

How BRICS is challenging SWIFT | Explained

The BRICS grouping's motivation to challenge Western financial dominance is driven by a desire for greater financial sovereignty and reduced exposure to U.S. sanctions. However, navigating the maze of individual countries' ambitions with respect to their own payment systems could dent early progress towards this goal

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World leaders attend the BRICS summit in Kazan, Russia on October 23, 2024. | Photo Credit: REUTERS

For over a decade, the BRICS have taken a series of steps showing their increasing determination to reduce dependence on the dollar-dominated international financial system. The Fortaleza Summit in 2014 marked the beginning of this process with the grouping taking the initiative of setting up financial institutions to meet not only their needs but also of other developing countries. The New

Development Bank, the BRICS' development bank, and the Contingent Reserve Arrangement, their lender of last resort, was the first time developing countries had established financial institutions, until then, the exclusive preserve of advanced countries.

The following year, after the imposition of Western sanctions on Russia for deployment of its troops in Crimea, the BRICS grouping decided to explore the potential of expanding the use of their national currencies in inter se transactions. In 2017, the grouping agreed to communicate closely to enhance currency cooperation, including through currency swap, local currency settlement, and local currency direct investment. At the turn of the decade, the grouping agreed to set up the BRICS Payments Task Force to develop systems to facilitate transactions between member countries. This step seemed to come together at the Kazan Summit in 2024 wherein BRICS leaders underscored the importance of “strengthening of correspondent banking networks within BRICS and enabling settlements in local currencies in line with BRICS Cross-Border Payments Initiative”.

Challenging status quo

The BRICS Cross-Border Payments Initiative, or BRICS Pay is the most concrete step that the grouping has taken to explore the possibility of reducing their dependence on the “SWIFT network”, the messaging system used by over 11,000 banks and financial institutions worldwide for international money transfers, and which is controlled by the G-10 central banks. BRICS' motivation to challenge Western financial dominance is driven by a desire for greater financial sovereignty and reduced exposure to U.S. sanctions. The decision to include Iran in the grouping in 2024, a country that has long faced similar sanctions, lent further relevance to this objective. However, the development that attracted most attention was the symbolic step taken by the BRICS during the Kazan summit to unveil a BRICS banknote. This symbolic move ignited discussions about the intent of emerging economies to move away from the dominance of the dollar. This was especially so since it raised the hackles of the then President-elect Donald Trump who threatened to impose 100% tariffs on members of the grouping if they were to “create a new BRICS currency, [or] back any other currency to replace the mighty U.S. Dollar”.

Building BRICS Pay

Amid these developments, the possibility that holds out maximum promise is BRICS Pay. This sentiment was reflected in the grouping's Rio Summit Declaration earlier in the year wherein they “agreed to continue the discussion on the BRICS Cross-Border Payments

Initiative, and [acknowledged] the progress made by the BRICS Payment Task Force (BPTF) in identifying possible pathways to support the continuation of discussions on the potential for greater interoperability of BRICS payment systems”.

Clearly, BRICS is in a good position to develop a new financial network. Besides the strong motivation to bypass the dollar-dominated system and avoid Western sanctions, these countries have the necessary infrastructure to put in place BRICS Pay. The Russian System for Transfer of Financial Messages (SPFS), the Chinese Cross-Border Interbank Payment System (CIPS), India's Unified Payments Interface (UPI) and Brazil's Pix system are well-equipped to support the proposed network. Of course, the interoperability of these systems is essential for creating a cohesive BRICS-led payment infrastructure that can rival SWIFT in scope and reliability, albeit within a more limited geographic and political bloc.

A prototype demonstration of BRICS Pay was unveiled in Moscow in October 2024, marking an important landmark in the project's progress. Expectedly, Russia is most enthusiastic about this project, but the remaining original BRICS nations seem to be more circumspect because of interests in promoting their own platforms globally. India's UPI is accepted in nine countries, but is yet to find acceptance within BRICS. China's increasing clout in the international financial system and the prominence its currency (the RMB) has received after it was included in the basket of currencies making up the Special Drawing Right has increased the acceptance of CIPS, which currently has participants in more than 120 countries, including all BRICS members with the exception of India. Brazil's Pix system, introduced in 2020 and operated by the country's central bank, is used across several Latin American countries. While navigating through the maze of ambitions of individual countries to promote their own payment systems could dent the progress towards an early realisation of BRICS Pay, Mr. Trump's aggressive intent, particularly against members of the grouping, could force them into a political understanding towards launching their payment system, sooner than expected.

Currently, the idea of a BRICS currency seems improbable for several reasons. One, individual countries are promoting the use of their national currencies in their trade transactions, and China's ambitions in this regard far exceeds those of other countries. Secondly, development of common currencies requires considerable macroeconomic coordination — the evolution of the Euro should be a lesson for the BRICS nations.

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