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SWIFT Alternatives and the Global Shift Towards Interoperable Cross-Border Payment Systems

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Recent Developments:

- **Geopolitical tensions, financial sanctions and technological advances** have intensified efforts to diversify the global cross-border payments architecture and reduce excessive dependence on a single financial messaging network.
- The **BRICS** framework is examining greater use of **local currencies, domestic payment systems and interoperable payment platforms** for cross-border transactions. The 2025 BRICS Leaders' Declaration called for continued discussions on the BRICS Cross-Border Payments Initiative and recognized progress by the BRICS Payment Task Force.
- India is pursuing both **bilateral payment-system linkages** and multilateral arrangements such as **Project Nexus**, while continuing to expand the international use of the Unified Payments Interface.
- **Project Nexus** has moved from experimentation towards live implementation through a new legal entity established by the participating central banks in 2025.
- **Project mBridge** reached the minimum viable product stage in 2024 and subsequently became a concluded BIS Innovation Hub project, with participating central banks continuing the initiative independently.
- At the same time, **SWIFT itself is developing tokenised and blockchain-based infrastructure**, indicating that the future of cross-border payments may involve transformation and interoperability rather than the disappearance of SWIFT.

Understanding SWIFT and Its Role in Global Finance:

What is SWIFT?

- **Society for Worldwide Interbank Financial Telecommunication (SWIFT)** is a global cooperative messaging network that enables financial institutions to exchange **standardised and secure financial messages** relating to cross-border transactions.
- SWIFT does **not itself transfer, clear or settle money**; instead, it transmits payment instructions between participating institutions, while the actual movement of funds occurs through banks and other financial infrastructures.
- Established in **1973** and headquartered in Belgium, SWIFT is owned and governed by its member financial institutions and operates under Belgian and European Union legal frameworks.

Why is SWIFT Systemically Important?

- SWIFT connects **more than 11,500 institutions across more than 200 countries and territories**, making it a central component of the international financial messaging architecture.
- Its importance arises from **standardisation, network effects, security, interoperability and global reach**, rather than from directly holding or transferring customers' funds.
- SWIFT supports multiple major currencies and financial transactions, including payments, securities and treasury-related messages, thereby facilitating international trade and financial flows.

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SWIFT and Financial Sanctions:

- Because international banks depend heavily on SWIFT for standardised financial communication, **restricting sanctioned institutions from the network can significantly impede their ability to conduct international transactions.**
- The experience of **Iran and Russia** demonstrated that exclusion from major international financial infrastructure can increase transaction costs, complicate trade settlements and encourage affected countries to develop alternative channels.
- However, **SWIFT exclusion is not equivalent to freezing all international financial activity**, because transactions can potentially use alternative messaging arrangements, correspondent banking channels and domestic payment infrastructures.

Major Alternatives and Complementary Payment Architectures:

National and Regional Interbank Systems:

- **India's Unified Payments Interface:** UPI is an interoperable instant-payment infrastructure that enables real-time retail payments and has increasingly been connected with foreign payment systems.
- The IMF **identified UPI as the world's largest retail fast-payment system by transaction volume**, highlighting the significance of interoperability in expanding digital payments.
- India has pursued bilateral linkages with payment systems in countries including **Singapore, the United Arab Emirates, Nepal, Bhutan and France**, supporting faster cross-border retail payments and remittances.
- UPI's internationalisation demonstrates how a domestic digital public infrastructure can evolve into a component of **cross-border payment connectivity**, although it is not a direct substitute for SWIFT's global financial-messaging function.
- **China's Cross-Border Interbank Payment System:** CIPS facilitates cross-border **renminbi payments and settlement** and provides an important component of China's international financial infrastructure.
- CIPS can reduce dependence on offshore clearing arrangements for renminbi transactions and supports China's objective of increasing the international use of its currency.
- **Russia's System for Transfer of Financial Messages:** SPFS was developed by the **Bank of Russia** as an alternative financial messaging channel and gained importance after Russian financial institutions faced restrictions on access to Western financial infrastructure.
- Its development illustrates how sanctions can incentivise countries to build **domestic financial messaging resilience**.
- **Iran's SEPAM:** SEPAM is Iran's domestic financial messaging system, and its linkage with Russia's SPFS has provided an additional channel for financial communication between participating institutions.

Multilateral and Technology-Based Alternatives:

Project mBridge:

- **Project mBridge** was developed by the BIS Innovation Hub in cooperation with the central banks of China, Hong Kong, Thailand and the United Arab Emirates, with Saudi Arabia joining as a full participant in 2024.
- It explored a **multi-central bank digital currency platform** using distributed ledger technology to enable faster cross-border wholesale payments and settlement.
- The project reached the **minimum viable product stage in 2024**, demonstrating the potential of wholesale CBDCs and distributed-ledger infrastructure for cross-border transactions.
- The BIS subsequently exited the project after its development phase, while emphasizing that mBridge was not created as a BRICS sanctions-evasion mechanism and was not yet mature enough for operational deployment at the time of its exit.

Project Nexus:

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- **Project Nexus** seeks to connect multiple domestic instant payment systems through a **standardised multilateral framework**, allowing participating countries to connect once to a common network rather than establishing separate bilateral connections with every country.
- The founding implementation participants are **India, Indonesia, Malaysia, the Philippines, Singapore and Thailand**, with India's UPI forming an important component of the network.
- In 2025, the participating central banks established **Nexus Global Payments** to move the project towards live implementation, with the BIS handing over the project to the new entity.
- Nexus addresses key weaknesses in cross-border payments, particularly **high costs, slow settlement, limited access and fragmented technical standards**, while supporting interoperability among existing domestic systems.

BRICS Cross-Border Payments Initiative:

- BRICS is exploring **interoperability among domestic payment systems, greater use of local currencies and technological solutions for cross-border settlements** rather than relying exclusively on a single common currency.
- The emerging approach is better understood as a **network of interoperable national systems** than as an immediate replacement for SWIFT.
- Greater use of local currencies could reduce foreign-exchange conversion requirements and dollar dependence in some bilateral transactions, but it also requires adequate liquidity, convertibility, regulatory coordination and trust among participating economies.

Stablecoins and Tokenised Payments:

- **Stablecoins** are digital tokens designed to maintain relatively stable values by being linked to assets such as fiat currencies.
- Their blockchain-based settlement can operate **24/7**, potentially reducing settlement time and facilitating cross-border transactions without relying entirely on traditional correspondent-banking infrastructure.
- However, wider institutional use faces challenges involving **regulation, reserve transparency, financial stability, money laundering risks, consumer protection and monetary sovereignty**.
- Consequently, stablecoins should be viewed as an emerging payment rail rather than an established replacement for conventional international financial infrastructure.

Why are Countries Seeking Alternatives?

Strategic and Economic Drivers:

- **Sanctions vulnerability:** Dependence on internationally centralised financial infrastructure can create strategic vulnerabilities for countries facing sanctions.
- **Dollar dependence:** Greater use of local currencies can potentially reduce dependence on the US dollar for selected bilateral transactions.
- **Payment efficiency:** New digital systems seek to reduce **transaction costs, settlement time and intermediary dependence**.
- **Financial sovereignty:** Domestic and regional infrastructures provide countries with greater control over critical payment infrastructure.
- **Technological transformation:** CBDCs, distributed-ledger technology and interoperable instant-payment systems are creating new possibilities for cross-border settlement.

Challenges in Building a Post-SWIFT Payment Architecture:

Fragmentation and Interoperability:

- Multiple national systems can create **technical, regulatory and operational fragmentation** unless common standards are established.
- Project Nexus illustrates the importance of interoperability because bilateral connections become increasingly difficult to scale as the number of participating countries rises.

Trust, Regulation and Financial Stability:

- Cross-border payment networks require common approaches to **anti-money-laundering measures, know-your-customer requirements, data protection, cybersecurity and sanctions compliance**.
- Differences in national regulations can prevent otherwise technically compatible systems from achieving seamless connectivity.

Network Effects of SWIFT:

- SWIFT possesses a substantial **network-effect advantage**, because thousands of institutions already use common standards and communication protocols.
- Therefore, creating another technically functional system does not automatically create an equally trusted and globally accepted network.

Currency and Liquidity Constraints:

- Local-currency settlement requires adequate **liquidity, convertibility, foreign-exchange markets and trusted settlement mechanisms**.
- Countries may therefore continue using major international currencies even while developing alternative payment infrastructure.

India's Strategic Significance:

India as a Digital Payments Powerhouse:

- India has developed **UPI as a large-scale interoperable digital public infrastructure**, providing a potential foundation for international payment connectivity.
- Its participation in **Project Nexus** places India within a multilateral effort to connect domestic instant-payment systems rather than merely creating isolated bilateral corridors.
- India can therefore pursue a dual strategy: strengthening **domestic payment sovereignty** while integrating with global and regional payment networks.

Broader Geoeconomic Implications:

- India's approach demonstrates that reducing dependence on a dominant payment infrastructure does not necessarily require abandoning existing global systems.
- **Interoperability, diversification and multiple payment corridors** can provide resilience while preserving access to global financial markets.
- The emerging architecture is therefore likely to be **multi-layered**, combining SWIFT messaging, domestic instant-payment systems, correspondent banking, CBDCs, tokenised assets and regional payment linkages.

Way Forward:

- Promote **interoperable international payment standards** and common technical protocols.
- Strengthen **cybersecurity, data protection, anti-money-laundering and sanctions-compliance frameworks** across interconnected payment systems.
- Expand multilateral platforms such as **Project Nexus** while retaining strong central-bank oversight.

- Encourage responsible experimentation with **wholesale CBDCs and tokenised settlement assets** where they improve efficiency without undermining financial stability.
- Pursue greater **local-currency settlement** where economically viable while maintaining adequate foreign-exchange liquidity.
- Treat the objective as **diversification and resilience of global payments**, rather than assuming that one new platform will completely replace SWIFT.

Conclusion:

The evolution of cross-border payments reflects a broader transition from a highly centralised financial messaging architecture towards a **more diversified, interoperable and technologically plural system**. SWIFT remains deeply embedded in global finance, while UPI, CIPS, SPFS, Project Nexus, mBridge, CBDC platforms and other initiatives are expanding alternative channels for specific payment and settlement functions. The emerging challenge is not simply to create another SWIFT, but to establish **secure, interoperable, cost-efficient and resilient payment connectivity** without compromising financial stability and regulatory oversight.

Value Addition for UPSC:

Key Concepts:

- **SWIFT:** Global financial messaging network; it does not itself settle funds.
- **UPI:** India's interoperable instant-payment infrastructure with growing international linkages.
- **CIPS:** China's cross-border renminbi payment and settlement infrastructure.
- **SPFS:** Russia's alternative financial messaging system.
- **mBridge:** Multi-CBDC platform using distributed-ledger technology for wholesale cross-border payments.
- **Project Nexus:** Multilateral framework for connecting domestic instant-payment systems.
- **BRICS Cross-Border Payments Initiative:** Focuses on payment-system interoperability, local currencies and financial innovation.
- **Stablecoins:** Blockchain-based digital tokens designed to maintain stable value and potentially facilitate continuous cross-border settlement.

UPSC GS Linkages:

- **GS-II:** International institutions, India's role in global governance, BRICS and multilateral cooperation.
- **GS-III:** Digital economy, financial infrastructure, fintech, cybersecurity, monetary sovereignty and economic sanctions.
- **International Relations: De-dollarisation, strategic autonomy, geoeconomics and Global South cooperation.**
- **Essay:** The evolution of globalisation from physical trade connectivity towards **digital financial interoperability and resilient economic infrastructure**.