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A retrospective: Looking back at 'A Vision for the Future of Cross-border Payments'

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Philip Bruno*
Chief Strategy and Growth Officer, ACI Worldwide, USA

Olivier Denecker**
Independent Payment Expert, Belgium

Gottfried Leibbrandt[†]
Chairman, CLS Group, The Netherlands

Philip Bruno

Olivier Denecker

Gottfried Leibbrandt

__Philip Bruno__ is Chief Strategy and Growth Office at ACI Worldwide and former co-leading partner of McKinsey & Company's Global Payment Practice. Phil is responsible for shaping and driving ACI's growth trajectory through the formulation, execution and continuous refinement of corporate and long-term strategic plans, and supports efforts to scale the commercial roll-out of Connetic, ACI's cloud native payments hub.

__Olivier Denecker__ is an independent payment expert and former co-leading partner of McKinsey & Company's Global Payment Practice. Olivier has been serving global clients on a wide variety of payment and card-related topics, advising senior clients on their complex payments-related issues. He is also a frequent speaker at international payment conferences.

__Gottfried Leibbrandt__ is the independent chairman of CLS Group and the Dutch Payment Association. Until 2019 he was Chief Executive Officer at Swift, having previously held such roles as Head of Marketing, Head of Standards and Director of Strategy and Business Development. Before joining Swift, Gottfried was a partner at McKinsey & Company.

Abstract

In 2018, Swift and McKinsey & Company published 'A Vision for the Future of Cross-Border Payments', outlining eight fundamental shifts expected to reshape international payments. This paper revisits those predictions and evaluates their accuracy amid rapid technological advancements, evolving customer demands and complex regulatory environments. Traditionally dominated by correspondent banking, the global cross-border payments landscape has transformed significantly, driven by emerging technologies, alternative solutions, customer requirements and heightened competition. The paper recounts how international payments — integral to global commerce, trade, and investment — have grown beyond initial projections. It explores how many predictions were largely confirmed, notably the accelerated growth in payment volumes, the shift in customer experience and the global efforts to reduce fragmentation. It also reflects on some areas, such as the integration of digital interfaces for corporate users or the cost or performing international payments, which still lag behind their retail counterparts. Furthermore, fragmentation in the payment value chain has intensified rather than converged, challenging the vision of a unified global payment experience. Regulatory initiatives have played a crucial role, with efforts to standardise frameworks and reduce transaction costs, yet alignment remains elusive. The paper underscores liquidity management as a persistent competitive edge for large global banks, despite rising competition from non-bank players. In light of these insights, the authors reaffirm the original recommendations: reimagining revenue models, refining client value propositions, upgrading operational

**ACI Worldwide, USA*

E-mail: phil.bruno@aciworldwide.com

***E-mail: olivier.p.m.denecker@gmail.com*

[†]*CLS Group, The Netherlands*

E-mail: gottfried@leibbrandt.com

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and IT infrastructures, embracing collaborative ecosystems and redefining market roles. As the cross-border payments ecosystem continues to evolve amid economic and geopolitical uncertainties, this retrospective provides guidance for stakeholders navigating future challenges and opportunities in the dynamic world of international finance. This article is also included in **The Business & Management Collection** *which can be accessed at https://hstalks.com/business/.*

Keywords: international payments, cross-border trade, correspondent banking, Swift, Financial Stability Board, ISO 2022

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INTRODUCTION

International payments have long served as the engine enabling cross-border commerce, trade and investment, and have been instrumental in the emergence of today's global economy. An extensive list of requirements — a ubiquitous network of trusted parties spanning the entire world, substantial regulatory and technical infrastructure, and a mandate for ample liquidity — have historically made banks the natural 'owners' of the cross-border market (augmented by some specialised firms active mostly in tertiary remittance markets).

Margins have traditionally been robust in cross-border payments, and occasional price pressures have weighed on margins, but not to the extent of requiring the radical cost transformation observed in domestic payments. Although cross-border flows represent only one-sixth of total transaction values, international payments revenues total up to US$200bn globally, split roughly evenly between transaction fees and foreign exchange (FX) revenues. This equates to 27 per cent of global transaction revenues and is increasing by 6 per cent annually.

The 2018 white paper published by Swift and McKinsey & Company[1] laid out how the global cross-border payment landscape was at the centre of a number of trends that could fundamentally change competitive dynamics: increasing pressure from emerging technologies (including distributed ledger technology, as well as card and network innovations); from shifting regulatory framework and accelerating international commerce (retail as well as corporate); and, especially, changing customer demands. In addition, firms new to the cross-border market, such as TransferWise, Alibaba and Amazon, were increasing competitive pressure on incumbents.

In the 2018 paper, we described eight longer-term trends with their supporting evidence, as illustrated in Figure 1.

The paper concluded with five recommendations to attackers and incumbents alike to harness the opportunities created by the upcoming changes: (1) understand future revenue models; (2) revisit client value propositions; (3) upgrade the engine room; (4) explore collaborative solutions; and (5) define your future role in a global partner ecosystem for trade and international payments.

Today, more than six years later and amid economic and political turmoil, it is worth considering how many of these expectations have become a reality. Of the eight predictions, we believe we were mostly right on five, partially right on two, and mostly wrong on one; not a bad outcome.

REVISITING THE PREDICTIONS

Prediction: There will be many more cross-border payments than today, but growth might not come from the expected sources

Outcome: Growth has exceeded expectations from 2018, mostly from new sources

Whereas we expected the annual growth rate to fall to 4–5 per cent in 2018, driven by retail remittances (increasing migration flows as well as more mobile affluent classes such

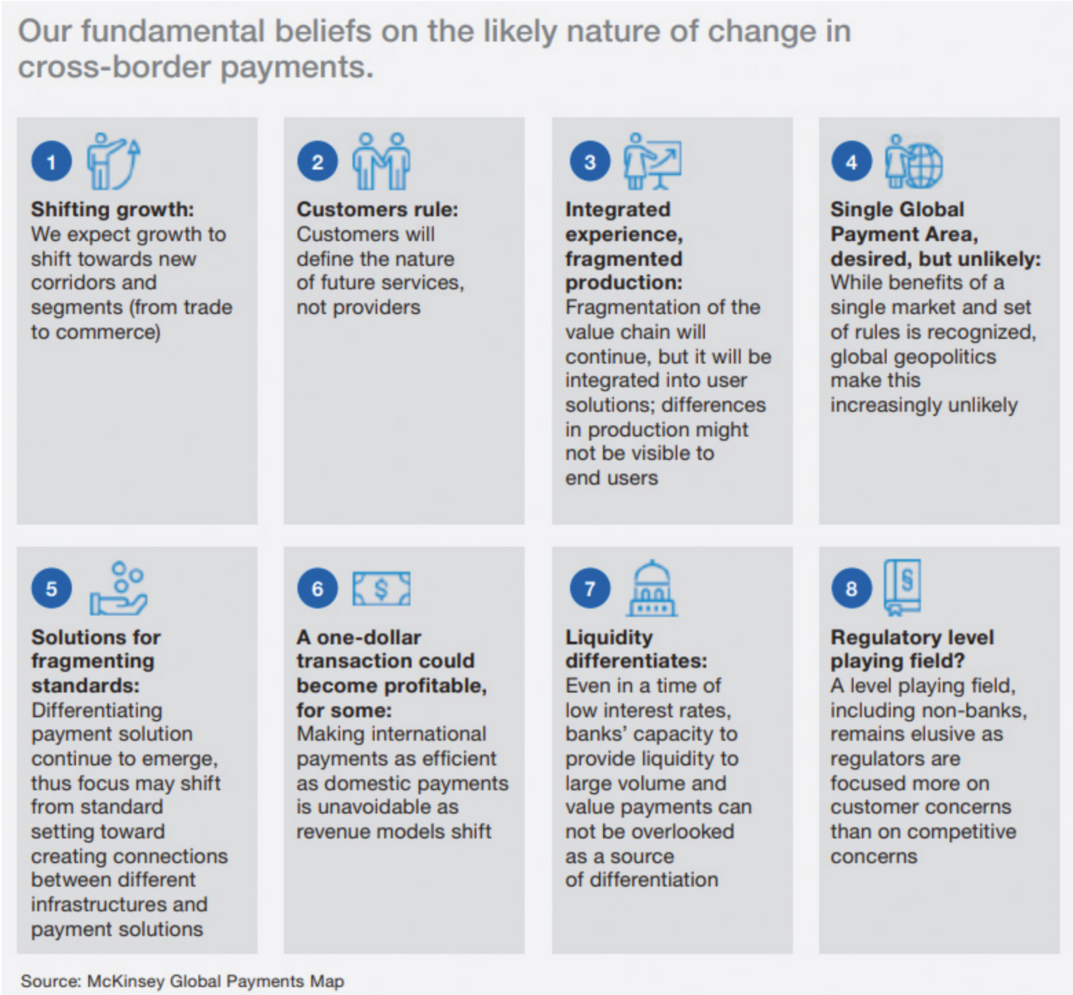


Figure 1: The eight long-term trends described in 2018

as China's urban population), global commerce (including marketplace payments and the gig economy), the growing role of small and medium-sized enterprises (SMEs) in international business and continued growth for large corporates, actual growth exceeded this, even despite the COVID-19 crisis. Transactions grew by over 15 per cent, while principal value as well as revenues of cross-border payments continued to increase at the historic 5–6 per cent rates (Figure 2).

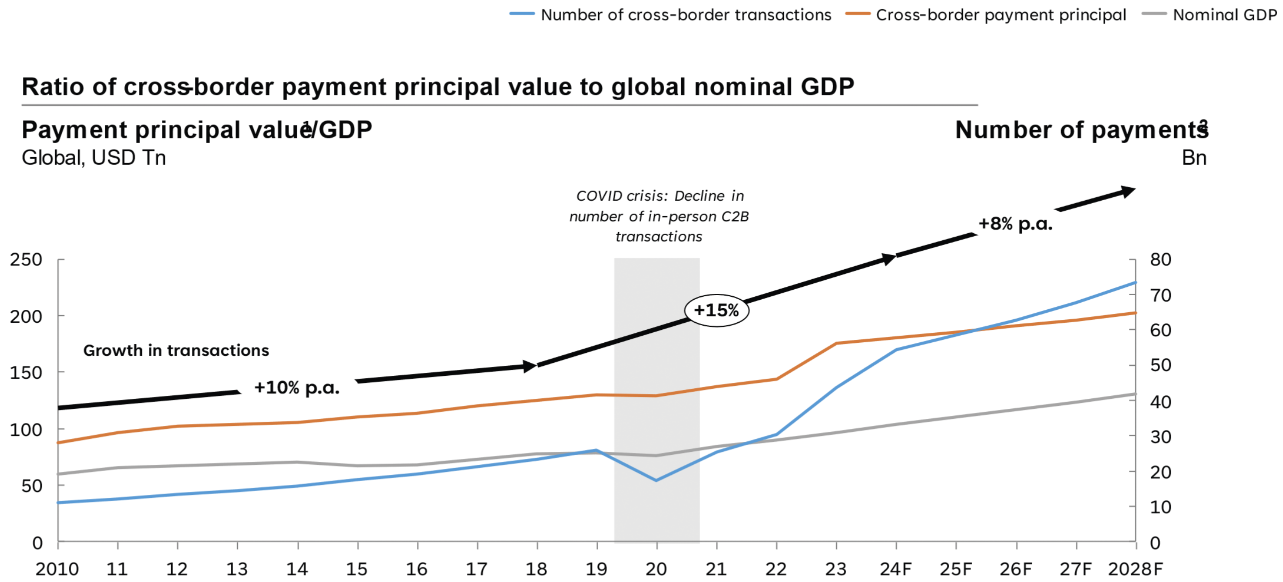
This increase can mostly be attributed to the rapid growth of new use cases, such as marketplace payouts, small business invoices, e-commerce, and bill payments, together with specific market segments such as education or healthcare. An additional source of growth came from increasing volatility in exchange rates and the fragmentation of trade. Looking forward, we can expect an increased growth rate of about 7–8 per cent in transactions, higher again than the outlook in 2018.

Prediction: Customers, not providers, will shape future services

Outcome: Progress has been made, but not enough to meet customer expectations; more improvements are required

In 2018, we described what sounded obvious: (1) the overall customer experience

Cross-border growth has exceeded the strong growth expected



1. Outbound payment flows; money made on Nostro/Vostro NII on trapped balances is out of scope; FI to FI payments for their own liquidity needs (eg, cross border interbank borrowing etc.) are excluded
2. ALL: Includes data for 47 countries forming ~90% of world GDP

Source: McKinsey Cross Border Payments Map

Figure 2: Growth of international payments

with international payments was poor: opaque, expensive, poorly adapted to new use cases, and lacking the full adjustment to digital expectations; (2) initiation as well as receipt of funds often required significant unclear information and frequently implied a physical interaction with the bank; (3) transactions were often slow; (4) transparency on timing, price and origin was generally poor; and finally, (5) costs were both unpredictable and high, and customers rights were not well established.

Changes had started to emerge on these main dimensions and today some of the differentiators from 2018 have become table stakes.

Growing competition and sector-driven innovation have started to move the experience, but international transfers are yet to match the convenience of commerce or domestic bill payments. Speed has increased, with nearly 60 per cent of Swift GPI payments credited to end beneficiaries within 30 minutes and almost 100 per cent within 24 hours.[2] Although costs remain substantially higher than domestic equivalents, and despite having largely moved online, the customer interface still requires attention. Some recent numbers, however, put the share of near instant deliveries at 90 per cent.[3]

International transfers are increasingly being integrated with the interfaces that customers use for their daily business, such as enterprise resource planning or billing solutions, e-commerce checkout and international liquidity management tools. Nevertheless, the digital experience of corporate customers is still lagging behind the established retail benchmark. The accelerating digitisation of financial supply chains is making integration of payment channels with corporate processes one of the major concerns of corporate treasurers,[4] as illustrated in Figure 3.

This and the emergence of dedicated corporate payment tech challengers are putting pressure on incumbents to digitise international corporate payment experiences rapidly.

Prediction: There will be a single integrated experience, no matter how fragmented the value chain

Outcome: Fragmentation has increased more than expected, and experiences have become specialised rather than aligned

The diversifying range of new solutions and competitors has led to the accelerated disaggregation of the cross-border value chain. Payment service providers such as Thunes offer part of the international payment value chain for smaller players, while other such as Banking Circle offer banking-as-a-service solutions, providing alternatives to creating your own correspondent network. Others, like Ebury are focusing on helping businesses onboard onto international payment solutions, increasing ease of access. The multiplication of specialised players has not led to growing complexity and loss of connectivity as different providers have found opportunities to combine their solutions with those of partners. Traditional payment infrastructures (such as automated clearinghouses and real-time gross settlement systems) are hence opened to new players, and new solutions offered through incumbents.

However, more remains to be done. International payments have not yet been integrated into the rapidly growing local mobile wallet solutions (such as iDeal in Netherlands, MBWay in Portugal, or Twint in Switzerland), showing continued barriers between domestic innovation and

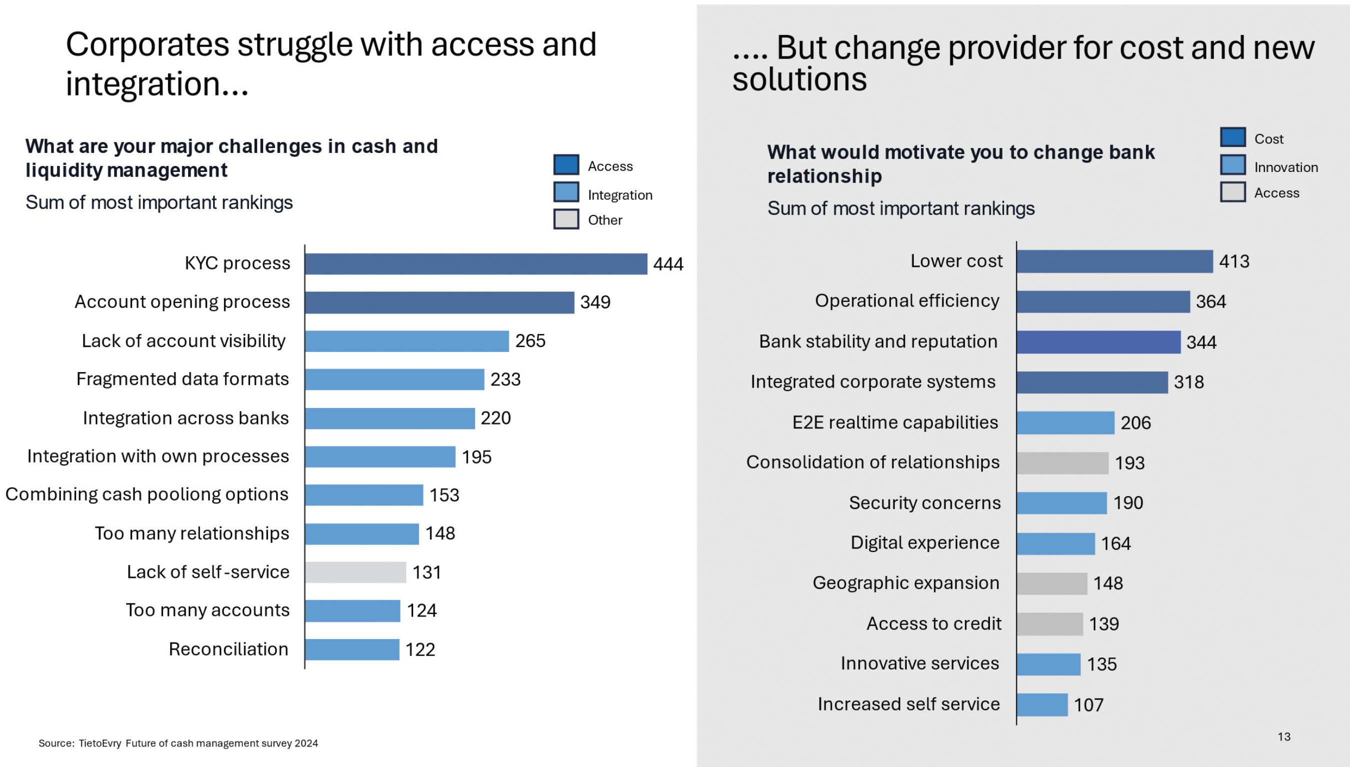


Figure 3: Priorities of corporate treasurers

international solutions. As a result, the cross-border payment experience remains fragmented, and more innovation is needed to provide a seamless experience for customers.

Prediction: A single global payment area may be desirable, but is unlikely

Outcome: Much is left to do, but unexpected and bold steps have been taken

While we are still far from a global single payment market, considerable progress has been made in this direction due to the emergence of various multinational cooperative efforts.

These efforts include the strong drive coming from the Financial Stability Board (FSB) and the G20 outlining a global roadmap for more efficient and accessible payment, establishing a series of common frameworks, tech standards and regulatory initiatives.[5] In 2022, the FSB set a series of quantitative targets to address four key challenges in international payments — speed, cost, transparency and access — by 2030, establishing a common performance base globally. By the end of 2024, their yearly progress report did not yet show meaningful improvement globally.[6]

It is also relevant to note the growing number of collaborations between local automated clearing houses and instant payment solutions, providing the seamless interface to initiate international payments from local solutions, such as IXB connecting the Eurozone with the USD area, the BUNA initiative in the Middle East, or the BIS-driven Nexus programme in Southeast Asia.

While the regulatory initiatives and the collaborations between domestic systems have grabbed the headlines, in terms of actual transactions most of the progress has been made by those payment networks that were already global in 2018. The international card schemes, for example, have actively expanded their scheme-based approach from card payments to the world of account-based international payments through the development of new solutions (such as Visa Direct or Mastercard Send), through acquisitions (such as Currency Cloud or VocaLink) or through the development of new customer segments (such as Visa B2B Connect). Similarly, FinTech players like Wise and Revolut have further increased their reach and volume, expanding into a business-to-business offer, while injecting their customers' payments directly into the growing number of local instant payments systems.

Prediction: Solutions may be needed for fragmenting standards and infrastructures

Outcome: While there is fragmentation, tech development is driving alignment

Despite the growing tendency for regionalisation of solutions, brought by increasing geopolitical tensions and increasing competition, we have not seen a loss of connectivity in the industry. On the contrary, the increasing ubiquity of APIs, the creation of open and universal schemes (such as the European Payments Council's OCTinst scheme), and the increasing ability of non-bank providers to connect to the Swift network have permitted the existing global system to develop more diversity (for example in local market practices).

On the other hand, while the increased adoption of the common ISO 20022 messaging standard was expected to make this integration easier, this has not always been the case. Industry participants complain that the increased flexibility of ISO 2002 (compared with existing standards like MT103) sometimes seems to have led to more divergence, as national systems sometimes have added domestic features and market practices.

Finally, many had expected the emergence of blockchain as the global standard technology to build the payment systems of the future. To date, this has not materialised. Also, not all tech players drive international alignment. Local tech giants, such as Tencent or Alipay, are not easily accessible and use their own solutions rather than interoperable ones.

Prediction: A one-dollar transaction could become profitable

Outcome: Costs are still too high, but closed-loop solutions are moving in the right direction

Costs of operating international payments have come down from the USD25–35 average quoted in 2018,[7] mostly due to strong improvements on the major economic and currency corridors (eg USD to EUR). While transaction costs on these 'monetary highways' have fallen, issues around errors, lost payments, unknown beneficiaries, unfamiliar currency pairs and high-security high-value transactions still result in a high average cost across all corridors, especially those subject to financial crime compliance (FCC) concerns.

This implies that the enablement of profitable low-value (under USD10) transactions remains unprofitable in the tradition correspondent landscape for payments. Alternatives for small international payments are being designed in closed-loop environments where payments only happen through the accounts controlled by a single organisation or through a single purpose application (eg cryptocurrencies). While transaction costs consequently remain low within these environments, cashing out from such closed networks can be most costly for the user.

At this stage, a profitable one-dollar international transaction remains a stretch goal, but a ten-dollar one could be achievable.

Prediction: Liquidity cannot be overlooked as a source of differentiation

Outcome: The ability to mobilise balance sheets for large-value transactions remains a privilege of a concentrated group of banks

Despite growing competition from non-bank institutions and the rise of alternative networks, the execution of settlement and the provision of foreign exchange (FX) services remain the privilege of large global banks. Moving large amounts of money requires a balance sheet in multiple currencies; an ability limited to a diminishing number of large (systemically important) transaction banks. These banks are increasingly acting as providers for emerging solutions, such as public sector closed-loop schemes, the interlinking of instant solutions and, potentially, stablecoins. Liquidity remains strongly focused on a few (eg 8–12) key global currencies (USD, EUR etc), leaving opportunities for more regional players in sub-clusters of smaller currencies. The importance of FX markups as major source of international payment revenue remains significant. However, we also see competition increasing here, with the likes of Wise or Revolut circumventing bank FX for smaller-value payments.

Prediction: A level regulatory playing field will remain elusive

Outcome: Alignment of regulatory practices remains a major difficulty

FCC compliance (know your customer policies, anti money-laundering practices, sanctions), capital controls and market access requirements remain central to the policy goals of many national regulators, and the lack of alignment remains a source of concern for providers; incumbent as well as new entrants. The tightening of rules for non-bank players has resulted in numerous players applying for a banking licence, which can facilitate interaction with regulators and ensure full market access. The treatment of non-banks in international payments, however, continues to differ across jurisdictions.

The diversification of tax and tariff rules and settings is increasingly creating complexity in trade and payments, generating additional costs and friction. Customer protection rules also remain vastly different, making the experience hard to guarantee across a full transaction.

Increasing international alignment on all aspects of international payment regulation would create a major efficiency increase, but governance and enforcement remain difficult to establish; even more so given the current geopolitical context, in which regional powers are seeking to build up their own rules and solutions, often for political or competitive advantage.

While initiatives such as the FSB's had started pushing alignment in the right direction, much remains to be done. Given the current volatility in US policy, it is hard to see the alignment between regulators improving in the near future. Indeed, many of the integrated global trade (and payment) initiatives might be put on hold.

SIX NEW PREDICTIONS

As we look forward to the next decade of changes in international payments, we believe it is worthwhile to point to a few probable developments to watch over the coming years.

The digital experience for corporate users will catch up

We expect a narrowing of the gap between the user experience (UX) for digital payments in the corporate and trade space, and the typical digital experience associated with retail payments.

Two major factors are driving acceleration of the digital experience for corporate users:

- First, the business experience in payments continues to lag retail. Whereas retail customers can often see multiple accounts/currencies in one view, initiate a personal payment with one click, and see the payment arrive instantly, doing the same for professional payments requires many more, often cumbersome actions, and the delivery is slower. While corporate payment processes can be inherently more complicated and large-value payments require higher security levels, integration and UX innovation are still the major reasons for corporates to change banks, after cost and reliability. Both banks and new players should therefore focus strongly on improving the customer experience, most notably for SME customers.
- Secondly, digitisation of trade and finance operations is required to capture much needed efficiency gains for businesses, whether related to billing or to shipping. This requires a better integration of payment services, domestic as well as international.

As systems and security features evolve, the UX will need to catch up quickly, benefiting those players with the right focus.

Local infrastructures will play an increasing role in international payments

Alternative solutions to correspondent banking are capturing a growing share of overall business. For example, the interconnection of local faster payment infrastructure, such as described in project Nexus, or the connection of the ECB TIPS system with several Nordic clearing and settlement systems, are promising near-instant, lower-cost alternatives in several regions. These initiatives make direct payment between currency zones possible without having to automatically resort to commercial bank or USD settlement. It will be important for banks to define their roles as regards connecting into these infrastructures and providing key supporting services (such as FX conversion). It should be noted that some see digital currencies (stablecoin or other) as an alternative vehicle to settle between currency zones; this would be an interesting potential development.

Connected regional systems will emerge as an alternative to global systems

The current geopolitical climate increasingly requires participants in the international payment system to develop alternatives to global solutions with disproportionate exposure to single jurisdictions. This is not only true for card and online payment solutions, but also for billing and international clearing and settlement. Rather than relying exclusively on a balkanisation of local solutions, we believe a set of regional alternatives will emerge; developed, operating, and controlled much closer to the actual areas of economic activity. While such solutions can cater to regional needs, they will increasingly tend to establish bilaterial and multilateral connections to ensure global coverage. Some, such as Brazil's PIX or India's UPI, are actively looking to expand acceptance of their platform to other countries and regions

The modernisation of global transaction banking tech stacks

Regulatory agenda needs, infrastructure upgrades and economic constraints have made it harder for many global transaction banking players to invest in their core technology stacks. Even more regional or local players need to adjust their offering and client UX to reflect the changing landscape. Today, the challenge brought by instant and open payments, growing pressures of cyber crime, and the need to upgrade customer UX are increasingly requiring breakthrough investments in the core banking platforms, especially for those players that aim to use their data to develop new artificial intelligence-driven solutions and integrate with other corporate processes. This next technology step will not only require investment but also the selection of new systems and new providers; a process that can be time-consuming. Given the speed at which technology changes, however, banks will need to prioritise this if they want to stay competitive. For some, this may require exploring new collaborative models, working with other banks and with users to sustain shared solutions.

Non-bank balance sheets will serve as a source of liquidity to fund international corporate payments and trade

While balance sheets have been the anchor point for banks' dominance in global corporate payments, this could come under increasing pressure. Capital in trade finance is becoming scarcer, more expensive, and more regulated.

Strengthening capital requirements under Basel III and IV force banks to hold more capital against trade exposures, making the business less attractive compared with other lending products. Trade finance, often seen as low margin but high volume, faces higher capital costs, reducing its appeal for banks. Further de-risking due to compliance and credit risk concerns reduces access to liquidity for banks in certain markets. We therefore expect the emergence of alternative funding sources to power global trade and corporate payments.

At the same time, FX still requires balance sheet resources, opening new revenue models for banks, even (and maybe especially) in faster payment contexts. The position of FX providers on both sides of an FX corridor helps to tailor client services, especially in a world where choice of currency has a major impact on time and transparency, with same-currency transactions executing substantially faster than cross-currency, and some currencies processing ten times faster than others (eg EUR to EUR international payment takes one-third of the time of a USD-to-EUR transaction, while transaction in GBP is 10 times faster than transaction in CHF).[8]

Non-bank players, including FinTech, institutional investors and supply chain finance platforms, are increasingly stepping in to provide much needed funds and capital in trade finance. In addition, new models leveraging blockchain, tokenised assets and digital trade instruments could unlock new capital pools by improving transparency and reducing risk.

Digital currencies could play a role

Another frequent consideration is whether digital currencies will play a role in specific cross-border communities. The use of digital currencies holds promise for the reduction of FX-related friction and supervision, using the efficiency of closed trade systems through tokenisation, eg commodity trades or debt issuance. Some even see a role for stablecoins (or even CBDC) to be leveraged to settle between local instant systems, without having to use commercial bank balance sheets. At this point, however, digital currencies can only play a role where current solutions do not work, eg where the state currency is weak or where the activity is illegal and hence blocked from the banking payment system. Other situations where digital currencies are gaining initial ground are cases where current processes are too cumbersome (this is the case for some of the wholesale applications with tokenised assets). However, where there are good current alternatives (and that includes much/most of cross border) it is not clear where digital currencies could play a major role in the immediate future.

CONCLUSION

In conclusion, the eight predictions and drivers of advancement identified in 2018 have progressed rapidly, increasing efficiency, convenience and competition in the landscape of international payments. However, the transformation is far from complete, and our six new predictions will have to be validated in the coming years. The overall imperatives for success of competitors described in the initial report still remain valid and centre on three broad themes:

- *Revisit and improve client propositions*: Expand a differentiated franchise across all cross-border use cases, capturing opportunities in identify, invoicing, liquidity and working capital. Enforce a full digital experience with end-to-end integrated journeys and sector-specific offerings.
- *Upgrade the engine room in both IT and operations*: Review alternative models to correspondent banking to complement coverage, use the transformative power of generative AI and create new cross-border global transaction banking provider ecosystems and supplier models, redefine the value chain (who does what?), and define the collaborative space.
- *Expand the business model*: Investigate new revenue models and new solutions to ensure access to funding while redefining the value for which customers are charged (eg trust, security, access etc).

Revisiting this six-year-old paper is worthwhile, as the transformation levers outlined then should still be your priorities now. The world has changed, but the work we need to do remains the same, albeit more urgent given the present geopolitical context.

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