



# W BANKING H EXODUS

*Research Report 2024-2025*  
*The Economics Society*  
*Shri Ram College of Commerce*



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# ABBREVIATIONS

EDI- Electronic Data Interchange

Telex- Teleprinter Exchange

PTT- Postal, Telephone, and Telegraph

MARTI- Machine Readable Telegraphic Input

SWIFT- Society for Worldwide Interbank Financial Telecommunication

XML- Extensible Markup Language

OPC- Operating Centre

PKI- Public Key Infrastructure

GPI- Global Payment Innovation

DLT - Distributed Ledger Technology

CSCF- Customer Security Controls Framework

FSB- Financial Stability Board

EBICS- Electronic Banking Internet Communication Standard

MT- Message Type

MX- Message XML

SPFS- System for Transfer of Financial Messages

# ABBREVIATIONS

CIPS- Cross-Border Interbank Payment System

INSTEX- Instrument in Support of Trade Exchanges

SEPA- Single Euro Payments Area

SCT- SEPA Credit Transfer

SDD- SEPA Direct Debit

TARGET2- Trans-European Automated Real-time Gross Settlement Express Transfer System

TIPS- TARGET Instant Payment Settlement

UPI- Unified Payments Interface

KYC- Know Your Customer

AML- Anti-Money Laundering

BRICS- Brazil, Russia, India, China, and South Africa

SFMS- Structured Financial Messaging System

CBDC- Central Bank Digital Currency



# Introduction and Research Framework

We all make payments in today's day and age, but these payments are not so direct; They are routed through a system. The most popular one is Society for Worldwide Interbank Financial Telecommunication (SWIFT), established in 1973 to ensure seamless, secure and efficient payments. Like WhatsApp is for casual chatting, SWIFT is for payments. It does not serve as a bank, holding or transferring securities; it is only a messaging service.

The entire global economy today depends on SWIFT for undertaking international trade and economic activity. With growing membership and interconnectedness, however, the dependence is also a growing concern.

While SWIFT has evolved, it faces many challenges of its own. The network must manage increasing cybersecurity risks and regulatory oversight as issues related to financial crime and compliance intensify. Many countries have also been on the receiving end of sanctions and abuse of power by those who control SWIFT. It is due to these reasons that CIPS, SPFS, and Blockchain are being looked at as possible alternatives.

This report discusses the evolution of SWIFT, its challenges, alternatives, look over some interesting case studies. Furthermore, it evaluates SWIFT's influence on the future of global finance and its ability to uphold its status as the foundation of international payments.

## Overview

To understand the concept well, firstly, we discussed the course of international trade, which, by its evolution, led to the need for a system to facilitate the process of cross-border payments. All of this provided the background for the foundation of the first system for financial communication, Telex.

Further to understand why, despite having Telex, there existed a vacuum in financial, cross-border communication, we analysed the various shortcomings of the system.

This gave an overview of the multiple shortcomings of the system at that time and helped identify the needs and expectations for a new communication system. Furthermore, we also analyse the shortcomings of individual efforts at rectification of the issues to understand how a unipolar/hegemony-based system for communication could not have worked out for the banking industry.

This leads us to understand the background behind SWIFT's foundation and its key aspects, along with its initial years and gradual adoption. We discuss the changes that SWIFT has undergone since its inception to recent times, particularly the changes in technology, structure and governance.

Then, to understand the reasons for deviation from SWIFT and adoption of its alternatives, we discuss the various issues related to SWIFT. Issues related to efficiency, transparency, security risks, correspondent banking and the effect of geopolitics on the system were discussed.

After analysing its shortcomings, alternative communication systems are discussed. These include Regional Payment Systems, National Payment Systems, Blockchain-Based Systems, Central Bank Digital Currencies and other alternatives (SEPA/BRICS, etc). For each of the systems, we underline how they address problems related to the current system and their shortcomings.

Finally, we examine SWIFT's key challenge: maintaining its role as a neutral facilitator of global financial transactions. Despite its claim of neutrality, SWIFT often faces criticism for being influenced by geopolitical pressures, which undermines its impartiality. This raises concerns about its ability to fairly serve the global economy, as political factors sometimes affect which banks or countries can access the network, challenging SWIFT's foundational purpose as an unbiased financial messaging system.

## Purpose of Writing

The purpose of this research is to analyse the SWIFT payment system, its role in international finance, and its issues in the fast-paced digital and globalised era. SWIFT has been the leading infrastructure for cross-border transactions for decades, with a secure and standardised messaging network among financial institutions. But despite its extensive use, SWIFT does have some significant drawbacks in the form of high cost of transactions, long settlement periods, and geopolitical risks that have called for alternative payment systems.

Among the major purposes of this research is understanding how SWIFT evolved, organisational aims, and economic purposes, emphasising how it works towards promoting world trade and investment. To do so, we must also consider inefficiencies and shortcomings that challenged SWIFT as an instrument for addressing current financial demands. Difficulties like sluggish speed of transaction, cost of processing being high, cybersecurity risk, and growing regulatory requirements have led the governments and banks to seek low-cost and high-speed alternatives.

As alternatives, newer options have been on the rise, unveiling improved mechanisms of cross-border payments. Blockchain payment systems, real-time settlement networks, and Central Bank Digital Currencies (CBDCs) are frontier technologies with emerging channels of money transfers and demonstrating improved speed, transparency, and security. This study evaluates whether the said technologies are good substitutes or complements for SWIFT and how the future of international payments can be learned from them.

Finally, the paper discusses whether SWIFT can evolve to remain ahead of the curve in the midst of growing competition. Despite initiatives that made transactions faster and more transparent, the international financial system remains inclined towards local and decentralised payment systems. Within this study, the potential of a hybrid financial infrastructure with the coexistence of alternative infrastructures and SWIFT.

## Methodology

Beginning the research, first, we provide the background which necessitated the inception of a worldwide communication system for financial transactions. After that, to understand why SWIFT was founded, we need to understand the Telex system and its various shortcomings. This provides the basis for the consensus that was built amongst the banking industry for a standardised system. We also discuss the unilateral measures taken by prominent banking institutions to fill the gaps in the existing system and how they were unsuccessful in addressing the issues faced, leading to consensus throughout the banking industry on the necessity of a uniform, standardised body.

After this, we discuss the timeline of SWIFT's creation. This includes information about its adoption and growth over the decades. We also trace the major changes that took place in its structure, including technology, compliance and governance.

Further, to proceed with the research topic, we discuss the various shortcomings of SWIFT to give reasoning behind the global shift to alternative systems. This includes information on the nature of the problem, how it stems from the structure of the system and how it affects the overall process.

Then, stemming from the need to address these problems, we discuss the alternatives that have been adopted to address the shortcomings of the system. We analyse these alternatives, how they address existing issues and their difficulties and shortcomings.

Then we address the foremost issue when it comes to SWIFT's position as a global standardised messaging system, i.e. its neutrality as a platform. We address the various facets of this problem and how it hampers its reputation as a neutral body, capable of serving as a worldwide communication platform.





# **GENESIS AND EVOLUTION**

*SWIFT*

# Genesis and Evolution of SWIFT

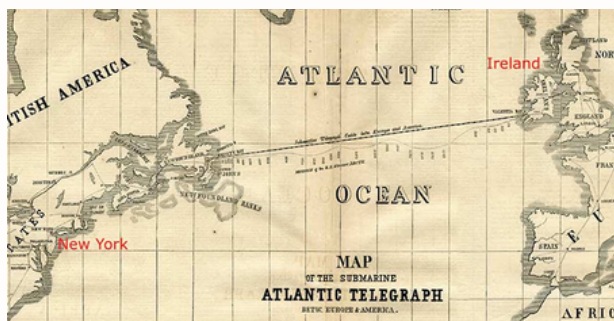
## The Landscape of Global Banking Pre-SWIFT

Telecommunications and network innovations have been used in banking since the late 1840s. Initially, it took the form of the electrical telegraph, which helped in faster communications between various markets and reduced differences in securities prices between remote stock exchanges in the United States. National networks by the end of the nineteenth century had evolved into a global standard. This resulted in every financial centre of the world being connected and facilitating information flow among them. The nature of the conversation was dependent on individual banks that carried out international transactions with other banks. The introduction of the transatlantic telegraph cable was a breakthrough for communications in this sector, expediting the process of financial transactions across the Atlantic. The first attempt was made in 1858 between Ireland and Newfoundland, but the connections were very poor due to a lack of adequate technology. The first official transatlantic cable was placed between New York and London, becoming a cornerstone in interbank communications globally. This laid the foundation for the subsequent development of more sophisticated banking communication systems which helped in facilitating cross-border transactions.

Innovations in the field, such as message routing, switched-network technology, use of typewriter keyboards gave way to the first teleprinter exchange (or Telex). The Second World War led to the creation of automatic dial subscriber-to-subscriber services in Germany. Soon after, many countries such as the USA, UK, France and Canada. It soon replaced telegraphy as the international standard for business subscribers, and by 1957, it connected 19 European and 18 Latin American, African and trans-Pacific countries with the US and Canada, giving access to more than 30,000 separate subscribers. The participant base grew fast, and it is estimated that in the late 1970s, there were more than one million users worldwide. Better computerisation helped in expanding its base rapidly.

## Need for Standardisation and Ensuing Consensus

With the increasing globalisation of trade, large multinational banks needed a better computerised communication system. It was crucial for operations globally and helped in facilitating international business. This expansion became a necessity in order to meet the needs of the wide clientele served by these multinational banks in distant economies.



*First Attempted Undersea Cable*

To meet mutual needs, the cooperation between multinational firms and Transnational banks led to the development of several electronic data interchange (EDI) systems that would integrate financial processes offered by banking operations. Banks such as Citibank N.A., Bank of America, and Chase Manhattan in the US, and Barclays, Lloyds, and Midland Bank in Europe were some of the first to venture into the expansion of global operations. The employment of public networks was rejected mainly because their volume-driven rates were regarded as a potential constraint on future growth in banking activity.



*Teletype teleprinters in England during World War II*

This effort was mainly led by large private banks. Therefore, they shared the role of developing private networks using circuits and satellite facilities leased from PTT (Postal, Telephone, and Telegraph) authorities. This whole endeavour aimed to develop a system that would ensure secure transmissions. Note that in its development, there was no uniform system established for financial transmissions. Many in-house standards of different banks needed to be accommodated in each bank for international financial transactions. Some of the earliest efforts for setting up a proprietary standard on international payment were Citibank's IT centre's MARTI (Machine Readable Telegraphic Input). Banks hesitated to rely on MARTI, in fear of giving Citi undue influence, but the need for a system to facilitate their operations remained, resulting in multiple systems designed by various banks. The lack of messaging industry standards caused operational inefficiency as the different systems did not communicate efficiently with each other. The need for a common messaging language or standard was recognised by all key players.

## Challenges towards Standardisation

The main goal of this common system was to process vast amounts of international payments. Another goal was to reduce operational risks and errors. Overall, the increase in efficiency was targeted. Telex had major disadvantages in terms of cost, time required, labour, and lastly uniformity (Telex allowed messages in multiple formats). The consensus regarding the need for a common messaging system existed, but the way to implement it always remained unclear. It would also require cooperation from major banks. Competing interests, along with mutual benefits, needed to be balanced to achieve the end goal. In the late 1960s, the Société Financière Européenne (SFE) was formed. It was composed of 6 major banks based in Luxembourg and Paris, together aimed at addressing the need for a common standard. By 1971, a study was conducted to affirm its feasibility, the result of which was reached by 1972. Based on these findings, user groups were set up in countries to gain feedback from member companies. Deliberation also took place on standards related to messaging, security and network technology.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) was founded on 3 May 1973 as a non-profit cooperative organisation, consisting of 239 banks from 15 countries. As the financial rivalry between London and New York was persistent, Brussels was chosen as its headquarters.

## The Evolution of SWIFT

SWIFT was established to aid its users in facilitating global finance and trade. When SWIFT became operational in 1977, 518 organisations from 22 nations were a part of SWIFT's messaging services. After a year of its inception, SWIFT had handled a total of 10 million messages.

As multinational banks expanded globally and engaged in international business, they needed a secure and efficient way to communicate across borders. To meet this demand, a computerised messaging system was essential. SWIFT emerged as a solution, offering standardised and secure communication for financial transactions. However, during its early implementation, not all banks had adopted SWIFT.

Many still relied on older systems like Telex for sending and receiving messages. To bridge this gap, SWIFT was designed to be compatible with existing manual processes, including Telex. This compatibility allowed banks to create a single outgoing message, and the system would then determine whether to send it via SWIFT or Telex, depending on the recipient's system.

This flexibility was critical in encouraging adoption, as it ensured continuity and minimised disruption during the transition to newer technology. It also enabled early SWIFT users to maintain communication with non-SWIFT banks, promoting smoother international operations. By accommodating both old and new systems, SWIFT played a key role in modernising global banking communication without forcing an immediate and total overhaul of existing infrastructure. This thoughtful integration helped accelerate the global shift to secure, automated financial messaging.



By February 19, 1979, the number of messages transmitted via the SWIFT network had surpassed 120,000 each day. The SWIFT members, i.e. banks, institutions, countries, etc, enjoyed reduced communication expenditure, higher volumes, better security in transactions, standardisation and faster messaging. During the 1980s, SWIFT experienced expansion and growth as the number of users, countries, and traffic through the system increased. In 1980, live operations commenced in Hong Kong and Singapore, and by 1983, over 1,000 users from 52 nations were utilising SWIFT. It handled 46.9 million messages during that year alone. Swift enhanced its coordinating role by arranging several forums to tackle standards, business, and operational challenges. The establishment of the initial central banks in 1983 strengthened SWIFT's role as the common connector among all participants in the financial sector. In 1987, members of SWIFT came together and voted to allow the user base to be expanded to clearing institutions, exchanges and central depositories. Due to this, even securities were being carried alongside payment messages on the SWIFT network. On the other hand, to enhance the primary messaging service, a customer support team was formed in 1988. By 1989, SWIFT was connected to 79 countries and processed 296 million messages that year.

During the 1990s, SWIFT experienced technological progress and transformation. In 1992, the membership of SWIFT had risen to 3,500 members, and SWIFT's Interbank File Transfer became operational. In 1993, the UNIX interface system was introduced. In 1996, Swift handled more than 3 million messages in just one day. SWIFT works across international financial messaging and keeps evolving to cater to the ever-increasing demands of a dynamic financial environment. The trip, which started back in the 1970s, has been one with technological advancement, regulatory mechanisms, and strategic decisions that solidified its position as a vital infrastructure within the global banking system.

## Early Evolution and Technological Advancements

Up until the late 1990s, FIN, based on the Telex protocol, was just good enough for information exchange on financial instruments of its time. But with the upcoming very complex financial instruments like swaps and equity derivatives, this Telex language seemed to remain incapable of handling contracts. The basic limitation was that the presentation layer and the application layer could not do anything with metadata, which is extra information about the data itself, rather than simply describing the content.

For this reason, SWIFT went for an XML-based system in 1999, marking one large leap. Extensible Markup Language (XML) is a markup language and file format for storing, transmitting, and reconstructing data. It defines a set of rules for encoding documents in a format that is both human-readable and machine-readable. XML is a flexible and highly accepted markup language with free-hand support for polymorphic data structures. This way, data could be transferred without having the software installed already. It has found a number of applications in other arenas, which are automotive, healthcare, and telecommunications, to name but a few. It became an essential requirement for handling metadata. The switch would ultimately enable SWIFT to deal with a wider variety of instruments, including those that required complex data handling in equities.

## Adoption of ISO 7775 and Expanding Global Reach

The SWIFT system, further enhanced by the adoption of ISO 7775 standards, expanded capabilities in the securities arena. The new standards reduced transaction costs and increased automation in the financial sector. By 1999, SWIFT had connected 189 countries and processed over 1.06 billion messages. As the internet was gaining popularity and newer technologies were coming up, pressure was mounting on SWIFT to augment its security measures, more so with the Y2K milestone looming on the horizon.



## Strengthening Security and Governance in the 2000s

The attacks of September 11, 2001, profoundly affected the landscape of global finance. It had caused heavy turmoil in the financial market, with both stock markets crashing and insurance claims skyrocketing. The global regulations on money laundering and terrorist financing, reshaping financial systems with them. With the U.S. authorities' subpoenas to assist in the fight against terrorism, SWIFT was compelled to comply and deliver financial information pertinent to the case. This gave rise to heavy scrutiny from EU regulators of SWIFT's data-sharing activities. In reaction to these developments, SWIFT carried out a major overhaul of its operational structure. A new OPC (operating centre) was set up for the processing and storage of data in compliance with the EU data protection legislation. Flexible infrastructure by SWIFT provided resilience by storing transaction data in various places, including Switzerland, the Netherlands, and outside jurisdictions. Also, with mounting cybersecurity issues, SWIFT initiated the Distributed Architecture program in the early 2000s. The program aimed to enhance the security and resilience of its network by putting in a secure Public Key Infrastructure (PKI) for SWIFTNet. SWIFTNet is the IP-based messaging platform and network infrastructure used by SWIFT (Society for Worldwide Interbank Financial Telecommunication) to facilitate secure and reliable communication of financial messages between banks and financial institutions. It presented stronger encryption for financial transactions. The inauguration of the new operating center in Switzerland in 2014 stood out as a major achievement in the completion of this program, adding to the increased reliability of the network.

As globalisation availed its charms to financial markets, so did the SWIFT acquire greater legitimacy for its very purpose of cross-border transaction facilitation. SWIFT's survival then came to depend on a delicate balance between security and innovation. To shed off the inertia that, by some, was attributed to it, SWIFT inaugurated Innotribe for partnership activities with fintechs in exploring emerging technologies such as AI, blockchain, and other fintechs.

Nonetheless, it was becoming clear that a standard for global communication had to be developed, for common financial messaging would be needed. Therefore, the setting of ISO 20022 open standards for financial messaging would be pivotal. Such standardisation was needed for unhindered and uniform cross-border exchange of financial information. By 2025, it is forecasted that more than 80% of high-value transactions will adopt ISO 20022, hence emplacing the primacy of SWIFT in its worldwide acceptance. SWIFT worked in the drafting of OFISO 20022 specification in the year 2000, became its Registration Authority by 2004, all while continuing to have a say in the management of ISO 20022.

## Transitioning to the Digital Era: GPI, Blockchain, and Real-Time Payments

With the digitalisation of the financial industry through platforms like Apple Pay and PayPal and fintechs such as Ripple, SWIFT found itself at a turning point. With blockchain and other technologies being used by these disruptors, it created further resistance to innovation for SWIFT. In response, in 2016, SWIFT began to offer the Global Payment Innovation (GPI) rollout, which would integrate DLT and blockchain and improve speed, transparency, and security for cross-border payments.

Features introduced by GPI were ground-breaking: these included a unique reference number assigned to each payment message, enabling real-time tracking of payments. In December 2016, the first GPI phase was completed, with the second phase launched in April 2017, facilitating more transparent and faster international payments.

Further leveraging these advancements, in 2021, SWIFT introduced SWIFT Go as a low-value payment solution for small cross-border payments that need to take place quickly and securely. SWIFT's commitment to real-time payment and digitalisation is exemplified in the introduction of its November 2022 transaction management platform, which indicates a transition away from serial messaging



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## A Centralised Platform for the Future

SWIFT has, over the years, adapted and improved to stay relevant in global financial cross-border markets. Over the years, to improve its usability, it has also tried to platformise itself, i.e. curating an integrated and automated system. Attempts were made to enable its structure to handle big data, which would help in better automation and risk management.



*Recent Logo*

In efforts to streamline European payments, SWIFT has also partnered with systems SEPA and TARGET2 and has supported real-time systems in Australia and India. By 2020, 90% of the payments were delivered within 24 hours, 40% in 30 minutes. To address issues related to transparency, upfront fees and tracking services were introduced. Lastly, to aid interbank collaboration and make the system for cross-border payments more efficient, its GPI system was further improved.

## Conclusion

To this day, SWIFT continues to be a vital organ of the global financial system. Its messaging services are responsible for affecting over 90 per cent of cross-border transactions, and with nearly \$140 trillion or 152 per cent of global GDP, flowing through its networks annually. The organisation's resilience and flexibility have seen it survive through various technological changes, regulatory developments, and geopolitical strife, all of which orchestrate the smooth operation of the global economy. SWIFT's evolution continues, and its ability to absorb new technologies, operationalise compliance, or create pathways for innovations will remain a necessary resource to fulfil the needs of the changing financial landscape. In harnessing new technology in the form of blockchain, DLT, or real-time payments, there is a dual effect where SWIFT is coping with disruption while also being in the leadership position for the future of global financial messaging and payments.







# **DYNAMICS AND PROBLEMS**

*SWIFT*

# Challenges of SWIFT

Digitisation has exponentially increased the ease with which transactions can take place. But due to the ease with which information related to these payments is available, the process is more prone to the dangers of theft. The ease of access has also translated into easy penetration into sensitive data, leading to security threats and hazards. Innovations that have further simplified the process of financial payments have further exacerbated the risks to security, leading countries and private entities across the globe to invest large amounts of capital into cybersecurity and evolving legislation around the same.

The cyber attack on the Central Bank of Bangladesh in February 2016 resulted in the loss of around \$100 million from its account held in the Federal Reserve Bank of New York. If executed in its entirety, the hackers would have gained a colossal sum of around a billion dollars. They compromised the bank's network and navigated the SWIFT gateway to send 35 fraudulent fund transfer requests on behalf of the bank.

These threats not only come with their share of financial losses but also greater financial disruption, which may stem from people losing trust in financial systems. In February 2020, Christine Lagarde, president of the European Central Bank and former head of the International Monetary Fund, warned that a cyberattack could trigger a serious financial crisis. In April 2020, the Financial Stability Board (FSB) warned that "a major cyber incident, if not properly contained, could seriously disrupt financial systems, including critical financial infrastructure, leading to broader financial stability implications."

SWIFT CEO Gottfried Leibbrandt told the conference in Brussels that in the event leading to the theft from Bangladesh Bank, SWIFT's network, software and core messaging services were not compromised. This does not come as a reassurance, as it demonstrates that hackers need not attack core SWIFT systems. However, by exploiting the weakest links in the various systems attached to the SWIFT system, an attack of such a significant scale can be pulled off.

In response, SWIFT has issued its Customer Security Controls Framework (CSCF). It includes security control guidelines that all affiliated institutions must follow. It will serve as guidelines to all associated financial institutions on how to safeguard the overall system, detect and respond to potential threats, secure payment environments and understand and limit access to internal systems. Every year, all members have to agree to adhere to the guidelines. All institutions must attest their compliance through an external audit conducted by a third party to ensure that all required conditions are met. Zero Trust Architecture is adopted that ensures that no device, user or system is automatically trusted without verification.

In May 2017, SWIFT launched the SWIFT Information Sharing and Analysis Centre portal that facilitates the community to defend itself against possible future attacks. The Security Operations Centre ensures rapid and real-time effective response to security alerts, with a 24/7 security monitoring capability. These threats not only come with their share of financial losses but also greater financial disruption, which may stem from people losing trust in financial systems.

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## Regulatory Compliance

In response to security threats, SWIFT, with its multiple initiatives such as CSCF, has tried to establish a security baseline for all its affiliated institutions so that none of the institutions can serve as a possible link for malware or system hacking entry. All institutions need to comply with their guidelines and attest their consent yearly to ensure the same. But even with its efforts, in reality, not all institutions meet the standards completely, further breaching the entire system by association and making them vulnerable to possible threats.

These issues primarily arise from institutions failing to keep up with frequently changing guidelines and differences across jurisdictions. That, in addition to vast amounts of cross-border payments processed, makes the process even more complex for institutions to navigate.

Compliance issues often arise from problems related to data. This data is related to transactions, customer identities, risk assessment and fraud detection. Given the scale at which transactions are taking place, coupled with the fact that there is no dedicated software for them and the lack of centralised data storage for this in most institutions, the process becomes highly complex to navigate.

The regulatory standards also change rapidly over time, making institutions pass the operational hurdles multiple times. Lack of regulatory compliance is hazardous as it makes the entire SWIFT network prone to cybersecurity risks, leading to breaches of data and potential financial losses. The due diligence that goes into ensuring compliance also poses an operational complication, intensive in terms of cost, time and effort.

## Lack of Transparency

Another challenge regarding SWIFT is its lack of transparency regarding the fees that customers are being charged. As financial institutions can charge according to their discretion, the charges across institutions are not uniform but vary. Since the costs are not disclosed till the end of transactions, it becomes inconvenient for customers who can't predict the cost of these payments. When intermediary banks are involved, the difference becomes more pronounced. Customers can also not see the status of their payment during the process, which takes up to 1-5 days to settle, leaving them to depend on customer service representatives in case of disruptions with the payment process. Lack of transparency makes the operational costs high and unpredictable, adding to the complexities that result from SWIFT.

For corporations, the overall effects of transparency are alleviated. Delays in payment settlement mean that they can face liquidity issues, high borrowing costs in cases where companies have to take loans to fulfil payment requirements, leading to overall problems related to financial planning, making the whole process unpredictable and volatile. Considerable risks are also associated with firms' reputations. Timely payments often serve as a basis for forming good business relationships and are seen as a mark of professional behaviour. However, due to the unpredictable nature of payments and the lack of knowledge regarding them, payments may be delayed, further hampering relationships and reputations. Lastly, reconciliation, i.e., the process of matching invoices with transactions, becomes difficult to achieve. The difference in expected and actual payments caused by a lack of transparency leads to accounting errors and discrepancies in financial records, which can lead to financial misreporting and compliance issues.

## Cost and Speed

Usually, in the case of direct banking, traffic (volume of transactions taking place in a given period) is free of cost. The opposite is the case in SWIFT, where traffic and connectivity are charged to earn income. Substantial costs are incurred in the form of membership fees, transaction fees, and meeting compliance requirements. For instance, sending \$50,000 from the U.S. to an Indian account could incur several fees: ₹10,000 for reception charges, ₹15,000 for intermediary banks, and \$125 taken out by the sender's bank. These charges accumulate, lowering the total amount received and raising the overall expense of the transaction.

Differences in bank sizes, regional disparities and speed of transfer also affect the cost. For example, large banks tend to charge higher and transfers through developed countries are costlier due to a high number of intermediaries.

Now, the speed of transactions also comes up as a challenge under SWIFT. Firstly, express transfers might cost more than double the standard transfers, and unless high volumes are transacted, this becomes unrealistic for the common consumer who needs their money quickly. Higher tracing fees, along with interest charges, are also incurred when payments are delayed. For a business, this poses challenges like reduced goodwill, disrupted cash flows, negative client relationships and defaulting charges.

## Resistance to Change

While SWIFT leads to better security and ease of transactions, it is still optional for corporates. The technicalities are many, and perceived benefits are not as plentiful. Automated file transfers, regulatory compliance, various rules and high costs lead to resistance. There is no lack of alternatives like EBICS (Electronic Banking Internet Communication Standard), which is well accepted in Germany and France. Big banks also use their web-based connection, which is easier and faster than SWIFT.

Small businesses tend to avoid shifting to SWIFT solely because of the time and investment required. Usage of third-party applications is generally required, due to which smaller entities shy away from SWIFT.

There was also an attempt to migrate from MT to the MX ISO 20022 standard, which was opposed by big banks. SWIFT is now co-existing with both MT and MX formats supported, but the dual system operation will end in November 2025.

## Geopolitical Concerns

While SWIFT does not process the transactions in the global banking system, it now encompasses over 11,000 institutions and 200 countries. This puts it at the centre stage of the global financial ecosystem. Any change to SWIFT brings a change to all its members. Due to this, the threat of cutting a member country off this system through sanctions gives major leverage to certain countries.

No particular country holds decision-making power in the SWIFT organisation; however, it is run by the central banks of the G10 nations and follows the orders of the European Union (EU). In 2012, the EU imposed sanctions on Iran and its banks as part of sanctions over its nuclear programme, and SWIFT complied with such sanctions. The SWIFT sanctions significantly hindered international trade as foreign countries that wished to trade with Iran had to facilitate payment through other complex services. Its oil exports shrank by almost half and lost 30%, a sizable chunk of their foreign trade as a result.

A decade later, in 2022, seven Russian banks were removed from SWIFT, including Bank Otkritie, Novikombank, Promsvyazbank, Bank Rossiya, Sovcombank, Vnesheconombank (VEB) and VTB Bank. Cutting their access to the smooth communication network disrupts their receipts from the exports of agricultural goods and energy. Banks in Russia now have to deal among themselves in a slow and inefficient network, ultimately leading to the Russian government's loss.

This underlines the alarming dependence of the world on SWIFT and the power the EU and the West hold over it. A dispute with them may well turn into a dispute with the world simply because one doesn't comply with their hegemony. Hence, alternatives are already being built by countries like China and Russia, and a shift from SWIFT should ideally take place in order to make the global banking system more fair and just.

## Impact of Correspondent Banking

Correspondent banking refers to the system by which banks can provide services in countries and regions where they don't have a working base or appropriate licenses with the help of another (correspondent) bank. It expedites the process by which banks can permeate international markets, offering them an entry point without any direct presence.

SWIFT serves as a framework for communication between banks in cross-border transactions. It does not directly deal with transactions but facilitates communication between financial institutions in a uniform manner. It does not handle transactions directly but facilitates them by transmitting instructions related to their execution. In correspondent banking, the transaction takes place in two entirely separate parts. These include transaction information (using SWIFT) and settlement (money flow). SWIFT plays a direct role in the former as the messages and directives are sent through it, and an indirect role in the latter as the information received from SWIFT serves as directives for the transactions. Although the process has been industry standard, it creates a high dependency upon SWIFT, which pronounces inefficiencies of SWIFT as mentioned earlier. Furthermore, international legislation and compliance play a huge role in granting financial institutions and, in essence, people access to global financial networks. This high reliance on SWIFT for payments in correspondent banking makes it an easily accessible geopolitical tool and bargaining chip to those in a dominant position of power. Countries against whom sanctions need to be passed can easily be removed from the network, effectively debarring them from the larger global financial market, halting their essential cross-border payments and bringing their economies to a halt. Given the US and EU influence, with its headquarters being in a European city (Brussels), there have been multiple occasions in the history of SWIFT when they have used access to SWIFT as a sanction. Eg. The U.S. and EU removed Iranian banks from SWIFT in 2012 and 2018, isolating Iran from global trade.

In 2022, Russian banks were banned from SWIFT as part of sanctions following the Ukraine invasion, severely impacting Russia's financial sector. Not only has it been used as a sanction, but its information has also been accessed by countries, breaching data privacy and confidentiality. These events can be used to conclude that SWIFT has also evolved as a possible political tool, often to the disadvantage of the countries that find themselves at odds with the dominant nations in the network.

Given the geopolitical tensions and issues that users face with SWIFT, there have been replacements for the framework proposed by countries and private entities worldwide. Famous examples include Russia's SPFS (System for Transfer of Financial Messages), CIPS (Cross-Border Interbank Payment System) and INSTEX (Instrument in Support of Trade Exchanges).

Furthermore, smaller institutions with their chances of defaulting on regulatory guidelines (KYC and AML) also result in high penalties. Due to these factors, larger banks are cutting ties, forcing smaller institutions to adopt more expensive ways to connect to the larger financial network.

Along with the shift from SWIFT, there has also been a gradual decline in correspondent banking, further hampering SWIFT's usability. The reason for this change lies in banks trying to cut down ties with institutions in high scrutiny and high defaulting zones, thus attempting to cut down penalties and regulatory violations.

As institutions move away from correspondent banking, the permeation into global markets becomes costly and exclusive, leaving behind those who can't afford to shift to the different emerging technologies. Furthermore, SWIFT stands in danger against geopolitical tensions, usage inefficiencies and technological advancements.



## Potential for Disruption

Disruption is a word that has two potential interpretations in this context: How SWIFT has disrupted existing systems and what disrupts SWIFT.

SWIFT was formed to replace the old telex system, which was slow, had the potential for errors and lacked standardisation. Telex lacked a standardised coding system such as SWIFT for identifying banks and detailing transactions.

On the other hand, SWIFT provided a safe and secure platform for institutions, businesses and common people. This payment system enabled individuals and companies to accept electronic or card payments, regardless of whether the customer or seller banks with a different institution than the payee. It has now become the largest method for carrying out transactions globally.

The key to SWIFT's success is primarily its security and the fact that it continues to update itself with new message codes for all types of financial transactions.

What disrupts SWIFT? It's dominance. And over-dependence. Ironically, the system's success is the same reason for most issues it can potentially create. When more than 50% of high-value transactions across borders are routed through one system, it is bound to affect international trade on a large scale. An unexpected failure in the Swift system caused major disturbances for high-value transactions throughout Europe. Swift quickly clarified that this was not a cyber-related matter, alleviating concerns about possible security breaches. Though cybersecurity has been a major concern in recent days. Fraud in SWIFT banking has increased considerably, driven by weaknesses revealed through digital transformation and insider threats. While attacks targeting SWIFT are less common, they are extremely influential, with each incident averaging millions in losses per theft.

Nonetheless, the operational disruption triggered concerns regarding the necessity for improved contingency strategies.

The following steps should be taken to reduce the dependency on SWIFT:

- Enhancing strategic partnerships among banks and promoting increased interoperability among various transaction systems can offer even more protections against similar disruptions down the line. A coordinated strategy can assist in spreading risk and enhancing the reaction to unexpected disruptions.
- Investing in cybersecurity, looking into blockchain technology as a method for securing transactions and refining existing systems is also essential.

Finding alternatives for SWIFT appears to be the conclusion from this section, and we will discuss it in the next section.







**SHIFT TO  
ALTERNATIVES**  
*SWIFT*

# Alternatives to SWIFT

## Regional and National Payment Systems

### 1. Europe

**i. SEPA (Single Euro Payments Area)** is the major payment system used across Europe to simplify transactions and make cross-border transactions convenient on the continent. It includes 36 countries, including all European Union member countries and non-EU countries as well.

The primary elements of SEPA are the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD), enabling individuals and companies to make and receive euro payments under consistent terms, rights, and responsibilities throughout the area.

By reducing costs and complexity in transactions, it has streamlined cross-border payments. In a similar fashion to SWIFT, it has standardised payments across Europe. It also makes sure prices are consistent and uniform for both domestic and foreign transactions.

However, SEPA faces challenges like other payment systems. Many banks still rely on obsolete systems that do not align with SEPA's standardised protocols, hindering the transition process overall and increasing maintenance expenses. While SEPA Instant Credit Transfers (SCT Inst) allow for nearly immediate payments, not all EU member countries have completely adopted it, leading to a fragmented user experience.

**ii. TARGET2 (Trans-European Automated Real-time Gross Settlement Express Transfer System)** is used by the eurozone for large volume payments. The system handles various transactions, such as monetary policy operations, interbank payments, and business transactions, guaranteeing that funds are moved in real-time and on a gross basis.

TARGET2 has seen numerous upgrades aimed at enhancing its efficiency, security, and integration with various European financial market infrastructures.

Recent improvements consist of the launch of TARGET Instant Payment Settlement (TIPS), which allows for immediate payments in euros, along with the continued integration with the TARGET2-Securities (T2S) platform, enhancing the efficiency of securities transaction settlements in Europe.

### 2. Asia:

**i) CIPS (Cross-Border Interbank Payment System)** is China's major payment system, whose development was initiated in 2012 to meet the increased demand to conduct business in RMB in all major time zones. It aimed to make RMB (Renminbi) an international currency for payments and reduce the dollar dominance ever since China felt the shocks of the 2008-09 global banking crisis. It was created to be a direct competitor of SWIFT.

The Cross-Border Interbank Payment System (CIPS) was introduced by China in two stages to enhance global use of the Chinese yuan in international transactions. Stage One began in October 2015, involving 19 direct participant banks—both Chinese and international—and 176 indirect participants from 47 countries and regions. This phase laid the groundwork for a more efficient, yuan-centred global payment network.

Phase Two was piloted on March 26, 2018, with 10 banks to test improvements in capital clearing and settlement. It became fully operational on May 2, 2018. By then, participation had expanded to 31 direct banks and 695 indirect participants, representing 148 countries and regions. This growth marked a significant step in CIPS's global outreach and influence.

CIPS gained traction among countries facing U.S. financial sanctions, such as Turkey and Russia, as it offered an alternative to the U.S.-dominated SWIFT system. It also appealed to African nations, many of which were financially supported through China's Belt and Road Initiative. The system not only increased the international use of the yuan but also strengthened China's role in global finance by offering a payment network less dependent on Western financial infrastructure.



Specifically, CIPS facilitates the clearing and settling of renminbi (RMB) transactions, while SWIFT is a secure messaging system that enables banks to communicate with each other. In context, CIPS was established to boost the efficiency of RMB transactions, while SWIFT was developed to improve global financial messaging.

Participant banks are settled on a gross basis rather than on a net basis. Hence, credit risks that could arise from netting payments before settlement are minimised. Moreover, CIPS enables direct investments, fundraising, and personal money transfers. Nonetheless, CIPS neither possesses any funds nor securities nor oversees client accounts. It is managed by the CIPS Clearing Company.

Regarding China's increasing involvement in international development projects through the Belt and Road Initiative, it is anticipated that the global adoption of the RMB will keep increasing, as Chinese firms participating in these projects may shift to transactions priced in RMB. The adaptation of SWIFT identifier codes and the ISO20022 messaging standard by CIPS streamlines this process and will probably enhance its speed.

While it does look like a reasonable alternative to SWIFT, at the current stage, it would be a stretch. As China's financial prowess grows, it will definitely pose a threat to the dominance of the dollar and SWIFT.

ii) **SPFS (Systema Peredachi Finansovyykh Soobshchenii)** was first developed in **2014** when the West curtailed Russia's financial transactions, or at least attempted to limit them, after the annexation of Crimea in Ukraine. It is a safe and reliable channel for exchanging electronic messages on financial transactions. Over 550+ organisations and 20 countries are a part of SPFS. China, Iran and Switzerland are among them. It operates 24/7 for all 365 days.

The Bank of Russia charges the following fees on a monthly basis for the transmitted messages: 1 RUB per message if < 500 messages are sent per day; 0.8 RUB per message if 500+ messages are sent per day. It is provided free of cost by the Bank of Russia, with no continuing subscription fee.

When Iran faced sanctions in 2012 and was cut off from SWIFT, it led to a search for a different payments system. With increasing trade between the two countries, there are plans to combine the SPFS and its Iranian analogue, SEPAM. Iran asserts that the relationship between the two nations is operational, enabling their central banks to conduct direct transactions using their national currencies.

As Turkey faces sanctions from the USA, it also looks to collaborate with Russia and conduct financial transactions through the SPFS system.

iii) **UPI (Unified Payments Interface)** has been the latest advancement in payment systems in India. It is a fast and secure digital payment service that allows users to perform a variety of transactions using mobile devices. It has massively assisted in transforming India from a cash-based economy to a cashless one.

The general public can use it by linking their savings account and businesses via their current accounts through apps like PayTM, PhonePe, Google Pay, etc. The application/service allocates each user their distinct virtual payment address (VPA). By reducing the hassle of adding details like account number, CVV, and IFSC Code, it improves the user experience, especially for those who aren't well-versed with technology.

UPI provides immediate payments and transfers, 24/7, all year. One major simplification was the introduction of QR Code scanning, which simplified transactions through its added ease and flexibility.

Currently, there are over 350 million active UPI users, and 647 banks live on UPI. The value of transactions was Rs. 23,48,037.12 crore in January 2025. This is a 27% YoY (year on year) increase from January 2024. The CAGR (Compound Annual Growth Rate) of UPI in the past 5 years has been 61%, which reflects staggering growth. In absolute terms, the value of transactions grew by almost eleven times, being 2,16,242 crores in January 2020.

UPI is accepted by over 12 nations, including Singapore, Maldives, Bhutan, France, UAE, Nepal, etc. through collaborations.



## Other Alternatives

### BRICS (Brazil, Russia, India, China, and South Africa) Pay

BRICS Pay is a proposed independent and decentralised payment messaging system for BRICS countries to conduct trade using their currencies.

It was initially introduced in 2018, aiming to enhance trade among developing countries. But it was at the 2022 summit that BRICS Pay emerged as a potential alternative to the SWIFT network, the globally acknowledged standard for bank transactions and a key component of Western sanctions imposed on Russia. Following its invasion of Ukraine, the subsequent sanctions complicated Russia's trade with its partners, as it was prohibited from utilising SWIFT or the US dollar. As a result, Russia has been compelled to utilise local currencies for trade and, at times, even engage in bartering with produce like fruits and vegetables.

As a result, Russia is obviously the biggest proponent of BRICS Pay and is also the founding member. Other countries have also shown interest, but the major issue lies in the other two global powerhouses in BRICS, India and China, being hesitant towards the idea. India wishes to focus on spreading its own UPI system, while China also remains unsure. Both China and India possess their alternatives to SWIFT—the Cross-Border Interbank Payment System (CIPS) and the Structured Financial Messaging System (SFMS), respectively.

The BRICS countries—Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, and the United Arab Emirates—currently account for 35.4% of the global economy and roughly 45% of the world's population. Allowing BRICS countries to enhance trade in their own currencies would undermine the supremacy of the US dollar.

BRICS is also well equipped for this system, with the member countries having the required technology and infrastructure for a payments system of this scale. India's Unified Payment Interface, Russia's Mir network, and China's WePay provide robust foundations for establishing BRICS Pay. It will utilise the technologies of UPI and WePay, using digital wallets, QR code transactions, and a system that would connect directly to local banking institutions.

This would allow nations to conduct trade in their own currency, bypassing the dollar.

If using each other's currencies turns out to be a roadblock, which it probably will, the use of gold can be a good alternative, as it has been since forever. The BRICS countries hold over 20% of the world's gold reserves, with Russia at the top, followed by China closely and India in 3rd. BRICS can leverage this fairly easily and threaten SWIFT.

While the idea seems good on paper, it still is an idea, and will require multiple rounds of discussions between the BRICS member countries to come to a conclusion that would help reshape the global banking system and undermine the dollar. To this day, 80% of the world's transactions take place in USD, and SWIFT handles USD 150 trillion in transactions annually.

It is promising though, and if turned into reality, can turn the Western hegemony upside down and shift the global power to the East with the Russia, India and China bloc rising to be global superpowers.

### Central Bank Digital Currency

Central bank digital currency is similar to fiat money in terms of being issued as legal tender by central banks without any valuable commodity backing it. But unlike traditional fiat money, it is not present in physical, tangible form like banknotes and coins; it exists digitally, where all transactions related to it take place digitally. The use of the same has increased exponentially through the pandemic.

The rising consensus and implementation in support of digital currency lies in countries trying to imitate cryptocurrencies' wide usage and profitability, after considering their need during the pandemic to avoid contamination through contact. As a response, 87 countries (representing over 90 per cent of global GDP) are now exploring central bank digital currencies, while 9 of them have fully launched a state-owned digital currency.

Digital currencies come with many benefits. Firstly, they eliminate the requirement of maintaining a high-maintenance, complex financial system. It reduces the costs incurred in cross-border payments.

While existing in a defined, stable financial structure as a part of a country's money flow, it offers a more stable, less volatile option for users as opposed to cryptocurrencies.

CBDCs also provide a better alternative to third-party risks, such as bank runs or bank failures. Since the currency is backed by the central bank itself, it doesn't face the same solvency issues, and as a result, the risks associated are reduced to a minimum.

International transactions involve multiple intermediaries, affecting both their cost and efficiency. Payment processors and correspondent banking increase the cost, and along with regulatory compliance checks, increase the time required. CBDCs streamline the process, as direct transactions take place between central banks and financial institutions, with the reduced role of efficiency-reducing intermediaries. As the cooperation now only takes place on the national level, it becomes easier to standardise the compliance process.

CBDCs democratise financial institutions and promote financial and digital inclusion. Commercial banking often isn't widely accessible in rural areas and, in general, is expensive in terms of infrastructure and cost to customers. By helping connect customers directly with central banks, it reduces the cost of transactions and reduces the cost-inducing intermediaries.

Despite their many benefits, CBDCs face their fair share of challenges. Firstly, in times of financial uncertainty, people might prefer to hold onto CBDCs rather than deposit, leading to a potential bank run. If banks do not have enough liquidity to service their customers, it will further create instability.

Traditionally, monetary policy and cash flow in the economy serve as tools to influence interest rates, inflation, etc. New mechanisms will need to be chalked out if CBDCs become the norm, leaving doubt whether they will be as effective as the current ones.

One of the main reasons for the success of cryptocurrency, the model that most countries wish to recreate, was its privacy. As legal tender issued by apex bodies in jurisdictions, it will come with oversight to monitor transactions, reducing its appeal to potential customers.

One of the symmetric harms that exists in both SWIFT and CBDCs is their cybersecurity risks. Depending upon security risks, any form of breach will significantly affect the image of the country's central bank and the trust of people in the institution.

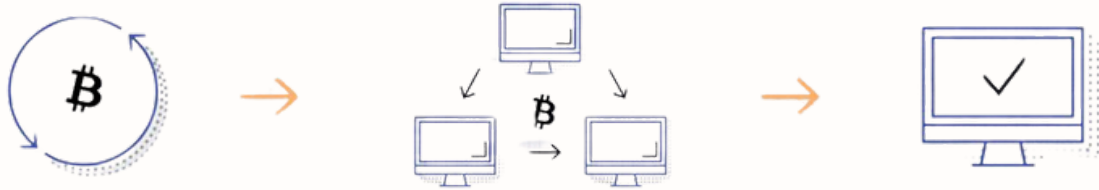
### Blockchain Technology

Blockchain is a shared, immutable ledger that facilitates recording transactions and tracking assets in a business network. A blockchain is characterised by a distributed ledger technology where all participants have access to a record of transactions, promoting transparency, a main flaw in SWIFT. It also reduces operational inefficiencies, as entries can only be recorded once, reducing accounting errors. Furthermore, the records here are immutable, i.e. they can't be edited in any case. In case of errors, the original data entry can be deleted and a new entry can be made, with full transparency being maintained throughout, as both entries will be visible. It also promotes security and trust, as entries can be changed retroactively or manipulated.

It also contains Smart Contracts as a feature, wherein previously stored self-executing programs automatically enforce agreements without any intermediaries, thus reducing inefficiencies and possible delays. It also helps in making the transactions economical. Blockchains address issues related to cybersecurity and privacy. Due to cryptography and hashing algorithms, only verified users can access the information available, and therefore, the material is highly secured and is saved from possible manipulation. Cooperation and consensus are assured through proof-of-work or proof-of-stake mechanisms that ensure that all participants agree on the validity of transactions before they are added to the records. The data is not stored in one centralised location, so in case of a potential breach or failure, the harm is contained. Blockchain also comes with its share of disadvantages. Firstly, there is the issue of scalability bottlenecks, caused by high congestion and the inability to handle a high number of transactions. This leads to high costs and time for transactions. The reason for the same mainly lies in its Proof of Work consensus mechanism, where it takes a considerable amount of time to execute the transaction. Many popular ones, such as Bitcoin, also have a block size limit, which puts a limit on the amount of data that can be entered in a single block. As a result, time and transaction rates both increase.

Blockchain also faces issues related to sustainability. A large amount of power is consumed in its complex consensus mechanisms, raising costs to the environment and operation as well. To execute all of its mechanisms that ensure security and transparency, it also requires significant computational power. Every node of the data chain makes a copy of the entire data chain.

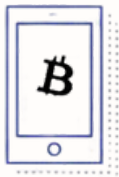
This requires significant computational operations, increasing cost and decreasing efficiency. Lastly, no significant consensus or standard exists globally for regulatory compliance in terms of blockchain, leaving its future in different legislations uncertain and reducing its adaptability.



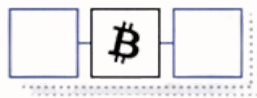
A new transaction is entered.

The transaction is then transmitted to a network of peer-to-peer computers scattered across the world.

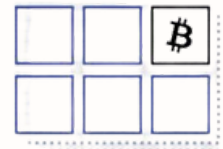
This network of computers then solves equations to confirm the validity of the transaction.



The transaction is complete.



These blocks are then chained together creating a long history of all transactions that are permanent.



Once confirmed to be legitimate transactions, they are clustered together into blocks.







**NEUTRAL NETWORK  
OR  
GEOPOLITICAL  
TOOL?**

*SWIFT*

# SWIFT's Neutrality - A Critical Examination

## Dollar Dominance

### The Bretton Woods Agreement

After the Second World War, one of the main goals was to achieve post-war recovery and address the crumbling economy. To achieve this, it was necessary to establish a stable financial system that would help in cooperation between countries, which in turn was essential for facilitating trade and financial growth. For this, a standard system of exchange was to be adopted. Earlier, gold was used, but that system was considered too inflexible, especially during the war years, as central banks could not easily change their policy to match the fluctuating state. Competitive devaluation was another issue; countries devalued their currencies to make exports cheaper and gain a trade advantage. Therefore, in July 1944, a conference was held in Bretton Woods, which hosted 730 delegates from 44 countries, aiming to agree on solutions for the issues surrounding currency exchange rates.

The Bretton Woods System was established, a framework where exchange rates were fixed to ensure financial stability. Each country had to maintain its currency's value within a 1% fluctuation range, which was relative to the US dollar. The US dollar, in turn, was backed by gold (\$35/ ounce of gold). To ensure that the system is duly enforced and to provide financial assistance to countries facing crises, the International Monetary Fund was founded. As the years progressed, the US became the largest shareholder of world trade. Most of the world's trade takes place in US dollars, and as a result, most transactions in SWIFT are quoted in terms of US dollars. In August 2024, the dollar accounted for 49.1 per cent of payments handled by SWIFT, followed by 21.6 per cent for the euro, 6.5 per cent for the British pound and 4.7 per cent for the Chinese yuan. As most payments are taking place in the form of US dollars, they indirectly fall under US jurisdiction, giving the USA greater sway and control in terms of regulating, monitoring and blocking payments.

There have been instances in which this dominance has been weaponised as well. Instances include sanctions against Iran and Russia in 2012 and 2022, respectively. As discussed before, such sanctions can severely cripple a country's economy as any payments entering and exiting the country are blocked. Countries have, in recent years, tried to fight this dominance. These efforts can be seen in the form of countries exploring Central Bank Digital Currencies(CBDCs), bilateral trade in local currencies, and the BRICS developing its payment system. In their meeting in October of 2024, Russia proposed a network of commercial banks across member states to be linked through the central banks. In this system, cross-border payments will be based on tokens in local currencies. There will be no involvement of US dollars in the transactions that will take place under this system, and it also has the potential to reduce the costs generally incurred in SWIFT.

### Historical Roots and Unequal Access

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) was founded on 3 May 1973 as a non-profit cooperative organisation, consisting of 239 banks from 15 countries. As the financial rivalry between London and New York was persistent, Brussels was chosen as its headquarters. As it was based in Belgium, it operated under EU laws and was mainly dominated by Western nations in Europe and the USA.

As custodians of the highest and second-highest share-holding currencies in world trade, the US dollar and Euro, along with the structure and mechanisms of SWIFT, Western nations have always experienced an undue advantage when it comes to SWIFT. Their influence has often been weaponised as a geopolitical tool against rival countries. Popular examples remain the sanctions against Iran and Russia in 2012 and 2022.

Due to their upper hand in terms of numeracy, these countries have enjoyed undue influence, whereas countries with smaller shares of the world trade have been insulated from its effects.

All in all, the principle of equity has been poorly practised, and most of the world's population remains underrepresented in the system. It also puts the dominant country in a position of privilege that can be easily exploited by denying access to a vital system for cross-border payments.

In a way to combat this exclusionary world created by the existent system, many countries, especially the recent big weights such as Russia and China have created new systems such as Russia's System for Transfer of Financial Messages (SPFS) and China's Cross-Border Interbank Payment System (CIPS), in addition to other measures such as Central Bank Digital Currency, blockchain etc.

### Geopolitical Tool

SWIFT serves as a vital link for countries to the financial system. Disconnection from the same removes ease, or in many cases, any possible channel for cross-border payments, as, mostly without SWIFT, the other alternatives are either not widely used or very expensive. In nearly 50 years of existence, SWIFT has grown to encompass some 11,000 institutions in more than 200 countries and territories. Countries wish to remain in good standing with the institution, as their access to it is vital for their economies. This gives countries that exercise a position of significant influence within the institution a position that they can leverage geopolitically. As access remains important, it can be weaponised and used against countries that are seen as rivals or do not share the same goals. It serves as an important tool and bargaining chip in international relations.

Recent instances of the same include the 2012 sanctions against Iran and the 2022 sanctions against Russia in the wake of the Russia-Ukraine war, in which the USA and its allies supported Ukraine, thus banning several Russian banks from the system. SWIFT, by structure, is a cooperative organisation working for the benefit of all its members. Therefore, it doesn't share any political inclinations or economic policies with any of its members. The organisation is overseen by the central banks of the Group of 10 (G10), and as its headquarters are in Brussels, it falls under the jurisdiction of EU law. As a result of this, any sanctions imposed by the EU have to be followed by SWIFT. Thus, a political entity, the EU, can leverage access to SWIFT as a bargaining chip in all political negotiations.

The risks posed by sanctions are not limited only to the nation as an entity, but are rather widespread, which can be understood by examples. In 2012, as Iran was effectively cut off from the global financial system, the effect of the same was acutely felt by the economy, affecting daily lives and businesses. Again, as sanctions were imposed on Russia in 2022, the effects of the same were different. As Russia was more integrated into the world economy than Iran, the effect of these sanctions was felt more severely. As most of Europe depended upon Russia for oil and natural gas, there was not much incentive or rationale behind using sanctions against Russia

### Governance Structure

SWIFT maintains the opinion that it is neutral and operates as a cooperative society governed by Belgian law and is owned and managed by its shareholders. A board of 25 directors is elected at the general meeting.

This composition of SWIFT mainly aims to represent the global nature of the system, accommodating every country and maintaining strict impartiality. Regarding the management and governance, it lies in the hands of the Board of Directors to the extent of the SWIFT by-Laws. They convene a minimum of 4 times annually, looking to determine the overall policy and strategy of the company, making decisions on policy issues and ensuring effective supervision and oversight.



Their key responsibility is to ensure that SWIFT aligns with the shareholder policy and follows its purpose and strategy. The Board consists of five governance committees. Every committee consists of at least seven members. Their primary goal is to support the Board in carrying out its governance duties, where they counsel the Board on strategic, policy, and risk issues. They are as follows -

- The Audit and Finance Committee (AFC) supports the Board of Directors in meeting its oversight duties related to the financial reporting process, internal control systems, the auditing process (both internal and external auditors), whistleblower procedures and incidents, as well as the Company's mechanisms for ensuring adherence to relevant laws, regulatory standards, and the Code of Conduct.
- The Risk Committee (previously known as the Franchise Risk Committee) aids the Board in overseeing the Company's management of essential risks, which encompass strategic and operational risks, along with the guidelines, policies, and procedures for tracking and reducing these risks.
- The Human Resources Committee (HRC) guarantees that policies and procedures function to keep talented human resources engaged and compensated in alignment with the present and future needs of the business. It is likewise tasked with making sure that Human Resources policies and practices support the Company's values of integrity, ethics, and trust.
- The Technology and Production Committee (TPC) offers counsel and direction on strategic issues concerning the technological, operational, and security aspects linked to Swift products and services.
- The Governance and Nomination Committee (GNC) manages issues concerning corporate governance, Board composition, and Board efficiency. The GNC is essential in making sure that the Company and the Board are properly governed and that Board members can fulfil their fiduciary duties effectively according to corporate governance best practices.

**Oversight**

Swift's oversight aims to focus on recognising and managing risks, ensuring information security, maintaining reliability and resilience, planning technology, and communicating with users. Central banks aim to enhance financial stability and support the reliability of payment and settlement systems. Although Swift is not a payment or settlement system and thus not regulated by central banks or bank regulators, it is overseen by central banks due to its role as a vital service provider. An increasing number of systemically significant payment systems have come to rely on Swift, which has thus gained a systemic nature. Consequently, the central banks of the G-10 nations decided that Swift ought to be under joint supervision by central banks. Swift has been under supervision since 1998.

In 2007, the regulators established distinct oversight expectations relevant to Swift, called the 'High-level expectations for the oversight of Swift' (HLEs). The High Level Expectations outline five categories of expectations that regulators hold regarding the services Swift offers to the worldwide financial infrastructure. The five Expectations pertain to: recognising and managing risks, securing information, ensuring reliability and resilience, planning technology, and communicating with users

The setup was last examined in 2012, when the SWIFT Oversight Forum was also established. The dissemination of information regarding Swift oversight activities a spread to a larger number of central banks.

The National Bank of Belgium (NBB) serves as the primary regulator, as Swift is based in Belgium, and receives assistance from the G-10 central banks. The supervision mainly aims to ensure that Swift implements efficient controls and procedures to prevent any risk to financial stability.



## Location of OPCs

Currently, Swift has operating centers (OPCs) in the Netherlands, Switzerland and the United States (US), where message data is stored.

Customers based in countries within the European Economic Area (EEA), the United Kingdom, Switzerland, and other regions and dependencies deemed part of the European Union (EU) or linked to EU nations, are classified under the European Zone (OPCs headquartered in the Netherlands and Switzerland), and their intra-zone message data has to stay within the EU Zone.

Customers residing in the United States (US) and its territories are designated to the Trans-Atlantic Zone (OPCs located in the US and Switzerland), and their intra-zone message data must stay within the Trans-Atlantic Zone. Customers in every other country are assigned either to the Trans-Atlantic or the EU zone based on their preference and by operational and technical criteria, including load balancing. Messages shared between Swift clients in various regions are kept in both the Netherlands OPC and the Virginia OPC, along with the backup OPC in Switzerland.

Information is stored in two OPCs to ensure there is always a backup if one OPC experiences a disruption.





# CASE STUDIES

*SWIFT*



# Case Studies

## Iran

The case of Iran’s disconnection from SWIFT in 2012 is a landmark event in global finance, international history and the organisation itself. The reason behind this lies in the geopolitical concerns and conflict over Iran’s nuclear program. This event shaped the modern perceptions of SWIFT, including questions about its neutrality and unbiasedness in the face of geopolitical tension and the influence that the prominent countries in trade hold over its functioning.

In 2012, due to the USA’s and EU’s issues related to Iran’s nuclear program, SWIFT had to disconnect the country from the system, resulting in its isolation from the global financial system and market. The concerns were centered around nuclear proliferation risks, regional stability and potential nuclear weapon development by Iran. It overall made it difficult for Iran to trade oil, one of its major exports and conduct business globally.

The ban was again imposed in 2018, due to pressure from Washington. The USA had withdrawn from the Joint Comprehensive Plan of Action (JCPOA), also known as the Iran Nuclear deal. The motive behind it was to force Iran into renegotiating its nuclear agreement with the USA.

The economic implications of this were multifold. To start with, it directly affected one of the most important pillars of the Iranian economy, i.e. export of oil. Before the ban, Iran exported 2.5 million barrels of oil per day, which by the time of the 2018 ban was reduced to a mere 500,000 barrels per day.

Due to the loss of the foreign exchange inflow, the Iranian Rial lost its value significantly. Imports became expensive, resulting in high inflation, which in turn caused significant economic instability. Iran tried to bypass this ban by adopting alternative modes of payment such as cryptocurrency, bilateral trade agreements using gold and local currencies with countries like China, India, etc. Further, the EU developed INSTEX (Instrument in Support of Trade Exchanges) to trade with Iran and gain access to the much-needed oil from the country. However, due to the USA's pressure, it was widely successful.

Iran’s case is an insight into how the existing structure of SWIFT makes it vulnerable to being used as a tool in geopolitics by countries that hold significant control in its governance. When the neutrality of such a significant institution is challenged, it raises questions on whether it is capable of serving as the worldwide platform for communication related to vital financial transactions.



## Russia

After Russia's invasion of Ukraine, the West was in tatters, trying to balance its own self-interest while subduing Russia's offence. Finally, on 26th February 2022, the USA and its allies decided to selectively ban certain Russian banks from SWIFT. While 7 Russian banks were banned, including their central bank, the 2 largest banks (Sberbank and Gazprombank) were not, as the EU depended on these for oil and gas payments.

If a bank is removed from SWIFT, it signifies that the bank and its account holders face challenges in sending or receiving payments internationally. Excluding all banks in a country from SWIFT would greatly limit that country's trading ability, as importers would face challenges in paying for imports and exporters would struggle to receive payments for their exports. To illustrate, being excluded from SWIFT for a country is similar to an individual being prohibited from utilising credit and debit cards. Although the individual can still buy groceries with cash, it limits the places they can shop and complicates routine business transactions significantly.

### Effect on Russia: A roadblock or a facade?

Russia's removal from SWIFT will definitely limit its capacity to engage in international transactions, likely undermining its currency, diminishing market trust, decreasing trade volume, and potentially triggering widespread bank runs and hyperinflation within the nation. If you go back to 2014, Western sanctions resulted in a decline of more than 50 per cent in the ruble's value against the dollar and contributed to a prolonged drop in GDP growth for the following two years.

Since the implementation of U.S. sanctions, the ruble's value has decreased by almost 30 per cent relative to the dollar, and Russian bond prices have collapsed as investors worry about their ability to fulfil outstanding debt commitments. Worldwide supply chains, which were already strained due to the effects of the COVID-19 pandemic, are currently facing additional stress. Restricting Russian exports has caused global price increases for oil and gas; however, due to the few alternative suppliers available, it is probable that Russia will quickly identify eager trade partners in Asia, Africa, and the Middle East.

Since then, Russia has sought to make its economy more resistant to sanctions by accumulating \$600 billion in foreign reserves, diversifying these reserves to include additional euros and renminbi, cutting down the national debt, and restricting imports of certain items. In spite of these attempts, Russia continues to depend significantly on the dollar system and Western markets.

Nevertheless, the immediate effects of these sanctions are limited by the reality that they mostly do not affect transactions in Russia's energy sector, which is vital to the nation, and because the EU has refrained from sanctioning several of Russia's major banks. Consequently, payments in euros and dollars can keep moving through Russia's economic systems.

SWIFT, anyhow, is a messaging platform for banking, and before it, there existed others such as telefax. So, by disabling one channel, there are opportunities to open others.

### Russia's response

In reply, Russia created its domestic financial messaging system, the System for Transfer of Financial Messages (SPFS), designed to lessen its dependence on SWIFT. Currently, the SPFS system serves as the main messaging platform for 20 per cent of Russia's internal transactions, with its banking network comprising 23 international banks. The SPFS lacks the technical sophistication of SWIFT, yet it is commonly utilised within the country and may function effectively for carrying out international transactions.

In 2015, China also initiated the creation of its alternative to SWIFT, known as the Cross-Border Interbank Payment System (CIPS).

Though the progress of CIPS has been gradual, in 2021 it handled nearly 80 trillion renminbi (\$12.68 trillion) in transactions, marking a 75 per cent rise from 2020, and currently links 1,280 financial institutions across 103 countries and regions.



Since the 2008 financial crisis, China has been advocating for the global adoption of the renminbi as a substitute for the dollar with modest results; however, the exclusion of Russian banks from SWIFT might present an opportunity for China to greatly increase the utilisation of both CIPS and the renminbi in global trade.

As China and Russia's ties grow stronger, along with their mutual dislike for the US and its allies, the East bloc is bound to cement its position as a decision maker. Russia continues to provide critical energy supplies and resources for China's development plans, and China continues to support Russia against the West as well.

**The Role of India**

Unlike most countries, India did not side with Ukraine very easily and instead took strategic steps for the country's well-being. The lowered oil prices were a perfect opportunity that was taken up rightly. Russia offered discounts to countries that were willing to transact in their local currencies rather than USD.

Just a fraction of the trade is in dollars, says Mrutyunjay Mahapatra, former CEO of Syndicate Bank. "The majority of Russian business is done through bilateral trade using the ruble and other currencies through its messaging system SPFS, an alternative to the Swift system."

India's oil acquisitions from Russian state energy companies Gazprom and Rosneft were conducted in rubles via the nostro account of the State Bank of India in Russia. Nostro accounts working are as follows: Bank X has an account with Bank Y in Bank Y's home currency. To Bank X, that is a nostro, meaning "our account on your books."

Indian firms Reliance Industries and BPCL utilise dirhams for oil transaction settlements. The dirham payments have been processed by Axis Bank and Bank of Baroda. If ruble transactions are restricted, trade settlements will occur in Indian rupees.

In October 2022, Russia emerged as the largest crude oil exporter to India.

**Bangladesh Bank Heist**

The Bangladesh Bank heist, one of the largest cyber thefts in history, raised serious concerns about the security of the SWIFT as a communication platform. In February 2016, hackers used malware and fraudulent transactions to attempt to steal approximately \$1 billion from the Bangladesh central bank's account at the Federal Reserve Bank. Due to a typographical error in a transfer message, the scheme was detected, preventing the theft of about \$850 million, though the hackers still managed to steal roughly \$100 million.

The hackers, to gain access to the system and understand the security protocols in place, had installed malware, which further helped in bypassing the detection systems in place. On 16th February, 35 requests related to fraudulent transactions were sent to Bangladesh's Reserve Account in the New York Federal Reserve Bank. The money was to be sent to bank accounts in Sri Lanka and the Philippines. A total sum of roughly \$100 million was transferred before the fraud was detected. The mistake that gave the plot away lay in the misspelling of the word "Foundation", which was red-flagged by Deutsche Bank. Due to that, the rest of the transactions were blocked.

The stolen money was laundered through accounts in the Philippines through RCBC Bank. The funds were withdrawn through cash and laundered through casinos. Only \$15 million was retrieved by authorities. The investigation resulted in suspicion of the North Korean Lazarus Group, a state-backed hacking unit. The case of the Bangladesh bank heist shows the weakness of SWIFT's security, on how weak links can be used to permeate and exploit the whole system by association. It was a watershed moment in modern banking security and led to the reinforcement and introduction of new laws related to cybersecurity and banking.







# ADAPTING TO A CHANGING FINANCIAL WORLD

*SWIFT*

# Conclusion

SWIFT infrastructure has facilitated cross-border finance for decades, enabling banks all over the world to exchange secure and standardised cross-border payments. Due to its global reach and longevity, SWIFT has served as the ideal channel for global trade, investment, and remittance. Despite all this, though, SWIFT is faced with its growing pains, which have created opportunities for other systems in lower-cost cross-border payments.

One of the main drawbacks of SWIFT is that it has a comparatively slower settlement cycle and also charges a premium fee. Conventional SWIFT payments settle in days, especially if middlemen are used. This inefficiency has created a window for blockchain payment platforms as well as near-instant-settling real-time payment platforms at a lower cost. Options like CBDC, Blockchain, and UPI enable instant, clear, and cheaper cross-border payments as substitute options for corporates and individuals.

Its other main area of concern is geopolitics and abuse of power. Access to the SWIFT network has already been lost to some of these countries before, and since then, national payment systems have been introduced. The Chinese Cross-Border Interbank Payment System (CIPS) and Russia's System for Transfer of Financial Messages (SPFS) are now local alternatives, and these provide nations more financial sovereignty to move away from Western-dominated payment systems. The infant products are a start of the trend for a heterogeneous, more competitive payments world. In addition, the financial landscape has witnessed the advent of Central Bank Digital Currencies (CBDCs) and real-time gross settlement systems that eliminate most inefficiencies of SWIFT.

CBDCs, which the big economies are already testing, will render cross-border payments instant, secure, and direct with no intermediaries at reduced costs and with enhanced financial inclusion. Same-day payment systems like India's UPI (Instant payments) or the EU's SEPA likewise show the way that domestic and local payments don't depend on legacy technologies like SWIFT.

Despite all this interference, SWIFT continues to be a part of the financial infrastructure because it has a good network, an appropriate regulatory environment, and a good global placement. But it will be useful only when it innovates and aligns itself with these next-generation technologies and not competitively. With its upgrading of its real-time processing centre, cost-effectiveness, and staying in line with digital finance advancements, SWIFT can also compete in the future payments space.

Rather than seeing them as a threat, substitutes complement and support the international payment system by creating an inclusive, efficient, and technologically-focused payment system. The hybrid nature of cross-border finance will be established in the future as SWIFT exists side by side with newer payment networks, which will make customer and business transactions more efficient, along with a system that renders no country at a weaker position purely due to power games.

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