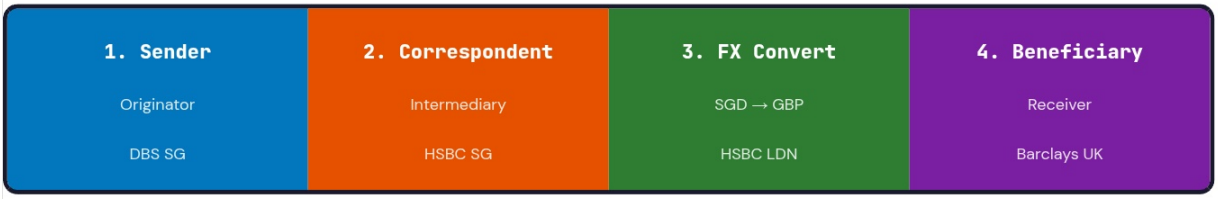
Sivasubramanian R.
Product Owner • Payments & AI

Correspondent Banking Cheat Sheet

How cross-border payments actually flow — nostro accounts, ISO 20022, SWIFT gpi, and hidden costs

🌎 The Cross-Border Payment Chain

A $10,000 SGD transfer to the UK passes through 3–5 banks. SWIFT only transmits the instruction — **it does not move money**.



STEP-BY-STEP FLOW

#	Step	What Happens
1	Initiation	Importer instructs Bank A to pay foreign supplier's Bank B
2	Debit & FX	Bank A debits customer's account, calculates exchange rate, deducts equivalent
3	SWIFT Messaging	Bank A sends **pacs.008** via SWIFT. **No money moves yet — only the instruction.**
4	Nostro Settlement	Correspondent bank receives instruction, debits Bank A's pre-funded nostro account
5	Domestic Clearing	If beneficiary is at a different bank, correspondent uses local rail (CHAPS, Fedwire, TARGET2)
6	Final Credit	Beneficiary receives funds in local currency account

NOSTRO ACCOUNT

"Our money at their bank"

DBS holds a USD nostro at Citibank NY. When DBS sends USD, Citi debits this account. Pre-funded — capital sits idle. Average balance: **$50M–$500M** depending on bank size.

VOSTRO ACCOUNT

"Their money at our bank"

Same account, different viewpoint. From Citi's perspective, DBS's account is a vostro. Both must reconcile **daily** — comparing external statement vs internal ledger, resolving exceptions.

📨 ISO 20022 Messages in the Chain

Since Nov 2025, SWIFT uses ISO 20022 MX messages exclusively. Legacy MT messages decommissioned.

Message	Name	Direction	Purpose
pacs.008	FI to FI Customer Credit Transfer	→ Forward	Moves payment hop-by-hop through chain
pacs.009	FI Credit Transfer (Cover)	→ Forward	Settles funds via correspondent (cover method)
pacs.002	Payment Status Report	← Return	ACSP (accepted), ACCC (completed), RJCT (rejected)
camt.054	Debit/Credit Notification	← Return	Nostro account booking confirmation
camt.056	Cancellation Request	← Return	Cancel a payment already in the chain

🔍 SWIFT gpi & UETR Tracking

UETR (UUID v4)

Unique End-to-End Transaction Reference. Assigned at origination, tracks payment across every hop — like a FedEx tracking number.

`eb6305c2-2ef5-4f04-b2b5-7e3c6b4f9a1d`

SWIFT gpi (Since 2016)

Real-time tracker. Banks must confirm within 48 hours. **96% of gpi payments credited within 24 hours** (2024). Processes ~49M FIN messages/day.

💡 **Why fees compound:** Each intermediary deducts from the principal (SHA/BEN charging). A 4-hop chain with 0.5% per hop ≈ 2% total loss — before FX spread. The beneficiary receives less than expected. Hidden cost: FX markup of 0.5–3% over mid-market rate.

📈 Corridor Cost Comparison

Source: World Bank Remittance Prices Worldwide, 2024. G20 target: ≤3% by 2030.

Corridor	Avg Cost	Hops	Time	Key Issue
USA → UK	1.5%	2	1 day	Well-served, high competition
Singapore → UK	2.1%	3	1-2 days	Good corridor, HSBC bridge
UAE → Philippines	3.45%	3	1-2 days	OFW corridor, improving
Japan → Mexico	4.2%	4	2-3 days	Exotic double-cross: JPY→USD→MXN
India → USA	5.12%	3	1 day	RBI LRS compliance overhead
USA → China	6.72%	3	24-48h	Capital controls, reporting requirements
Italy → Bangladesh	8.45%	4	2-4 days	Highest G20 corridor cost
USA → Nigeria	8.78%	4	2-4 days	De-risking, banks exiting

⚡ Settlement Stack Comparison

Method	Speed	Cost	Finality	Coverage
Correspondent Banking	1-5 days	2-9%	Deferred (each hop)	Global (200+ countries)
Card Networks	T+2 (T+1 US)	1.5-3.5%	Auth instant, settle deferred	Point of sale focused
IPS (FedNow/TIPS/UPI)	<10 sec	€0.002–0.5%	Irrevocable	Domestic (expanding)
Stablecoins (L2)	~15 sec	~$0.01	Probabilistic (12+ confirms)	Unbanked-friendly
Tokenized Deposits	<1 sec	Near zero	Deterministic (DvP)	Institutional only

💰 Why Correspondent Banking is Expensive

CHAIN LENGTH
More hops = more fees. Each bank adds $15–50 per leg. Exotic corridors need 4+ hops.

FX SPREAD
Banks apply 0.5–3% over mid-market. Two FX conversions (JPY→USD→MXN) double it.

COMPLIANCE
KYC/AML/CFT at each hop. High-risk corridors face "de-risking" — banks exit entirely.

TIME ZONES
RTGS windows: 8am–5pm local. SG→NY (UTC+8 to -5) = 12+ hour delay waiting for NY to open.

$794 Billion
Trapped in pre-funded nostro accounts globally
BIS CPMI / FSB studies, 2016 baseline

25% Decline
In correspondent banking relationships since 2011
BIS — higher concentration, fewer channels

🏦 Top Correspondent Banks (2025)

Bank	Key Metric	Notes
Citibank	$95.1B cross-border Q1 2025 (+5% YoY)	TTS revenue grew 3%, market share gains
JPMorgan	Payments revenue $4.9B Q3 2025 (+13%)	Kinexys: $5B/day tokenized deposits
HSBC	CIB revenue growth H1 2025	AI-driven AML monitoring, Asia-Pacific strong
BNY Mellon	$55.8T AuC, Payments revenue +11%	120+ currency fund transfer services

💡 **The vicious cycle:** High cost → low volume → banks exit → even higher cost for remaining users. The corridors with the most trapped capital (Italy→Bangladesh: 8.45%) are losing correspondent relationships fastest. ~2,000 firms still provide cross-border services. Top 5 currencies: USD 47%, EUR 33%, GBP 7%.

⚖️ Settlement Finality — When Is It Legally Irrevocable?

Finality = the moment a transfer becomes irrevocable and unconditional, cannot be unwound even in insolvency.

SF1 / SF2 / SF3 FRAMEWORK (EUROPEAN REGULATION)

Stage	Name	What Happens
SF1	Moment of Entry	Transfer order validated by system, enforceable against third parties
SF2	Moment of Irrevocability	Order can no longer be cancelled by sender
SF3	Moment of Settlement	Actual debit/credit occurs, obligation extinguished

FINALITY BY SYSTEM TYPE

System	Finality	Liquidity Needed	Risk
RTGS (Fedwire, CHAPS, TARGET2)	Immediate, per-transaction	High (gross basis)	Zero settlement risk
DNS (ACH, most card nets)	End of cycle (batch)	Low (net basis)	Unwind risk if default before final settlement
Hybrid (CHIPS, EURO1)	Intraday immediate	Medium (pre-funded)	Single obligation structure
Public Blockchain	Probabilistic (~6 blocks BTC, ~13 min ETH)	100% pre-funded	Legal uncertainty; courts could order unwinding
Permissioned DLT (Kinexys)	Deterministic, immediate	Pre-funded or credit	Same legal certainty as RTGS

🔁 Netting Mechanics — Why T+0 Is Hard

Settlement takes T+2 because of the **separation of messaging from settlement**. Banks trade IOUs on isolated, private ledgers.

DNS (DEFERRED NET)

Buy $1B + Sell $1B = owe $0. Accumulate transactions, settle only the net difference. **CLS achieves 99% netting efficiency** — only 1% of gross value actually moves.

RTGS (GROSS)

Every transaction settled individually, instantly. Need $1B cash **NOW**. Zero settlement risk but massive liquidity requirement. TARGET2: 100% of payments settled in <5 min.

THE "THREE MONIES PROBLEM" — WHY T+0 IS HARD FOR CARDS

1. DUAL MESSAGING

Authorization (real-time) and settlement (batch) are separate ISO 8583 steps. Unifying them requires redesigning the entire flow.

2. FEE COMPLEXITY

Interchange + network assessment calculated in batch. Per-transaction real-time fee calc is computationally expensive at scale.

3. THREE LEDGERS

Customer deposits, merchant deposits, and central bank reserves live on separate ledgers. Synchronizing instantly without a unified ledger is hard.

🔗 CLS — Killing Herstatt Risk (PvP Settlement)

THE HERSTATT FAILURE (1974)

German regulators closed Herstatt at 15:30 CET. Counterparties had **already paid DEM** but hadn't received USD (US market just opened). Chase Manhattan suspended USD payments → global FX market froze. Created "Herstatt Risk" → directly led to CLS.

CLS: PAYMENT-vs-PAYMENT

18 currencies, settling $10T+/day. Both legs of FX trade settle simultaneously — one settles **if and only if** the other also settles. Netting: **99% efficiency**. Proved resilient during Lehman (2008).

📄 ISO 20022 Migration — The Quiet Revolution

Legacy (MT / 8583)	ISO 20022
Unstructured text → data truncation	Distinct data elements (street, building, town, country)
No standard identifiers	LEIs (Legal Entity Identifiers), UETRs
Limited remittance data	Rich remittance info travels with payment
Manual reconciliation, high error rate	Automated matching by corporate treasuries
60–70% STP rate	**>95% STP rate** (fewer false positives in sanctions screening)

System	Status	Deadline
SWIFT cross-border	Live (MT decommissioned)	Nov 2025 ✅
Fedwire (USD)	Migration complete	Mar 2025 ✅
TARGET2 (EUR)	Live	Already migrated ✅
CHAPS (GBP)	Live	Already migrated ✅

💡 **The reconciliation tax:** Every bank operates as an isolated island. No "golden copy" or shared ledger exists. Banks exchange SWIFT messages and confirm amounts match — error-prone, consuming T+1 day in matching/exception resolution. DLT promises to eliminate this via "pre-conciling" on a shared ledger. ISO 20022's structured data is the first step.

🚀 Instant Payment Systems — The Domestic Answer

FEDNOW (US)
Launched Jul 2023. **1,500+ institutions live** (Nov 2025). $853B settled in 2025 (+460% YoY). Limit: $10M. But 85% of US banks haven't adopted.

TIPS (EU)
24/7/365. 99% settled in **<5 seconds**. Cost: **€0.002/tx**. Capacity: 500 payments/sec. Multi-currency (EUR, SEK, DKK planned).

UPI (India)
16B+ transactions/month. Instant, near-zero cost. Connected with Singapore (PayNow-UPI). Template for global IPS linking.

💲 Tokenized Deposits vs Stablecoins

Feature	Stablecoin (USDC/USDT)	Tokenized Deposit (Kinexys/JPMD)
Nature	Bearer instrument (digital cash)	Registered liability (bank deposit)
Issuer	Private non-bank (Circle, Tether)	Regulated bank (JPMorgan)
Settlement	Public blockchain (ETH, Solana)	Permissioned ledger (Kinexys)
Finality	Probabilistic (public chains)	Deterministic (legally binding)
Insurance	None (USDC de-pegged to $0.88 during SVB)	FDIC insured, bank-grade custody
Pre-funding	100% (no credit in stablecoins)	Can leverage existing bank credit
Access	Permissionless (anyone with wallet)	Institutional clients only
Scale	USDT $184B + USDC $73B cap; $33T/yr on-chain	$5B/day (Kinexys, Feb 2026)

🌐 G20 Targets vs Reality (FSB Progress Report, Oct 2025)

Dimension	Target (by 2027/2030)	Reality (2025)	Status
Retail Cost	≤1%, no corridor >3%	Global average >6%	**Off track**
Remittance Cost	≤3% for $200 (by 2030)	USA→Nigeria: 8.78%	**Off track**
Speed	75% within 1 hour	Most take 24-96 hours	**Off track**
Transparency	All PSPs offer min info	gpi improving	Partial

🏭 Central Bank Experiments

Project	Lead	What It Tests
Guardian	MAS (Singapore)	Tokenized bank liabilities + wCBDC for cross-border FX
Agorá	BIS + 7 central banks	Unified platform: tokenized deposits + wholesale CBDC
mBridge	BIS → central banks (Oct 2024)	Multi-CBDC for PvP; $55B processed, ~4,047 transactions
Ensemble	HKMA	Sandbox for interbank settlement using tokenized money
D-FMI	Euroclear	Digital securities settlement, scalable to 20,000 TPS

📜 Regulatory Landscape (Feb 2026)

US: GENIUS ACT
Signed Jul 2025. 1:1 reserves (T-bills ≤90d). No rehypothecation. No interest. >$10B → federal oversight. **Not a security.** Treasury rulemaking by Jul 2026.

EU: MiCA
Fully operational Dec 2024. E-Money Tokens vs Asset-Referenced Tokens. 30–60% in bank deposits. No interest. Algorithmic stablecoins banned. Auth deadline: Jul 2026.

SG: MAS SCS
SGD or any G10 peg. Redemption at par within 5 business days. Foreign stablecoins cannot use "MAS-Regulated" label.

💡 **The real competition isn't crypto vs banks.** It's tokenized deposits vs stablecoins. JPMorgan does $5B/day on a permissioned chain with deterministic finality and FDIC insurance. Circle does $33T/yr on public chains with probabilistic finality and no deposit insurance. Same technology, different risk profiles. Global consensus emerging: 1:1 reserves, no interest, licensing, regular audits.

💡 **Why stablecoins are winning in remittances:** Not because they're better technology — but because the incumbent system is failing to meet its own G20 targets. The pull toward stablecoins is partly a failure of correspondent banking reform. Cost: $5–10 for a $500 transfer (vs $20–30 traditional). Speed: near-instant, 24/7/365.