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The Future of Correspondent Banking 2025

Challenges and Opportunities in EURO Clearing landscape

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Foreword

The correspondent banking industry is undergoing a **deep transformation**, driven by a confluence of regulatory, technological, and economic pressures.

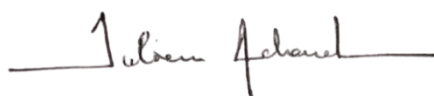
In recent years, the landscape has become increasingly complex, particularly due to heightened scrutiny around Anti-Money Laundering (AML) compliance and economic sanctions. This phenomenon, commonly referred to as “**de-risking**,” has led many financial institutions to reduce or sever correspondent banking relationships, especially in regions perceived as high-risk.

Technologies such as Know Your Customer (KYC) utilities, real-time transaction monitoring, and AI-driven analytics have become essential, but their implementation demands substantial investment.

In this dynamic environment, **OpenbanQ** has emerged as a trusted partner for financial institutions navigating the complexities of transaction banking. As a specialized advisory firm, OpenbanQ leverages the **expertise** of seasoned professionals, including former senior executives from HSBC’s global financial institutions division and **former leadership** from RedCompass. The firm provides tailored support to financial institutions on both strategic and operational fronts.

OpenbanQ’s services encompass the design and execution of **comprehensive strategies** that align with the unique needs of correspondent banking clients. The consultancy firm facilitates collaborations between **fintech solutions** and traditional financial institutions, bridging the gap between innovation and legacy systems. By fostering these partnerships, OpenbanQ enables its clients to achieve operational **excellence**, enhance compliance, and drive **efficiency**.

Through its deep knowledge and hands-on approach, OpenbanQ empowers financial institutions to adapt to the evolving correspondent banking landscape and adopt a strategy in line with their **objective** and **risk appetite**.



Julien ACHARD, CEO OpenbanQ

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Executive summary

The transformation of correspondent banking is not merely a response to external pressures but **a necessary evolution** to meet the **demands of a modern, interconnected** global economy. While its historical role in enabling cross-border transactions and global trade remains undisputed, the sector faces mounting **challenges**, including regulatory compliance costs, de-risking practices, and a **declining number of banking relationships**.

These shifts threaten **financial inclusion**, particularly in developing regions like Africa and Latin America, but also present **opportunities for innovation**. Emerging technologies such as blockchain, AI, and multilateral payment platforms are redefining the correspondent banking landscape, offering increased **efficiency, transparency, and inclusivity**.

As the industry navigates these changes, **strategic adaptation is crucial**. **Investment in technology, collaborative models, and customer-centric practices** will enable correspondent banking to maintain its relevance and resilience. Balancing **compliance demands** with the imperative for financial inclusion and economic connectivity will define the future of this **critical financial pillar**. The evolution of correspondent banking is not merely a challenge—it is **a call to reimagine its role** in powering global growth.

The rise of **fintech companies** and payment aggregators is **intensifying competition** in the sector. These agile players, often leveraging disruptive technologies, challenge traditional banks by offering **faster, cheaper, and more inclusive** payment solutions. However, Tier-1 banks maintain a competitive edge due to their **economies of scale**, robust infrastructure, and established networks in key currency **corridors** such as the U.S. dollar (USD) and the euro (EUR).

Collaboration between traditional banks and fintechs is likely to play a **pivotal role** in shaping the future of correspondent banking. Shared KYC utilities, blockchain consortium, CBDC's experimentation and partnerships to co-develop digital solutions are emerging as **key strategies** to address the dual demands of compliance and innovation.

Introduction

Correspondent banking, a cornerstone of the global financial system, has undergone in recent year **significant transformations**, particularly in the realm of Euro clearing.

This system in which one financial institution provides services to another across international borders, plays a pivotal role in the global economy. This financial network facilitates trade, foreign investments, and international money transfers, making it essential for global financial connectivity.

This situation highlights a growing trend: according to a report by the Financial Stability Board, the number of correspondent banking relationships has **declined by more than 20% globally** since 2011 (around 50% in Africa and around 60% in south America) driven by increased **regulatory scrutiny and the de-risking** practices of larger banks. This reduction not only threatens the stability of smaller financial institutions but also poses significant **challenges** to global financial inclusion and economic development.

This report delves into the **current state** and future trajectory of correspondent banking, examining its **revenue streams, cost implications**, the revolutionary impact of **emerging technologies** and the strategies offered to this metier.

1 - Brief history of Correspondent Banking: The backbone of global finance

By the 19th century, with the rise of international trade empires and the expansion of colonial economies, correspondent banking had evolved into a more formalized system. Banks in major financial centers like London, Amsterdam, and New York became the primary hubs, connecting smaller banks around the world. These relationships were crucial in the development of the global economy, enabling cross-border transactions, foreign exchange, and the flow of capital between nations.

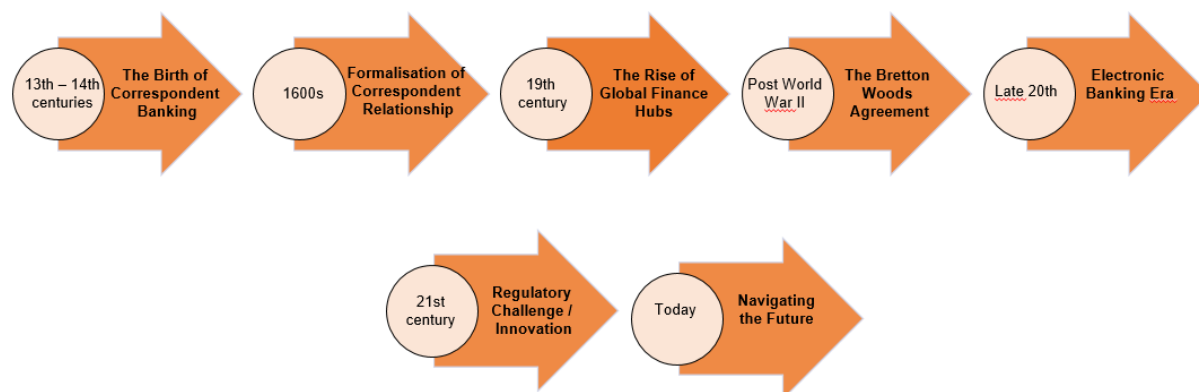
The 20th century saw correspondent banking solidify its role as the lifeblood of international finance. The post-World War II economic boom and the establishment of the Bretton Woods system further entrenched its importance. During this period, correspondent banks facilitated the explosion of global trade and investment, making it possible for businesses and governments to transfer funds, manage liquidity, and settle transactions across borders with unprecedented speed and efficiency.

However, as the world became more interconnected, correspondent banking also became more complex. The late 20th and early 21st centuries brought new challenges, including the rise of financial crime, terrorism financing, and increased regulatory scrutiny. As a result, banks were forced to invest heavily in compliance and risk management, leading to the de-risking trend that has seen many banks sever ties with smaller institutions in higher-risk regions.

Despite these challenges, correspondent banking remains a vital component of the global financial infrastructure. Today, it is undergoing a significant transformation, driven by technological advancements like blockchain, digital currencies, and artificial intelligence. As banks adapt to these changes, correspondent banking continues to evolve, ensuring that it remains a critical facilitator of global trade and financial stability.

This historical journey of correspondent banking underscores its enduring importance in connecting the world's economies and enabling the flow of capital that powers global growth.

Fig 1 : Key Milestones in correspondent banking Development



1.1 - The state of the Euroclearing market – consolidation of a growing sector

The Euroclearing market is undergoing significant transformation, consolidating its position as a key player in global financial systems. According to Swift Watch, the euro (€) is the second most-traded currency worldwide, accounting for 27.3% of transactions, trailing behind the U.S. dollar (\$) at 50.9%, and ahead of the British pound (£), which holds a modest 1.3% share.

A Sector in profound transformation

Over the past two decades, the field of Correspondent Banking has witnessed a profound evolution. Historically, this business was built on trust-based relationships, characterized by reciprocal volume services and opportunities for extending credit lines. Today, however, the landscape is far more complex.

The Euroclearing market has gained increasing attention from major financial institutions across Europe, as well as from American and Asian banks, particularly those based in China and India. The complexities of the modern market, coupled with evolving global dynamics, demand innovative approaches and robust infrastructure to facilitate seamless clearing processes.

The Brexit effect

One of the most significant recent disruptions has been the impact of Brexit. Many financial institutions have been compelled to reassess their internal operations and service offerings to adapt to the new regulatory and economic realities. These adjustments have not only reshaped internal processes but have also influenced client-facing services, underscoring the importance of flexibility in an ever-changing financial environment.

Market trends: fewer banks, higher volumes

A notable trend within the Euroclearing market is the simultaneous decline in the number of active banks and the increase in transaction volumes. This paradox highlights the consolidation of operations among a smaller pool of players, who must now handle larger-scale operations with enhanced efficiency and reliability.

Regional insights

Focus on Africa

The Euroclearing market faces unique challenges and opportunities in Africa. The region has experienced a marked decline in the number of banks handling euro transactions, with 50% of correspondents exiting the market. While this presents difficulties for local economies, it also offers significant opportunities for institutions willing to maintain or expand their presence in the region.

Focus on Latin America

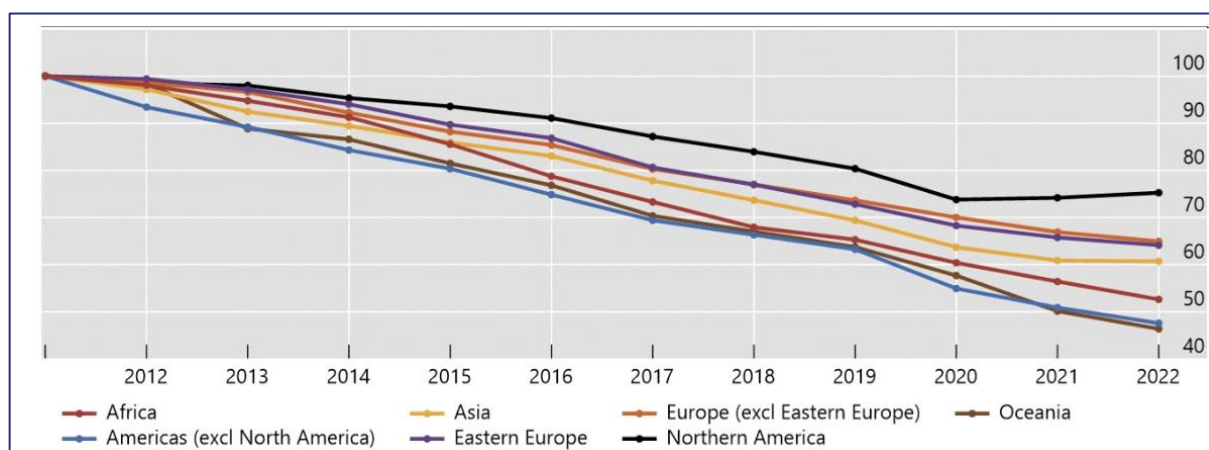
Similar to Africa, Latin America has seen a sharp reduction in the number of banks operating in euros. An estimated 60% of correspondents have left this market, creating a void that could be filled by institutions prepared to invest in building relationships and infrastructure in this underserved region.

Fig 2 : Number of active correspondents over all corridors and volume of messages¹
(3-months moving averages in thousand)



¹ MT103 and MT202 (excluding MT202 COV) : Source Swift BI Watch and National Bank of Belgium

Fig 3 : Number of active EUR correspondents by region (count of counterparties abroad²)
Index 2011 =100



1.2 - The consolidation of the Euroclearing market in Correspondent Banking: key drivers

The Euroclearing market in correspondent banking has experienced significant consolidation in recent years, driven by multiple factors, particularly regulatory pressures and evolving market dynamics.

The consolidation of the Euroclearing market in correspondent banking reflects a complex interplay of regulatory pressures, market dynamics, and technological advancements. Traditional banks continue to adapt by leveraging their scale, investing in innovation, and refining risk management strategies. Meanwhile, the entry of agile new players ensures ongoing competition, shaping a market that is increasingly driven by efficiency, cost management, and digital transformation.

Derisking and regulatory costs

Regulatory requirements have placed a growing burden on correspondent banking service providers, necessitating investments in Know Your Customer (KYC) protocols, transaction screening, transparency measures, and advanced technology. These requirements increase operational costs and enforce stricter profitability standards. Consequently, many banks are engaging in "derisking," withdrawing from high-risk regions where anti-money laundering (AML), FATCA, and anti-corruption compliance pose heightened challenges.

For example, a Visa study from September 2023 highlights the high costs associated with maintaining correspondent banking accounts: **a single NOSTRO account in the U.S. costs \$27,270 annually**. Globally, large banks spend approximately \$1.5 billion annually on these

² Source Swift BI Watch and National Bank of Belgium

accounts. Since 2011, the number of correspondent banking relationships has declined by 30-40% depending on geography.

Market Challenges and New Entrants

The rise of new players such as payment transfer operators and aggregators with direct access to local clearing systems has disrupted the market, particularly for low-value transactions (under €1,000). These entrants often accept higher risks than traditional banks, thereby gaining market share. However, traditional banks are responding by introducing innovative products aimed at defending their market position and accelerating the digitalization of cash transfers.

Despite these challenges, traditional banks retain advantages due to their ability to spread operational costs across high transaction volumes. This enables investments in automation to improve Straight Through Processing (STP) rates and reduce manual processing costs, creating a competitive edge in a price-driven market.

Evolving expertise and economies of scale

The correspondent banking sector requires continuous expertise development to navigate its inherent risks effectively. Major clearers—such as JPMorgan, Citi, HSBC, and European giants like Deutsche Bank and BNP Paribas—leverage economies of scale to maintain profitability and expand their market share. These institutions benefit from strategic decisions by smaller competitors to exit the correspondent banking market, allowing them to acquire new clients and strengthen their positions.

Local and niche players

While global players dominate cross-border transactions, local banks often focus on their domestic markets. For instance, banks like KBC and ING in Belgium leverage SEPA compliance and domestic clearing systems to compete. Some regional actors accept higher risk profiles to serve clients who struggle to meet the stringent requirements of larger correspondent banks.

2 - Sources of revenue and costs related to the business of Correspondent Banking

Correspondent banking has traditionally relied on a variety of revenue sources, including transaction fees, float income, and foreign exchange fees. However, the costs associated with maintaining these services are substantial, encompassing compliance, operational expenses, and the investments required for technological upgrades.

Here are the main sources of revenue in correspondent banking :

2.1 - Fixed source of revenues

2.1.1 - Transaction fees

Transaction fees in correspondent banking comes from fees charged for processing international payments. Every time a bank sends or receives money on behalf of another bank, especially in different currencies, it can charge a transaction fee. These fixed fees vary depending on the complexity of the transaction, the currencies involved, and the speed of service required.

2.1.2 - Non transactional fees

a) Account maintenance fees

Correspondent banks charge fees for maintaining accounts on behalf of other financial institutions. These fees are typically based on the number of accounts or the volume of transactions.

b) Network access fees

For smaller banks or financial institutions without extensive international networks, correspondent banks provide access to their global banking network. Fees for this access can be structured in various ways, including subscription fees or per-use fees, adding another layer of revenue.

c) Minimum billing fees

In addition, smaller banks often face significant challenges related to the high costs of maintaining compliance with Know Your Customer (KYC) regulations. KYC processes are crucial for preventing money laundering and terrorist financing, but they require substantial resources to implement effectively. To cover these expenses, many smaller banks are subject to minimum billing fees imposed by larger correspondent banks. These minimum billing fees ensure that the larger banks can recover the administrative costs associated with conducting thorough KYC checks and ongoing monitoring.

d) Additional fees

Documentary Services : Correspondent banks provide services related to side business activity such as trade finance, including issuing letters of credit, guarantees, and other trade-related documents. These services often come with fixed fees.

Liquidity and other Services : Correspondent banks offer liquidity, optimizing cash flows, providing account reconciliation, selfcare portal services. These services may have fixed charges.

2.2 - Variable Sources of Revenue

a) Foreign exchange (Forex) trading

Correspondent banks engage in currency trading on behalf of their clients. The revenue generated from forex trading can vary based on market fluctuations.

b) Interest rate spreads

When correspondent banks lend or borrow funds on behalf of their clients, they earn revenue from the interest rate spreads (the difference between borrowing and lending rates).

c) Trade finance commissions

Correspondent banks earn commissions on trade finance transactions, such as discounting bills of exchange, negotiating export-import documents, and providing financing for trade.

d) Cross-border payments

Handling cross-border payments involves currency conversion, correspondent bank fees, and other charges. The revenue from these services can fluctuate based on transaction volumes and exchange rates.

2.3 - Costs

a) Compliance costs

These include the expenses for meeting regulatory requirements like KYC, AML, and CFT. They encompass technology investments, employee training, and audits.

b) Operational costs

Maintaining and managing a correspondent banking network involves technology systems, human resources, and administrative overheads, particularly due to time zone differences and varying regulatory requirements.

c) Risk management costs

Banks need robust risk management systems to identify and mitigate financial crime, geopolitical risks, and market volatility. This involves expenses for technology and highly skilled personnel.

d) Liquidity costs

Managing foreign currency accounts involves liquidity management costs, especially during periods of currency volatility or international economic uncertainty.

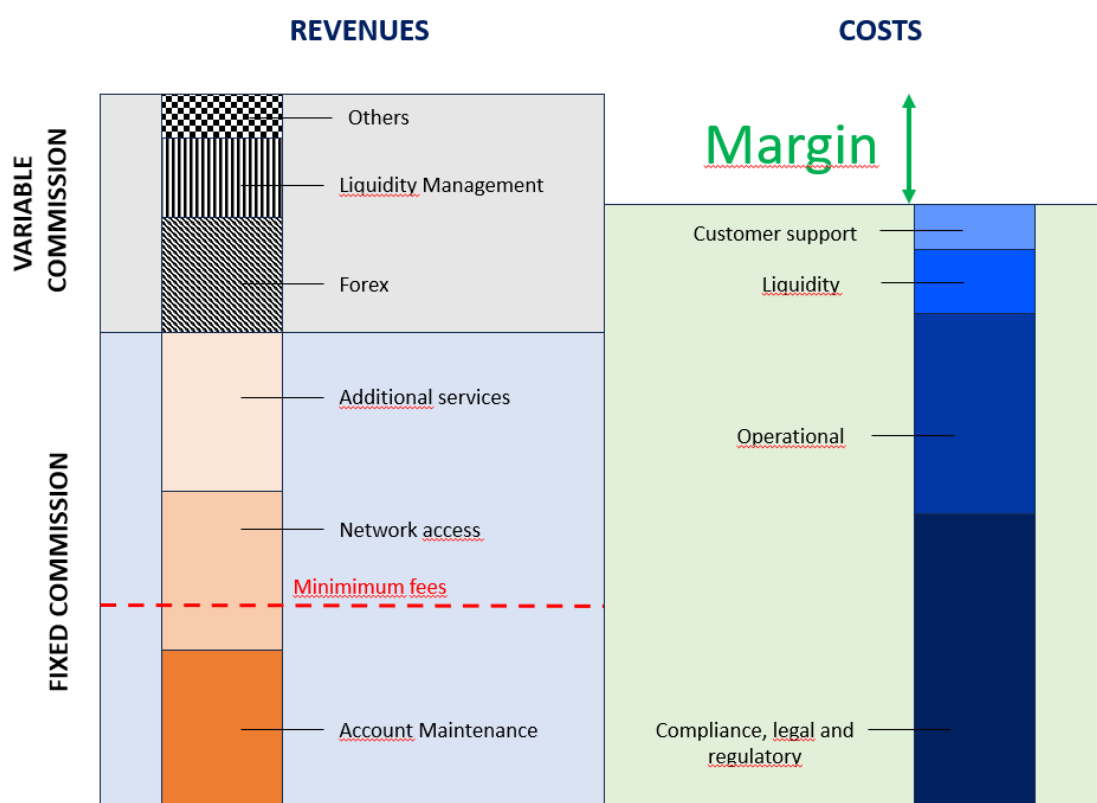
e) Legal and regulatory costs

Banks require legal support for drafting contracts, dispute resolution, and regulatory reporting. Compliance teams must also navigate the varying regulatory landscapes across jurisdictions.

f) Customer support costs

Providing high-quality customer service requires investment in support staff and tools for managing and resolving client issues.

Fig 3 : Correspondent banking business model³



³ Source OpenbanQ

3 - Regulatory pressures: the mounting challenges facing Correspondent Banking

In the ever-evolving landscape of global finance, correspondent banking has long been a vital artery, enabling the seamless flow of capital across borders. Yet, in recent years, this lifeline has come under increasing strain from regulatory pressures that are reshaping the industry in profound ways.

The aftermath of the 2008 financial crisis marked a turning point, as governments and regulators worldwide tightened their grip on financial institutions to prevent a repeat of the catastrophic failures that nearly brought the global economy to its knees. For correspondent banks, this meant grappling with an avalanche of new regulations, from stringent Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements to the demanding standards set by the Basel III framework.

At the heart of these regulatory challenges is the need for banks to combat financial crime more effectively. The stakes are high: failure to detect and prevent illicit activities, such as money laundering and terrorism financing, can result in hefty fines and reputational damage. As a result, correspondent banks have been forced to invest heavily in compliance infrastructure, hiring legions of compliance officers and deploying sophisticated technologies to monitor transactions.

However, the costs associated with these regulatory demands are significant. **Smaller banks, particularly in developing countries, have found it increasingly difficult to maintain correspondent relationships.** Larger banks, wary of the risks and expenses involved, have responded by engaging in "de-risking" – the process of cutting ties with correspondent banks in regions deemed too risky or unprofitable. This trend has led to a noticeable decline in the number of correspondent banking relationships globally, with the Financial Stability Board reporting a drop of more than 20% since 2011.

The implications of this de-risking phenomenon are far-reaching. For many countries, particularly those with emerging economies, the loss of correspondent banking relationships threatens to

stifle economic growth by limiting access to international financial markets. Small businesses, local banks, and even entire regions risk being cut off from the global financial system, exacerbating economic inequalities.

Moreover, the burden of regulatory compliance is not just financial; it also involves navigating a complex web of international regulations that vary from one jurisdiction to another. This regulatory fragmentation adds another layer of difficulty for banks already stretched thin by compliance costs.

In this challenging environment, correspondent banking must find a way to adapt. Some institutions are turning to technological innovations, such as artificial intelligence and blockchain, to streamline compliance processes and reduce costs. Others are advocating for a more coordinated global approach to regulation, one that balances the need for security with the practical realities of maintaining vital financial connections.

As correspondent banking navigates these regulatory waters, the industry's ability to adapt will be crucial in determining its future. The challenge is clear: **how to balance the demands of regulatory compliance with the need to keep the global financial system interconnected and inclusive ?**

3.1- Current practice

Correspondent banking is an arrangement between two banks, usually in different countries, where one bank (the correspondent) provides services to the other (the respondent). This relationship facilitates cross-border transactions without requiring the respondent bank to have a physical presence in the correspondent's jurisdiction.

Most correspondent banking transactions rely on the SWIFT network, a global messaging system that securely transmits payment instructions between financial institutions. The advent of **SWIFT gpi** (Global Payments Innovation) has introduced transparency and speed to cross-border payments, addressing long-standing inefficiencies.

Who Are the Key Players?

Several major actors dominate the correspondent banking ecosystem, playing pivotal roles in maintaining its functionality:

- **Global Tier-1 Banks:** Banks such as JPMorgan Chase, Citibank, HSBC, Deutsche Bank, and BNP Paribas act as key correspondents for many smaller banks. These institutions provide liquidity, facilitate large-scale clearing and settlement, and maintain a vast network of nostro and vostro accounts worldwide.
- **Regional and Domestic Banks:** These institutions often act as respondents in the system, relying on global banks to extend their reach into international markets.
- **Central Banks: Often:** central banks provide oversight and regulatory frameworks to ensure the safety and efficiency of correspondent banking relationships. They may also act as settlement banks in specific contexts, particularly for domestic currencies.

- **SWIFT:** The Society for Worldwide Interbank Financial Telecommunication is the backbone of the system, providing the secure messaging infrastructure that underpins most correspondent banking transactions globally.
- **Technology Providers:** Companies like Ripple and other blockchain innovators are entering the space, offering alternatives to traditional systems with faster and cheaper cross-border payment solutions. While not traditional players, these fintechs are reshaping the competitive landscape.

3.2 - Roles of key Financial Institutions players

The European correspondent banking market is dominated by a mix of **large multinational banks** and **regional champions**. These institutions provide the infrastructure and expertise required to facilitate seamless international transactions.

3.2.1 - The Strategic role of Global Tier-1 Banks in correspondent banking

Global Tier-1 banks serve as critical nodes in facilitating international trade and finance, providing essential services like cross-border payments, liquidity management, and foreign exchange transactions. However, their dominance in this space comes with significant challenges and responsibilities, particularly in meeting regulatory compliance requirements.

3.2.2 - Massive investments for regulatory compliance

Over the past decade, global banking regulations have become increasingly stringent. **Tier-1 banks** have had to invest heavily in technology, infrastructure, and human resources to ensure compliance with anti-money laundering (AML) laws, counter-terrorism financing (CTF) protocols, and Know Your Customer (KYC) standards. These investments often run into billions of dollars annually. For instance, sophisticated transaction monitoring systems, enhanced due diligence processes, and large-scale data analytics platforms are now standard requirements.

Moreover, penalties for non-compliance can be catastrophic, both financially and reputationally. This has led Tier-1 banks to adopt a zero-tolerance approach toward regulatory breaches, further escalating operational costs. As a result, many smaller banks have exited the correspondent banking business due to the prohibitive expense, leaving the field increasingly concentrated among Tier-1 players.

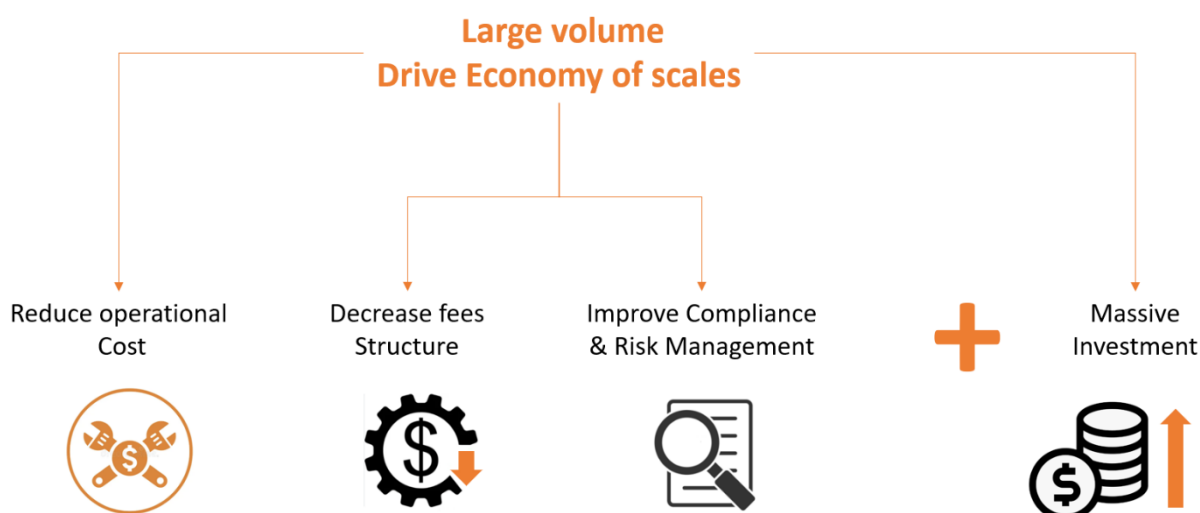
3.2.3 - Scale and profitability: A High-volume game

Given the high costs of compliance, profitability in correspondent banking is achievable only at significant volumes. This business model aligns well with Tier-1 banks, which already manage extensive networks and handle enormous transaction flows. Banks operating in major currencies like the U.S. dollar (USD) and the euro (EUR) are particularly well-positioned. Institutions like JPMorgan and Citibank dominate the USD space, while Deutsche Bank and BNP Paribas are leaders in euro-denominated transactions.

Their global reach enables them to process millions of transactions daily, leveraging economies of scale to offset compliance costs. This scalability is critical for maintaining profitability in an environment where margins are increasingly thin.

The dominance of the USD and EUR in global trade underscores the importance of Tier-1 banks in these currency corridors. The USD, as the world's primary reserve currency, accounts for a majority of cross-border transactions. Similarly, the EUR plays a vital role in intra-European trade and global financial markets. Tier-1 banks with robust clearing capabilities in these currencies act as linchpins for international financial stability.

Fig 4 : The drivers of economy of scales in correspondent banking⁴



The increase in volumes triggers three effects:

1. A **reduction in pure fixed costs** related to IT development and maintenance (software, infrastructure, human resources).
2. **Stronger negotiation leverage** for network management (partners) and more payment corridors.
3. A **reduction in semi-variable costs**, which represent expenses linked to marketing, sales, and structural costs for management, the network, and KYC.

Therefore, the higher the volumes, the more natural efficiency improves, it can be considered as Machine learning apprenticeship.

Variable costs are mainly linked to **non-Straight Through Processing (STP)** processes, such as payment repairs, duplicate payments, billing queries, false positive sanctions, and AML-related issues — essentially Back Office costs.

Efficiency improves though massive investments in automation.

⁴ Source OpenbanQ

Recent advancements in the fight against money laundering, particularly in the context of cross-border payments, have been significantly bolstered by the **use of XML-based files**, which offer much richer data compared to traditional SWIFT MT messages.

The enhanced granularity and structured nature of XML files enable the inclusion of **detailed information about beneficiaries, payment purposes, and transaction metadata**. This data richness facilitates the creation of more sophisticated filtering rules, allowing institutions to better identify suspicious patterns while **reducing false positives**.

Consequently, the structured data format not only enhances compliance but also improves operational efficiency in detecting and preventing illicit activities.

3.2.5 - Global leaders with strong european operations

Deutsche Bank (Germany): A major provider of correspondent banking services with a robust network across Europe and beyond.

BNP Paribas (France): A leader in trade finance and cross-border payments with an extensive correspondent banking network.

HSBC (UK): Although global, it retains a significant presence in Europe, offering services across multiple currencies.

3.2.6 - Regional specialists in EUR correspondent banking

CaixaBank (Spain): A prominent player in southern Europe, particularly in facilitating trade finance in the Mediterranean.

UniCredit (Italy): a leading provider of correspondent banking services in Central and Eastern Europe.

Société Générale (France): known for its robust correspondent banking operations, particularly in Europe and in Africa despite withdrawing from certain areas.

Credit Agricole (France): A leading provider of correspondent banking with massive investment recently

ING plays an important role in EUR correspondent banking, particularly in its home markets and niche areas such as trade finance and sustainable banking.

3.2.7 – Central Bank in Europe

Additionally, central bank in Europe (ECB) play a pivotal role in the correspondent banking ecosystem. Central banks are integral to the correspondent banking business for EUR. They provide essential infrastructure, liquidity, regulatory oversight, and initiatives like SEPA, all of which ensure a secure, efficient, and inclusive financial environment. Their role not only supports

correspondent banks but also enhances the broader stability and functionality of the global financial system.

At the heart of the Eurozone's correspondent banking operations is **TARGET2**, the real-time gross settlement (RTGS) system operated by the European Central Bank (ECB). TARGET2 allows banks to settle EUR transactions in central bank money, eliminating credit and counterparty risks. This system is particularly significant for correspondent banks, as it provides a secure, reliable infrastructure for processing high-value payments across borders. By operating TARGET2, the ECB effectively reduces the reliance on private networks, ensuring cost efficiency and risk mitigation. Liquidity provision is another key role of central banks in EUR correspondent banking. The ECB supplies intraday liquidity to participating banks, enabling smooth settlement of transactions. This is vital for correspondent banks managing large volumes of cross-border payments, as it minimizes delays and disruptions. Additionally, the ECB acts as a lender of last resort, offering financial stability during periods of market stress.

Central banks also play a regulatory and supervisory role, enforcing compliance with anti-money laundering (AML) and counter-terrorism financing (CTF) standards. These measures are crucial for correspondent banks, which often operate in high-risk environments. By ensuring adherence to these regulations, central banks foster transparency and trust in the global financial system.

The ECB's initiatives, such as the Single Euro Payments Area (SEPA), further enhance correspondent banking in EUR. SEPA standardizes payment systems across the Eurozone, reducing the need for intermediaries and making cross-border EUR transactions more efficient and cost-effective. This harmonization benefits correspondent banks by streamlining processes and increasing transaction speeds.

Moreover, central banks support financial inclusion by enabling smaller banks to participate in EUR payment systems. Through **direct or indirect access to TARGET2**, regional and local banks can engage in international transactions without relying solely on large correspondent banks. This democratization of access fosters competition and reduces costs across the banking ecosystem.

3.3 Other players

3.3.1 - SWIFT and initiatives

SWIFT has revolutionized correspondent banking metier by addressing inefficiencies and improving transparency. Alongside its other functionalities, SWIFT continues to provide a robust framework for global financial institutions, enabling them to navigate the complexities of cross-border banking with confidence. As the financial landscape evolves, SWIFT's innovations ensure it remains a critical enabler of international commerce and banking.

SWIFT gpi (Global Payments Innovation) has significantly transformed correspondent banking by enhancing the speed, transparency, and efficiency of cross-border payments. This innovation addresses longstanding challenges in international transactions, positioning SWIFT as a leader in the evolving financial ecosystem.

Key impacts of SWIFT gpi in Correspondent Banking :

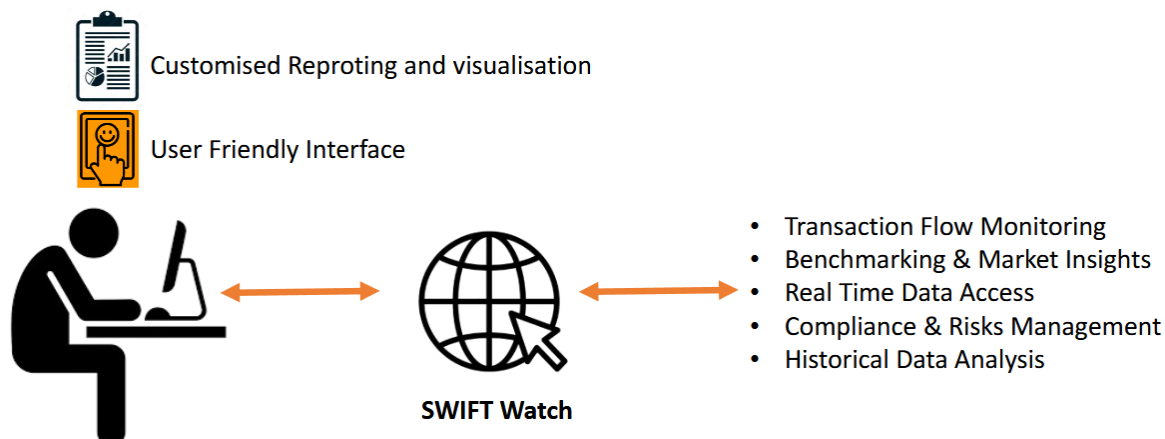
1. **Enhanced transparency:** SWIFT gpi provides end-to-end payment tracking, allowing banks and their clients to monitor the status of transactions in real-time. This transparency builds trust and reduces inquiries related to payment status.
2. **Faster transactions:** By streamlining processes and enabling same-day settlement for many transactions, SWIFT gpi minimizes delays that traditionally plagued cross-border payments. This speed is critical for businesses requiring prompt international trade settlements.
3. **Improved customer experience:** The ability to track payments and the reduction of hidden fees associated with intermediary banks improve the overall customer experience. Clients benefit from clearer cost structures and faster resolution of payment issues.
4. **Reduction of operational risks:** Enhanced transparency and streamlined processes reduce the likelihood of errors and disputes, mitigating operational risks for banks.
5. **Support for compliance:** SWIFT gpi aligns with regulatory requirements by providing tools for compliance reporting and fraud detection. This is essential in the highly regulated environment of correspondent banking.

Beyond gpi, SWIFT offers a suite of tools and services that further support correspondent banking operations:

1. **Sanctions screening:** SWIFT's tools for sanctions screening help banks comply with international regulations, reducing the risk of processing prohibited transactions.
2. **Compliance analytics:** These tools provide insights into transaction patterns, aiding in the detection of fraudulent activities and the management of compliance risks.
3. **RMA (Relationship Management Application):** This feature enables banks to manage correspondent relationships effectively, ensuring secure and controlled access to the SWIFT network.
4. **Pre-validation services:** SWIFT's pre-validation capabilities allow banks to detect and address potential issues in transactions before they are processed, improving accuracy and reducing delays.
5. **SWIFT CSP (Customer Security Programme):** This program enhances the overall security framework for banks using the SWIFT network, helping to safeguard sensitive financial data.

In addition, banks and financial institutions can leverage on a suite of analytics tools such Swift Watch to provide detailed insights into global financial transaction flows as debriefed in scheme hereunder.

Fig 5 : Swift Watch description⁵



⁵ Source OpenbanQ

3.3.2 Focus on technology providers :

The world of correspondent banking is undergoing a transformative evolution, driven by the emergence of disruptive technologies and innovative platforms. Among these, blockchain technology and multilateral platform projects stand out as game-changers, promising to redefine traditional models of cross-border payments and interbank relationships.

In this part, we delve into how these new entrants are reshaping the landscape of correspondent banking. From the enhanced transparency and efficiency of blockchain-based systems to the collaborative potential of multilateral platforms, we will explore these innovations.

3.3.2.1 Blockchain: a catalyst for transformation

Blockchain's role in cross-border payments is undeniably transformative. Through innovative protocols like XRP, XDC, and Stellar, alongside ambitious projects such as Finality, Partior, and CBDCs, the financial industry is moving towards a more efficient, transparent, and inclusive future. As adoption grows, blockchain has the potential to redefine global payments, bridging gaps and driving economic progress on an unprecedented scale.

3.3.2.1.1 Blockchain protocole

Ripple's XRP

Ripple's XRP Ledger offers a highly efficient solution for cross-border payments. By using XRP as a bridge currency, financial institutions can settle transactions in seconds and at a fraction of the cost of traditional systems. RippleNet, the network built on the XRP Ledger, enables seamless integration between banks, payment providers, and digital asset exchanges.

XDC Network

The XDC Network, based on a hybrid blockchain architecture, is optimized for enterprise use cases, including trade finance and cross-border payments. It offers near-zero transaction fees and instant settlements, making it an attractive option for financial institutions. XDC's interoperability with ISO 20022 standards ensures compatibility with traditional banking infrastructure, paving the way for seamless integration.

Stellar Network

The Stellar blockchain facilitates fast and low-cost cross-border payments, particularly for emerging markets. Companies leverage Stellar to convert currencies into digital assets (stablecoins), simplifying transactions and reducing fees.

Algorand

Algorand's blockchain is designed for scalability and speed, making it suitable for cross-border payments. Its proof-of-stake consensus mechanism ensures energy efficiency, and its ability to handle thousands of transactions per second makes it an attractive choice for financial institutions seeking low-latency solutions.

Hedera Hashgraph

Hedera Hashgraph leverages its unique distributed ledger technology to enable fast, secure, and fair cross-border payments. Its enterprise-grade infrastructure provides low transaction fees and high throughput, which is ideal for large-scale financial applications.

Ethereum (Layer 2 Solutions)

Ethereum's Layer 2 solutions, such as Optimism and Arbitrum, enhance the scalability and efficiency of the Ethereum network. These solutions enable fast and cost-effective cross-border payments while benefiting from Ethereum's robust ecosystem and security.

3.3.2.1.2 Specific case Decentralized Finance (DeFi) protocols

DeFi protocols, such as **Uniswap** and **Aave**, facilitate cross-border payments using stablecoins like USDC and USDT. These platforms enable instant transfers without traditional banking intermediaries.

Chainlink integrates decentralized oracles to provide up-to-date exchange rates and reliable data for cross-border payments. This ensures transparency and reduces costs, especially in currency conversions.

3.3.2.1.3 Traditional player leveraging blockchain

Visa B2B Connect

Visa's B2B Connect uses elements of blockchain technology to handle cross-border business payments. This system enhances security and speeds up transactions while eliminating the need for intermediaries.

IBM World Wire

Built on the Stellar blockchain, IBM's World Wire enables financial institutions to transfer funds in real-time using digital assets like stablecoins. This platform promotes transparency and efficiency in international transactions.

Central Bank Digital Currencies (CBDCs)

CBDCs are being explored for cross-border payment solutions. Countries like China, with its digital yuan, are testing blockchain-based systems to improve the interoperability of national currencies for international use.

The Central Bank of Nigeria's e-Naira represents Africa's pioneering CBDC initiative. Built on blockchain, it aims to enhance financial inclusion, reduce remittance costs, and support the formalization of informal economies.

3.3.2.2 Prominent Blockchain-Based Projects

Fnality

Fnality International focuses on creating utility settlement coins (USCs) to streamline interbank payments. Operating on blockchain infrastructure, these digital assets provide real-time settlement, liquidity optimization, and enhanced security. Fnality's multi-currency approach addresses the fragmentation in global financial systems.

Partior

Launched by DBS Bank, J.P. Morgan, and Temasek, Partior aims to digitize and modernize cross-border payments. By utilizing smart contracts and tokenized deposits, Partior offers near-instantaneous settlements, transparency, and reduced reconciliation costs.

RTGS Global

RTGS Global leverages distributed ledger technology (DLT) to enhance real-time gross settlement systems. By connecting financial institutions directly, it enables immediate cross-border liquidity transfers while maintaining regulatory compliance and reducing counterparty risks.

Dloro Nostro

Focused on digitizing traditional nostro/vostro relationships, Dloro Nostro uses blockchain to improve transparency and efficiency in international banking. By integrating smart contracts, it automates reconciliation and optimizes cash management for financial institutions.

3.3.2.2 Multi lateral platforms

The mechanics of multilateral payment platforms : how it works ?

Multilateral platforms, designed to streamline transactions among multiple parties, are transforming the way businesses and individuals manage payments, offering innovative solutions to longstanding inefficiencies.

These new payment platforms operate by creating a unified system where multiple participants can transact seamlessly. Unlike traditional bilateral systems that rely on direct agreements between two parties, multilateral platforms act as intermediaries, reducing the complexities associated with cross-border and multi-party transactions. These systems enhance efficiency by enabling faster settlements, reducing costs, and increasing transparency.

Addressing global challenges : why it is revolutionising payment infrastructure ?

One of the most pressing challenges in international finance is the fragmentation of payment systems. Multilateral platforms tackle this issue by providing interoperability across diverse financial networks. For example, they enable businesses in different countries to transact in their local currencies, mitigating the risks and costs associated with foreign exchange.

Additionally, these platforms play a critical role in reducing the reliance on correspondent banking networks, which are often slow, expensive, and prone to disruptions. By leveraging digital infrastructure, multilateral payment systems offer a more resilient alternative, particularly for emerging markets.

Examples :

Several multilateral payment platforms are driving change globally. For instance, SWIFT, traditionally known for messaging services, is evolving its platform to include real-time payment capabilities. Meanwhile, regional platforms like SEPA in Europe and PAPSS in Africa are addressing specific geographic needs, fostering greater economic integration within their respective regions.

Fintech companies are also entering the fray, introducing cutting-edge technologies such as blockchain and artificial intelligence to enhance the functionality of multilateral payment platforms. These innovations are enabling secure, instantaneous transactions, even across complex networks involving multiple parties.

Economic implications

The economic impact of multilateral payment platforms is profound. By simplifying cross-border transactions, these systems are boosting international trade, particularly for small and medium-sized enterprises (SMEs) that previously faced prohibitive barriers. Moreover, they are enhancing financial inclusion by providing underserved populations with access to efficient payment solutions.

In the context of global economic policy, multilateral platforms are supporting initiatives like the United Nations Sustainable Development Goals (SDGs) by promoting inclusive and sustainable economic growth. They are also facilitating the implementation of trade agreements, such as the African Continental Free Trade Area (AfCFTA), which relies on efficient payment systems to realize its full potential.

Challenges and the road ahead

Despite their benefits, multilateral payment platforms face significant challenges. Regulatory disparities, cybersecurity threats, and the need for robust digital infrastructure remain major hurdles. Additionally, achieving universal adoption requires collaboration among governments, financial institutions, and technology providers.

Looking ahead, the success of multilateral payment platforms will depend on their ability to adapt to evolving market demands. Continuous innovation, coupled with a commitment to inclusivity and transparency, will be essential in ensuring their sustainability and scalability.

Multilateral payment platforms are reshaping the global financial landscape, offering a glimpse into the future of transactions. By addressing inefficiencies and fostering economic connectivity, they are unlocking new opportunities for businesses and individuals alike. As these platforms continue to evolve, they hold the promise of creating a more interconnected and equitable global economy.

3.4 Transforming the value chain of correspondent banking

3.4.1 "One Leg Out" Scheme: transforming the correspondent Banking landscape

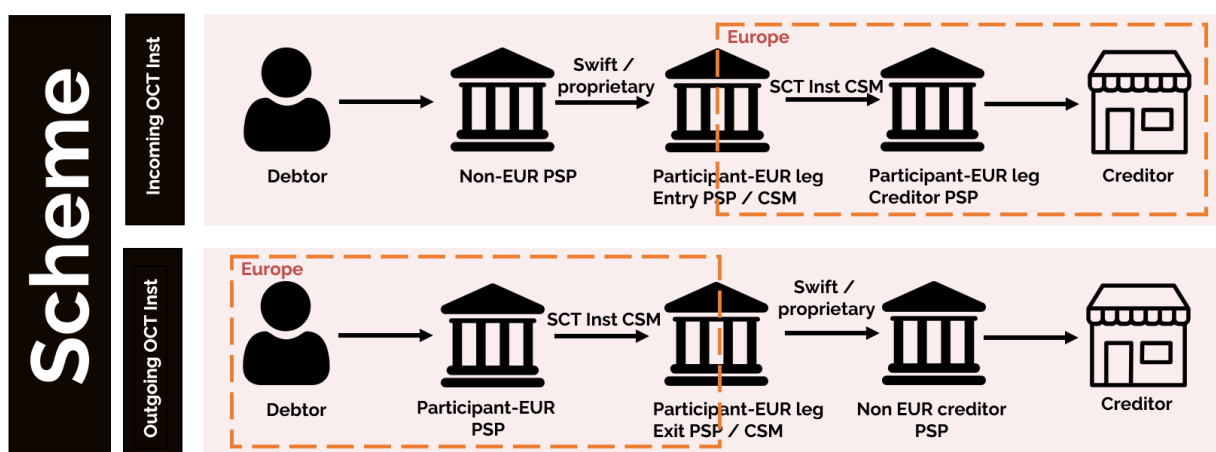
In an era marked by evolving financial regulations and technological innovation, the **"One Leg Out"** (OLO) scheme has emerged as a transformative framework reshaping the correspondent banking industry. Designed to mitigate risks associated with cross-border payments and address

regulatory scrutiny, OLO is redefining the operational and strategic landscape of global financial institutions.

Understanding the OLO scheme

The OLO scheme is a compliance and risk management model designed to address specific vulnerabilities inherent in cross-border transactions where one party operates outside the jurisdiction of the correspondent banking network's primary regulatory framework. Such transactions often involve entities or regions considered high-risk due to weaker regulatory oversight, political instability, or a history of financial crime.

Fig 6 : OLO Scheme⁶



Key components of the OLO scheme:

- **Enhanced due diligence (EDD):** Banks must perform comprehensive background checks on clients and counterparties involved in OLO transactions. This includes verifying the source of funds, understanding the nature of the business relationship, and ensuring the legitimacy of the transaction.
 - **Transaction monitoring:** Financial institutions are required to implement advanced monitoring systems that analyze payment flows in real-time. These systems use algorithms and risk-based rules to detect suspicious patterns or anomalies indicative of potential money laundering or terrorism financing.
 - **Data sharing and transparency:** OLO encourages collaboration between correspondent banks, regulators, and financial intelligence units (FIUs). This includes sharing information on high-risk entities and transactions, fostering a more transparent and cooperative approach to mitigating financial crime.
 - **Risk-based approach:** The OLO scheme mandates that banks assess the risk level of each transaction based on factors such as geography, counterparty reputation, and transaction purpose. High-risk transactions trigger additional layers of scrutiny and may require approval from senior compliance officers.
- Implementation Timeline:** The OLO scheme is expected to be implemented in phases over the next two to three years, allowing institutions to adapt their systems and processes to the new requirements. Regulatory

⁶ Source OpenbanQ

authorities are expected to provide further guidance and milestones to ensure smooth adoption.

- **Implementation timeline:** The OLO scheme is expected to be implemented in phases over the next two to three years, allowing institutions to adapt their systems and processes to the new requirements. Regulatory authorities are expected to provide further guidance and milestones to ensure smooth adoption.

By addressing these areas, the OLO scheme aims to strengthen the integrity of cross-border financial networks while minimizing the risks posed by non-compliant or high-risk entities.

Fintechs benefiting from the OLO Scheme

Fintech companies stand to gain significant advantages from the OLO framework, particularly those focused on compliance, transaction monitoring, and payment innovation. Fintech companies stand to gain significant advantages from the OLO framework, particularly those focused on compliance, transaction monitoring, and payment innovation. Key beneficiaries include:

- **RegTech providers:** fintechs specializing in regulatory technology (RegTech) will see increased demand for their solutions, such as automated compliance checks, AI-powered risk assessment tools, and advanced analytics platforms.
- **Blockchain innovators:** (please refer to section 3.3.2.1). Companies offering blockchain-based payment solutions can position themselves as low-risk alternatives for cross-border transactions due to the transparency and traceability inherent in distributed ledger technology.
- **KYC and AML solution providers:** fintechs that provide know-your-customer (KYC) and anti-money laundering (AML) tools will benefit from the heightened emphasis on due diligence and monitoring under the OLO scheme.
- **Payment aggregators:** firms that enable seamless cross-border payments while incorporating robust compliance frameworks will become valuable partners for banks navigating the complexities of OLO transactions.

Impacts of OLO on Correspondent Banking

The introduction of the OLO scheme is set to generate far-reaching impacts across the correspondent banking ecosystem. These include:

- **Operational overhaul :** banks will need to invest heavily in technology and expertise to implement enhanced monitoring and due diligence systems. This includes the deployment of artificial intelligence (AI) and machine learning (ML) tools to analyze vast amounts of transaction data efficiently.
- **Cost implications :** the cost of compliance is expected to rise significantly as banks allocate resources to meet the stringent requirements of the OLO framework. Smaller financial institutions may face difficulties absorbing these costs, potentially leading to a consolidation in the industry.
- **De-risking trends :** to avoid the complexities and liabilities of OLO transactions, some banks may choose **to exit relationships** with high-risk counterparties or regions. This

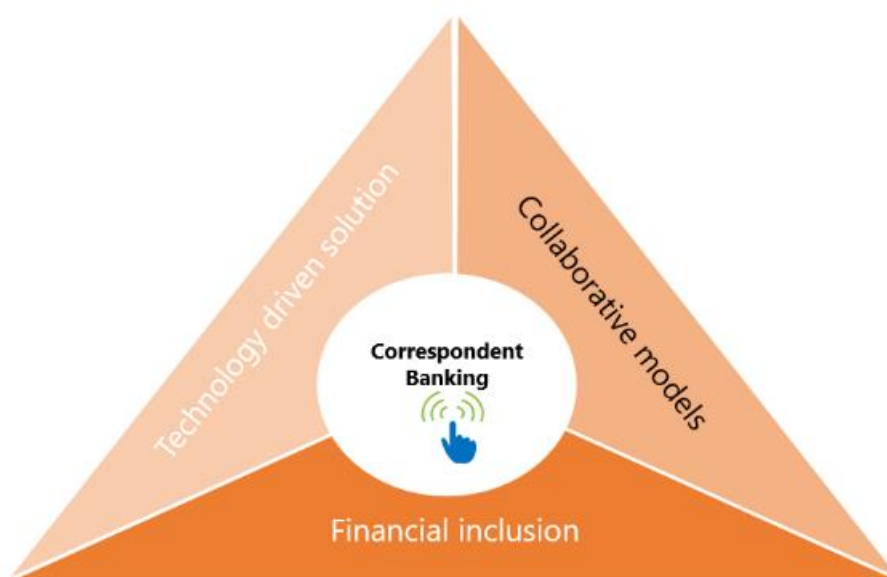
could exacerbate **financial exclusion** in underserved markets, particularly in developing economies.

- **Regulatory alignment** : the OLO scheme underscores the need for harmonized global regulatory standards. Divergences in AML and CTF requirements across jurisdictions have historically posed challenges for correspondent banks. OLO encourages a unified approach, promoting consistency and predictability.

Transforming the Future of Correspondent Banking

As correspondent banking grapples with the implications of the OLO scheme, the industry is poised for a paradigm shift.

Fig 7 : Paradigm for the future of correspondent banking OLO Scheme⁷



1. Technology-driven solutions

The adoption of blockchain technology and digital ledger systems could provide a transparent and tamper-proof mechanism for cross-border payments, reducing the risks associated with OLO transactions. Additionally, fintech partnerships may offer innovative solutions to streamline compliance processes.

2. Collaborative models

Collaboration between banks, regulators, and technology providers will be crucial. Initiatives like shared KYC utilities and global data repositories can enhance efficiency and reduce duplication of efforts.

3. Focus on financial inclusion

While the OLO scheme aims to reduce risk, stakeholders must balance compliance with efforts to ensure access to financial services in high-risk regions. Public-private partnerships and targeted support for local financial institutions can mitigate the adverse effects of de-risking.

⁷ Source OpenbanQ

3.4.2 Enhancing transaction pre-validation in Correspondent Banking: a strategic shift

The growing demand for rapid and reliable cross-border payments has amplified the necessity for pre-validation. This process enables banks to identify potential issues before transactions are initiated, reducing processing times and improving visibility for both senders and receivers. Real-time feedback mechanisms ensure that customers are better informed about the status and outcome of their payments.

Minimizing rejections and increasing efficiency

One of the primary pain points in cross-border payments is the high rate of transaction rejections due to incorrect beneficiary details, regulatory compliance failures, or mismatched account information. Pre-validation minimizes these errors by verifying transaction details upfront, saving time, resources, and costs associated with resolving failed transactions.

Optimized Nostro account management

For banks, effective nostro account management is critical for maintaining liquidity and reducing operational risks. Pre-validation ensures that funds are routed accurately and efficiently, reducing the need for manual interventions and enhancing the accuracy of nostro account projections.

Advantages of pre-validation transaction

The adoption of transaction pre-validation mechanisms in correspondent banking provides clear advantages:

- Customer satisfaction: **faster** and more **reliable** transactions lead to higher customer retention and satisfaction.
- Cost efficiency: reduced failure rates and manual interventions lower operational costs significantly.
- Regulatory compliance: pre-validation ensures that all transactions meet global and local regulatory requirements, reducing the risk of penalties.
- Enhanced liquidity management: improved nostro account accuracy facilitates better liquidity planning and risk management.

Market-leading pre-validation solutions

1. CONFIRM - SWIFT's payment pre-validation

SWIFT's Payment Pre-Validation service, also known as Confirm, leverages its extensive global network to enable real-time validation of beneficiary account information. The platform integrates with SWIFT gpi (Global Payments Innovation) to provide end-to-end transparency and speed. By ensuring that account details are correct before initiating a transaction, Confirm reduces failure rates and enhances the reliability of international payments.

2. IPID (International Payments Identity Service)

Developed to address inefficiencies in cross-border payments, IPID focuses on standardizing and validating payer and payee information. Its use of unique identifiers ensures compliance with regulatory requirements while reducing the risk of errors. The service's data-rich validation process significantly boosts the speed and accuracy of transactions.

3. Ripple's - RippleNet

RippleNet combines blockchain technology with advanced pre-validation tools to offer a seamless cross-border payment experience. By utilizing distributed ledger technology (DLT), RippleNet ensures that all transaction details—from compliance checks to account information—are validated in real-time. This reduces settlement times and lowers operational costs while providing high levels of transparency.

4. Trustpair

Trustpair focuses on fraud prevention and transaction validation through its specialized platform. Using artificial intelligence (AI) and machine learning (ML), Trustpair ensures that payments are made to legitimate beneficiaries by verifying supplier data and detecting anomalies. This solution not only reduces operational risk but also boosts trust in the payment process.

5. SisID

Similar to Trustpair, SisID offers tools for validating and securing payment workflows. Its real-time verification processes ensure that payment instructions are accurate and secure, thereby mitigating risks associated with fraud and incorrect data entry. SisID's focus on compliance and transparency makes it a strong choice for banks looking to enhance their operational efficiency.

6. Visa B2B Connect

Visa B2B Connect is a blockchain-based platform designed specifically for high-value cross-border payments. The solution integrates transaction pre-validation features to reduce errors and increase transparency. By using a distributed ledger, Visa B2B Connect provides a highly secure and efficient environment for corporate payments, making it a preferred choice for businesses requiring robust cross-border solutions.

Conclusion

As 2025 unfolds, the correspondent banking sector stands at a pivotal juncture, shaped by a dynamic interplay of technological advancements, regulatory pressures, and evolving market demands. The consolidation within the Euroclearing market reflects a broader trend toward operational efficiency and risk mitigation, while technological providers and multilateral platforms are emerging as transformative forces.

Efficiency gains in the sector are increasingly driven by scale, where higher transaction volumes naturally improve operational performance, akin to machine learning processes that optimize over time. However, variable costs remain tied to non-Straight Through Processing (STP) activities. These include payment repairs, duplicate payments, billing queries, false positive sanctions, and AML-related issues — all of which incur significant back-office costs. Addressing these inefficiencies will be critical to preserving profitability.

Key advancements, such as the "One Leg Out" scheme and transaction pre-validation systems, are set to reshape the operational landscape. These innovations enable banks to save time, reduce errors, and enhance client satisfaction by resolving issues upstream. By pre-validating transactions, banks can minimize costly interruptions, such as compliance breaches or payment rejections, further bolstering trust and speed in cross-border payments.

Multilateral platforms are playing a pivotal role in redefining correspondent banking, fostering seamless collaboration across financial institutions. By integrating advanced technologies like distributed ledger systems and real-time settlement capabilities, these platforms offer enhanced transparency, reduced costs, and improved transaction speed. Furthermore, initiatives around central bank digital currencies (CBDCs) are gaining momentum, with countries exploring their potential to streamline international payments. CBDCs promise to complement traditional correspondent banking by reducing reliance on intermediaries, increasing efficiency, and ensuring greater regulatory oversight.

Initiatives like SWIFT's enhancements, combined with broader technological integrations, underscore a strategic shift aimed at enhancing transparency and security. The sector is increasingly leveraging artificial intelligence, blockchain, and partnerships with fintechs to tackle these challenges head-on.

Correspondent banking in 2025 is not merely evolving; it is redefining its relevance in a rapidly changing financial ecosystem. By capitalizing on technological advancements, addressing cost inefficiencies, and embracing collaboration, the industry sets the stage for a more inclusive, efficient, and resilient global payment infrastructure.

Aubout the author

Julien Achard, a graduate with a Master's degree and a Specialized Postgraduate Diploma in Information Systems Management, began his career in the Investment Banking sector at Crédit Lyonnais, CALYON, and Crédit Agricole CIB. He held several key positions, including leading the deployment of a back-office software, Product Manager for Trade Finance solutions and in 2007, he was appointed Asia-Pacific Marketing & Sales Director for Transaction Banking, based in Hong Kong for six years.

Returning to France in 2013, Julien took responsibility for a portfolio of major industrial clients (CAC40), promoting Global Liquidity & Cash Management.

In 2021, Julien founded his consulting firm, **OPENBANQ**, specializing in digital transformation for Transaction Banking. The specialized boutique supports banks, fintechs, and corporates in adapting to the digital era.

Additionally, Julien is ambassador of **The Place Fintech** (Palais Brongniart) and an active member of the Fintech Commission of the French Association of Corporate Treasurers (**AFTE**). He also contributes to the certification committees of the Corporate Finance Commission of **Finance Innovation**. After the successful launch of the first Treasury Innovation Day, Julien co-leads the upcoming event organized by the AFTE, facilitating interactions between fintechs and corporates, scheduled for March 18, 2025.

Finally, Julien contributed to the drafting of the report on the digitalization of international trade, supported by **Paris Europlace** and **ICC France**. He also led the Fintech working group, which he animated in collaboration with BPI France.

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