on Swift, then it is difficult to envisage a situation where Russian institutions' correspondent banking relationships with US institutions would be allowed to remain as they are now. One imagines loopholes would close and more institutions would join VTB and Sberbank on the sanctions list.

Without access to Swift, it would become nigh-on impossible for Russian companies to be paid in a timely or reliable way. Without access to correspondent banking services in the US, it would be nigh-on impossible for Russian exporters to be paid at all. This is what's called the "weaponisation of finance", where Washington uses the dollar's dominance to further the aims of US foreign policy.

In the medium term, could Swift's importance wane?

Perhaps. There have long been rumblings of discontent about the degree to which DC has weaponised Swift.

The EU's chagrin over the Trump administration's Iran sanctions was just one example. Russia also attempted to establish its own rival following the earlier clash over Ukraine in 2014. But meaningful competition is most likely to come from outside European capitals. China has established a rival network, CIPS, too. And while its use has been somewhat limited owing to settlement only being available in yuan, that might change. From payments expert Tord Coucheron:

A total cut-off from Swift would be very damaging for Russia; it could also cause issues for the longevity of Swift. It would clearly show the degree of US control. The BRICS are already working on their own version of the network. And, while they are still probably some years away from launching it, a ban on Russia may well speed their timeline up. One intention is to avoid settlement in dollars — and essentially cut the links between the US currency and a large part of the world's GDP in the process.

The US may well be reluctant to throw its weight behind an outright ban for fear of handing an advantage to China.

But nothing's toppling the dollar overnight. Even someone as belligerent as Putin. For the foreseeable future, the status quo stands and DC has the option to use its currency to hurt Russia.