



# SWIFT PAYMENTS AND SWIFT CODES EXPLAINED

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The Society for Worldwide Interbank Financial Telecommunication (SWIFT) lends its name to an electronic messaging network, which is used globally by over 11,000 banking and securities organizations.<sup>1</sup>

The SWIFT network handles a massive volume of messages – over 450 million financial messages transmitted and received, just in the month of July.<sup>2</sup> Customers using the SWIFT network can connect to it in a variety of ways: directly through permanently leased lines, through the Internet, or through SWIFT’s own cloud service.<sup>3</sup> Most financial institutions, from broker/dealers, to commercial banks, custodian banks, transfer agents and foreign exchange brokers all utilize the SWIFT messaging network. SWIFT messages are used for various types of wire transfers of information: buying and selling of securities, corporate actions notifications and instructions, foreign exchange and international currency transfers, and more.

## **WHAT IS SWIFT?**

SWIFT is a global member-owned co-operative and the world's leading provider of secure financial messaging services. SWIFT provides its community with a platform for messaging, standards for communicating.<sup>1</sup>

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## How Do SWIFT Payments Work?

SWIFT Payments allow consumers and businesses to easily send payments and currencies, from one bank to virtually any other bank in the world.

For example, if the ABC Company from the United States would like to make a payment of US\$100,000 to their supplier, XYZ Company in Australia, they would contact their local bank office, in United States. ABC Company would instruct its bank to send a payment, and would provide the name and account of the beneficiary (the person or business they are transferring currency to, in this case, XYZ Company), the amount to be transferred, and the receiving bank's SWIFT Code.

Once ABC Company's bank receives the instruction (and confirms that it is legitimate), the bank then debits ABC's account of the US \$100,000. It sends a SWIFT message to XYZ Company's bank in Australia, with the instruction to credit XYZ's account with US \$100,000. XYZ Company can choose to have that US\$100,000 exchanged, as a foreign currency exchange, into Australian Dollars, or keep it as U.S. Dollars to then be used to make payments to their own suppliers who prefer payment in U.S. Dollars.

**SWIFT continuously seeks ways to**

- > **Lower Costs**
- > **Reduce Risks**
- > **Eliminate Operational Inefficiencies<sup>1</sup>**

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## What Is A SWIFT Code?

A SWIFT Code is a unique identification code, to identify the specific bank to which the currency is being sent. Often, the transferor's bank representative will help the customer determine the correct code.

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SWIFT Codes, also called Bank Identifier Codes (BIC), are composed of eight or eleven characters, and contain the following information:

- First 4 characters identify the bank, and are usually closely related to the bank's name or abbreviated name.
- Next 2 characters are the country code, identifying which country the bank is located in.
- Next 2 characters (letters or numbers) identify which city in that country the bank's head office is.
- Last 3 optional characters (letters or numbers) identify the bank's specific branch office, instead of its national head office.<sup>4</sup>

The SWIFT Code (or BIC Code) is often compared to the ABA (American Bankers Association) Routing Number.<sup>5</sup> However, an ABA Routing Number is used for domestic wire transfers, while SWIFT Codes are used for international wire transfers.<sup>6</sup>

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## Pros and Cons of SWIFT Payments

SWIFT Payments are generally an easy to use, safe and secure, and rapid way by which to make payments and transfer international currencies.

There are several security checks which must be performed when a SWIFT payment is initiated:

- The bank conducts checks to ensure fraud is not being committed by the sender ("Know Your Client" rules), and Anti Money Laundering (AML) checks as well.
- The receiving bank also conducts similar checks, to ensure the funds are being disbursed to the correct account.<sup>7</sup> This can add time to the process of sending and receiving the SWIFT Payment, and currency transfers can therefore sometime take two to three days.

These security checks are not always a guarantee that the person or business receiving the funds is not fraudulent, or that they will deliver the services or goods they are obliged to deliver.

Currently, there are over 40,000 "live" Swift codes. The "live" codes are for the partners who are actively connected to the Swift network. On top of that, there are more than 50,000 additional codes, which are used for manual transactions. These additional codes are for the passive participants<sup>4</sup>.

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The fees for SWIFT Payments can vary widely from bank to bank, and even from account to account within the same bank. Costs can be as low as zero (free) to over US\$50 to send a SWIFT Payment, and there can also be costs associated with receiving the SWIFT Payment.<sup>8</sup> These costs can add up, especially if the person or business sends multiple SWIFT Payments on a regular basis. If the amounts being sent are small, the costs can constitute a significant percentage of the funds being sent and received.

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## Conclusion

SWIFT Payments are one of the most popular methods to send funds from one country to another, and are a relatively fast method in conducting international wire transfers. Weighing factors such as ease-of-use, security and payments fees can help companies create strategies around their use of SWIFT Payments for day-to-day business.



## About the Author

Phillip Silitschanu is the founder of Lightship Strategies Consulting LLC, and CustomWhitePapers.com. Phillip has nearly 20 years as a thought leader and strategy consultant in global capital markets and financial services, and has authored numerous market analysis reports, as well as co-authoring Multi-Manager Funds: Long Only Strategies. He has also been quoted in the US Financial Times, The Wall Street Journal, Barron's, BusinessWeek, CNBC, and numerous other publications. Phillip holds a B.S. in finance from Boston University, a J.D. in law from Stetson University College of Law, and an M.B.A. from Babson College.

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