



THE ESSENCE OF SWIFT NETWORK IN INTERNATIONAL TRANSACTIONS

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Abstract

This article discusses the role of SWIFT network in the banking system and deeply analyzes the significance of this network based on the several carried researches

Keywords: SWIFT, financial institutions, bank, transaction, information, system, messaging

Introduction

The SWIFT codes and network are essential part of today's financial relations of the not only local financial institutions but also global ones. A Society for Worldwide Interbank Financial Telecommunication or SWIFT code is a standardized format Bank Identifier Code (BIC), which identifies a bank, and is used in place of the bank's address. Banks use these codes to transmit secure messages, and facilitate International Money Transfers. A SWIFT code identifies a specific financial institution within the SWIFT network.

Materials and Methods

The economic literatures reveal[1,2,3] that Wire transfers did not directly involve the physical movement of money itself — one cannot send physical money over telegraph after all — but it did involve sending a message over telegraph directing where some amount of money should go. Because both the sender and the recipient were customers of Western Union, the company could take in money in one location and then allow the withdrawal of the same amount thousands of miles away.

According to the London School of Economics [4], "support for a shared network...began to achieve institutional form...in the late 1960s, when the Société Financière Européenne (SFE, a consortium of six major banks based in Luxembourg and Paris, initiated a 'message-switching project.'"



In order to solve a common problem of communicating cross-border payments, 239 banks from 15 European countries came together in 1973 to form the Society for Worldwide Interbank Financial Telecommunication. Headquartered in Brussels, Belgium, it is commonly known as SWIFT. By 1977, it expanded to 518 institutions in 22 countries. Today, more than 11,000 institutions from 200 countries use SWIFT to communicate[4].

At its core, SWIFT consists of a messaging platform, a computer system to validate and route messages, and a set of message standards. SWIFT codes are a subset of the message standards.

A SWIFT Code[5] is a standard format of Bank Identifier Code (BIC) used to specify a particular bank or branch. These codes are used when transferring money between banks, particularly for international wire transfers. Banks also use these codes for exchanging messages between them.

Similar to sending mail, SWIFT codes act as an address for where money should be sent. A SWIFT code consists of 8 or 11 characters[6], where each section of characters describe one part of a bank's location. The codes are formatted in the "AAAABBBCCDDD", where:

AAAA: Bank code

BB: Country code

CC: Location code

DDD: (optional) branch code; Use "XXX" for the primary office

For example, a specific Silicon Valley Bank (SVB) has the 8-character SWIFT code "SVBKUS6S". "SVBK" is the bank code. "US" is the country code (United States), "6S" is the location code. Since this is the primary SVB branch, you can append "XXX" to the end of the SWIFT code, but it's optional.

Analyzing the material of several scientists and economists [7,8], following takeaways can be made:

Society for Worldwide Interbank Financial Telecommunications (SWIFT) is a member-owned cooperative that provides safe and secure financial transactions for its members.

This payment network allows individuals and businesses to take electronic or card payments even if the customer or vendor uses a different bank than the payee.

SWIFT works by assigning each member institution a unique ID code that identifies not only the bank name but country, city, and branch.

As powerful as SWIFT is, keep in mind that it is only a messaging system. SWIFT does not hold any funds or securities, nor does it manage client accounts.



Results

Several studies showed that SWIFT system is plays important role in financial transactions among both financial institutions and countries. The process of transferring money via SWIFT can be as following:

To send an international wire, the sender would go to their bank and provide information about the wire transfer amount and the beneficiary's information. The latter typically includes a SWIFT code (remember to make sure the SWIFT code is correct), the beneficiary's name, remittance information, account number, account type, and beneficiary bank address.

The sender's bank would take the information and send a message via the SWIFT messaging system, which would be routed to the receiving bank using the SWIFT code. The beneficiary bank would receive the message, and after performing some security checks for fraud and money laundering, credit the beneficiary with the appropriate amount.

The actual settlement of money exchanged between the sender's bank and the beneficiary bank happens separately. If the two banks have a direct relationship with each other, they would each have accounts at the other bank. The sending bank would credit the beneficiary bank's account.

When the sending and beneficiary banks do not have a direct relationship, funds are settled via correspondent or intermediary banks. There can be up to three of these third party banks that facilitate the actual settlement of funds. The smaller and less internationally connected the sending and beneficiary banks are, the more banks they need to facilitate international wire settlements.

Correspondent banks are also needed when settling in different currencies. Depending on the currency of the wire, SVB will use a different corresponding bank. When wiring Chinese Yuan to an SVB account, SVB instructs that the wire should use Standard Chartered in Hong Kong as a correspondent bank. When wiring Euros to SVB, the instruction is to use Deutsche Bank in Frankfurt as a correspondent bank. The number of banks involved is also a factor in wire payment cost. The number of banks involved is also a factor in how fast the beneficiary is credited into their account.

International wire transfers are a huge component of money transfers across borders. SWIFT codes are a reliable and internationally standard way to direct the correct payments to the correct destinations.

Survey showed that if one is wiring money internationally, there are three ways to find the correct SWIFT code[9]:



Asking recipient: the person who's expecting the money can work with their bank to determine the correct bank, country, location, and branch codes.

Searching the beneficiary bank's (the recipient's bank) website: if one is receiving a wire, many banks list their SWIFT codes and wire instructions on their website.

Searching SWIFT's official database: entering any or all of the name, city, and country information should return a list of possible institutions and their BIC.

A research has been conducted for identifying foreign process of using SWIFT networking and Germany has been chosen for case-study. Survey showed that Deutsche Telekom has established Multiversa IFP with SWIFT SCORE connector as the basis for the centralisation of their group-wide payment transactions via a single platform. The transaction volume in 2008 was more than 3.4 million[10] payments in the group headquarters and shared services (GHS) and the treasury department, and also included large value payments deriving from their asset management.

According to its strategy to standardize payment transactions, Deutsche Telekom planned to centralize from various systems to a uniform platform. One of their main objectives was to reduce costs, risks, and effort through straight-through processing (STP). Parts of the improvements are fully automated checks instead of manually controlled processes, as well as proactive references on incomplete account information.

Deutsche Telekom[11] had highly specialized and technical demands on its new centralised solution:

The possibility of reducing the bank interfaces to only one central interface for SWIFT connection.

The cost-efficient transfer of payment transaction data in various formats via this connection.

The handling of larger payment transaction volumes of up to 1.5 billion payments p.a. in planned future expansion stages.

High security standards using encryption, distributed digital signatures (DDS) and the four eyes principle.

Coverage of all essential payment transactions and cash management functionalities (national and international payment transactions, central bank reporting, etc).

Surveys showed that the SWIFT system is also widely used in making transactions in Uzbekistan[12]. It should be stated that SWIFT network is being widely used year by year. As it was above mentioned SWIFT code contains eight to eleven

characters. Primary office SWIFT codes contain eight(8) characters. Branch office SWIFT codes contain eleven characters. SWIFT Code Bank can be used in transferring money overseas. Swift codes of Bank Uzbekistan are provided by International Organization for Standardization (ISO). Swift Code identifies Bank branches which participate in overseas fund transfers. SWIFT-code Bank is a unique code for each branch. The below list is some of the currently available data of SWIFT / BIC list in Uzbekistan. The following are some of the Banks in Uzbekistan, which has SWIFT enabled branch / branches:

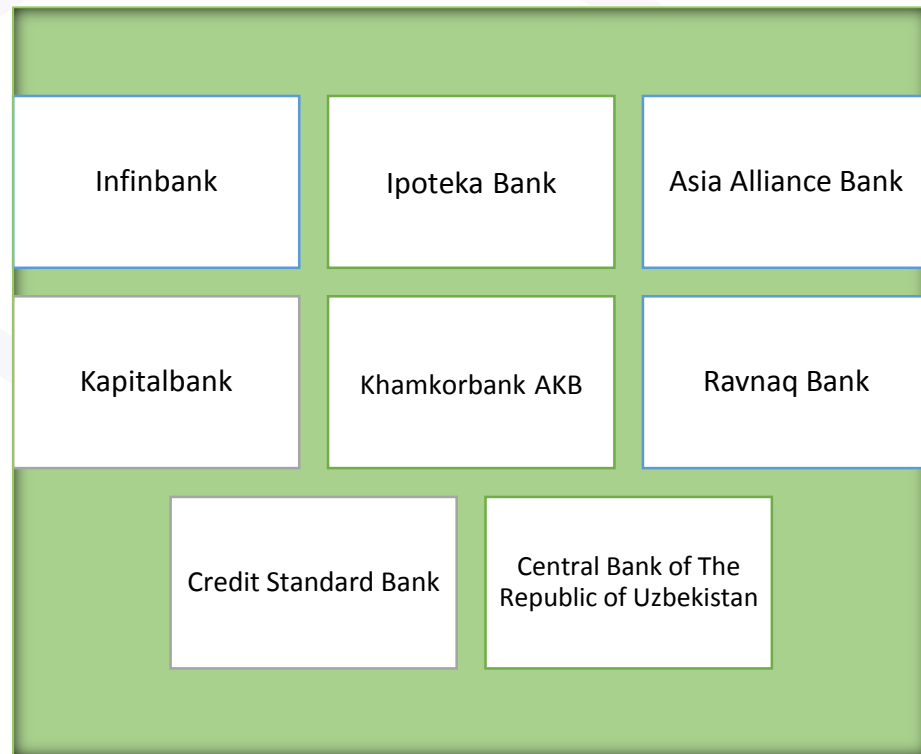


Figure1 Several banks of Uzbekistan which has SWIFT codes[12]

Following table 1 illustrates some of the financial institutions of Uzbekistan which use SWIFT codes and provides data on the location of them and it should be stressed that table has been made based on the official information of the Republic of Uzbekistan



Table 1 Several Financial Institutions of Uzbekistan using SWIFT-code[13]

| No | Bank or institution | City | Branch | Swift Code |
|----|--|----------|---------------------------------------|------------|
| 1 | “Hi-Tech bank” Private Closed Join Stock Commercial Bank | Tashkent | Head Office | HPCJUZ22 |
| 2 | “Qishloq Qurilish Bank” Join Stock Commercial Bank | Tashkent | Headquarters of Qishloq Qurilish Bank | GJSOUZ22 |
| 3 | “Uzbekistan Industrial And Construction Bank” Join Stock Commercial Bank | Tashkent | Payment Center | UJSIUZ22 |
| 4 | ASIA ALLIANCE BANK | Tashkent | Payment Center | ASAKUZ22 |
| 5 | CENTRAL BANK OF THE REPUBLIC OF UZBEKISTAN | Tashkent | Clearing Center of Central Bank | CBUZUZ22 |
| 6 | INVEST FINANCE BANK | Tashkent | Payment Center | INFBUZ2X |
| 7 | IPOTEKA-BANK | Tashkent | Tashkent Branch | UZHOUZ22 |
| 8 | Join Stock Commercial Bank “Agrobank” | Tashkent | Central Operations Administration | PAKHUZ22 |
| 9 | Join Stock Commercial Bank SAVDOGAR | Tashkent | Bank Payment Center | JSCSUZ22 |
| 10 | Join Stock Commercial Bank “TENGE BANK” | Tashkent | | HSBKUZ22 |
| 11 | Join Stock Commercial Bank ASAKA | Tashkent | Payment Center | ASBKUZ22 |
| 12 | Join Stock Commercial Bank TURONBANK | Tashkent | Headquarters of Qishloq Qurilish Bank | TUROUZ22 |

Conclusion

The increasing usage of the SWIFT by corporate customers underlines its importance as the only globally available and secure banking network. The benefits and advantages of SWIFT offer not only banks, but also corporations, a competitive advantage by using a single platform, which not only helps ensure the streamlining of operations, while reducing costs and increasing transparency, but also enables the future expansion of services to ensure that corporate customers have the best tools for dealing with change.

Increased visibility of information in payment transactions for a number of reasons, including the ability to immediately react to market changes and have better cash flow control. Obviously changing economic surrounding conditions for companies with global corporate operations is reinforcing two major treasury challenges:

- Corporations increasingly require a consolidated view on all current and predictable cash positions.



- Visibility is needed regarding payment transactions by streamlining banking connections.

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