Cross-Border Payments

Mains: *GS II – International Issues*

Why in News?

*Ahead of the **18th BRICS Summit in New Delhi in September 2026**, member countries are exploring mechanisms to make international payments **faster, cheaper, safer and more resilient**.*

What is Cross-Border Payment?

- **Definition** – Cross-border payments are financial transactions where the sender and the receiver are located in different countries.
    - For Example, Consider an importer in **Cape Town purchasing cars from an exporter in Chennai**.
    - The payment generally does not move directly from the South African bank to the Indian bank.
    - Instead, it passes through **correspondent banks**, which maintain accounts with one another and facilitate international transactions.
- **Need for Efficient Cross-Border Payment** – The expansion of **BRICS** has increased the volume and diversity of trade among its members, but cross-border payments remain costly, slow and dependent on financial infrastructure dominated by a few major currencies and institutions.
- India has advocated a pragmatic approach: linking national payment systems and **Central Bank Digital Currencies (CBDCs)** to facilitate trade and tourism payments, while avoiding an overt attempt to replace the U.S. dollar.

How Do Cross-Border Payments Work?

- Since banks in different countries may not maintain direct accounts in each other's currencies, the transaction can involve multiple currency conversions.
    - **For instance,** South African rand may be converted into **U.S. dollars**, which are then converted into **Indian rupees**.
    - Thus, the dollar acts as a **vehicle currency**, even though the underlying transaction is between South Africa and India.
- Alongside the movement of funds, banks must exchange instructions regarding the payment.
- This is where **SWIFT (Society for Worldwide Interbank Financial Telecommunication)** becomes important.

SWIFT *is a Belgium-based financial messaging network that enables banks and other institutions to securely transmit payment instructions.*

It does **not itself transfer or settle the money***; rather, it functions like a secure communication network connecting financial institutions.*

Why Are Cross-Border Payments Costly?

- Cost of Traditional correspondent banking:
  - Fees charged by intermediary banks.
  - Foreign-exchange margins when currencies are converted.
  - Compliance and administrative costs.
  - Capital and liquidity requirements associated with settlement.
  - Risks arising from delays between the two legs of a transaction.
- The problem becomes particularly acute when transactions involve currencies that are not widely traded internationally.
- A 2019 BRICS survey found that foreign-exchange margins reported by Brazilian respondents could reach **2.5%**, while payments involving Africa reportedly faced margins of up to **8.5%**, with some cases reaching as high as **20%**.
- Transaction speed has improved considerably with technological advances and SWIFT's Global Payments Innovation.
- Nevertheless, the underlying correspondent-banking structure continues to create complexity.
- The **Bank for International Settlements (BIS)** also observed a decline in active correspondent banking relationships.
- Between 2011 and 2018, their number fell by around **20%**, even though overall payment volumes continued to rise. This indicates increasing concentration within the international payments network.

Why Does BRICS Want to Reform the System?

- **Excessive Dependence on Other Currencies** – For developing economies, excessive dependence on dominant currencies such as the **U.S. dollar, euro and Japanese yen** creates several vulnerabilities.
- Countries using these currencies are indirectly exposed to the **monetary and financial policies of their issuing countries**. Second, currency conversions and dependence on intermediaries raise transaction costs.
- **Vulnerability of Payment Infrastructures** – International payment infrastructure can become vulnerable to **geopolitical tensions and sanctions**.
- The exclusion of several Russian banks from SWIFT following Russia's invasion of Ukraine in 2022 highlighted this vulnerability.
- Russia has therefore been among the strongest advocates of alternative payment arrangements.
- **Dilemma for BRICS** – An alternative system becomes useful only when a sufficiently large number of banks and regulators adopt it.
- At the same time, banks may hesitate to participate if doing so exposes them to sanctions or other geopolitical risks.

- Thus, BRICS faces a difficult balancing act: **reducing excessive dependence on existing systems without creating another politically dominated financial architecture**.
- **Possible Alternatives –** One proposal is to connect the domestic payment systems of BRICS countries directly, reducing dependence on multiple correspondent banks and vehicle currencies.
- India already has experience in this area. Its **Unified Payments Interface (UPI)** has been linked with Singapore's **PayNow** system, enabling more seamless cross-border remittances.
- However, creating separate bilateral payment links between every pair of BRICS members would be complicated and difficult to scale. As membership expands, the number of bilateral connections would increase rapidly.
- A more efficient approach would therefore be a **common payment hub** connecting participating countries.

Project Nexus and the Hub Model
• One relevant example is **Project Nexus**, developed by the BIS. It seeks to connect domestic instant-payment systems through a common framework rather than requiring every country to establish separate bilateral arrangements. • India's Reserve Bank of India is among the participating central banks. • Project Nexus, however, is **not a BRICS initiative** and is expected to become operational in 2027. • The broader principle behind such a model is significant: instead of replacing domestic payment systems, countries can make them interoperable through a common infrastructure.

What is the Role of Central Bank Digital Currencies?

- BRICS discussions are also examining the possibility of using **CBDCs** for cross-border settlement.
- A CBDC in this context refers to a digital form of sovereign currency issued by a central bank.
- The relevant CBDCs would function as **settlement assets between financial institutions**, rather than the retail digital currencies used directly by ordinary consumers.
- A common CBDC-based platform could enable two currencies involved in a transaction to be exchanged simultaneously.
- This is known as **atomic settlement**: either both sides of the transaction occur together, or neither occurs.
- Such a system could Reduce settlement risk, Shorten transaction times, Reduce the need for intermediary banks, Lower liquidity and capital requirements, Reduce transaction costs and Facilitate greater use of national currencies.

mBridge and BRICS Clear

• The most prominent example of a multi-CBDC platform is **mBridge**, developed by the BIS with the central banks of China, Thailand, Hong Kong and the UAE.
• The BIS handed the project over to its participating central banks in October 2024.
• However, the experience of mBridge also illustrates the geopolitical concerns surrounding alternative payment infrastructure.
• According to data from China's central bank cited by Reuters, more than **95% of settlement volume on the platform was denominated in China's digital yuan**.
• This raises concerns among other countries about excessive dependence on the Chinese currency.
• In 2024, the **Kazan Declaration** agreed to discuss and study the feasibility of an independent settlement platform known as **BRICS Clear**.
• However, the subsequent **Rio Declaration in 2025 did not mention BRICS Clear**, indicating that consensus on the proposal remains limited.

What is India's Pragmatic Position?

- India has adopted a relatively cautious approach. Its proposal, reported in January 2026, focuses on **linking the CBDCs of BRICS members for trade and tourism payments**.
- Importantly, Indian officials have generally framed these initiatives around practical objectives:
    - Reducing transaction costs.
    - Accelerating settlement.
    - Facilitating trade.
    - Promoting greater use of national currencies.
    - Improving resilience of payment systems.
- India has avoided presenting the initiative as an explicit campaign to **de-dollarise the global economy**.
- This distinction is important because some Russian proposals and sections of Brazilian economic opinion favour more ambitious alternatives to the existing dollar-based financial system.

What are the Geopolitical Challenges?

- **Dominance of Dollar** – The U.S. dollar remains the world's dominant international currency because of the depth and liquidity of U.S. financial markets, widespread acceptance and established global infrastructure.
- Simply creating a new BRICS payment mechanism will therefore not automatically displace the dollar.
- **Diverse Nature of BRICS** – The members have different economic structures, monetary policies, geopolitical interests and levels of financial development.
- Excessive dependence on China's financial infrastructure could replace **dollar dependence with renminbi dependence**, which many members would not necessarily welcome.
- **India's position** – The position of India therefore reflects its broader strategy of **strategic autonomy and multi-alignment**: reform the international financial system while retaining flexibility to engage with all major economic powers.

What could be done?

- Linking domestic instant-payment systems.
- Developing interoperable CBDC platforms.
- Increasing settlement in national currencies.
- Reducing foreign-exchange conversion costs.
- Establishing common technical and regulatory standards.
- Ensuring cybersecurity, data protection and transparency.
- Maintaining compatibility with existing international payment networks.
- Such an approach would make the system more inclusive and commercially viable while reducing the risk of geopolitical fragmentation.

What lies ahead?

- For India, the objective should not be to **replace one dominant financial system with another**, but to create a more efficient, resilient and multipolar payment ecosystem.
- Linking national payment systems, promoting CBDC interoperability and encouraging national-currency settlement can reduce costs while preserving strategic flexibility.
- The **New Delhi BRICS Summit** therefore provides India an opportunity to promote a practical model of financial cooperation—one based on **efficiency, interoperability, sovereignty and inclusiveness**, rather than geopolitical confrontation. Such an approach would complement India's broader vision of a **reformed and more representative global financial order**.

Reference

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