



# Beyond the Transaction: *How banks can leverage innovation effectively*

In today's evolving cross-border payment market, banks must adapt to new demands as commerce shifts online, regulations change and competition increases.



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Clients, particularly consumers, increasingly expect immediate, cost-effective, and transparent transactions regardless of who and where they are paying. Many simply don't differentiate between domestic and cross-border payments.

In recent years, domestic payments have been transformed. There are more than 80 live instant payment schemes globally,<sup>1</sup> that have processed more than 250 billion transactions in 2023.<sup>2</sup> By 2028, almost 30% of all electronic payments are expected to be instant.<sup>3</sup> This has laid the foundations for cross-border instant payments to follow suit. Leveraging instant payment schemes can maximize speed, transparency, and cost efficiency across all payment types and corridors: Cross-border instant payments are becoming a reality.

<sup>1</sup><https://www.swift.com/your-needs/banking/instant-payments>

<sup>2</sup><https://www.aciworldwide.com/wp-content/uploads/2024/04/Prime-Time-2024-Executive-Summary-Infographic.pdf>

<sup>3</sup><https://www.aciworldwide.com/wp-content/uploads/2024/04/Prime-Time-2024-Executive-Summary-Infographic.pdf>

## *Banks that offer fintech-like client experiences can tap into growth, fight off emerging competition, and capture market share from less adaptable providers.*

Banks, however, don't have this opportunity all to themselves. Fintechs aim to capture up to 20%<sup>4</sup> of the cross-border payments market from traditional players, potentially worth \$40 billion.<sup>5</sup> Already, banks' clients are moving to alternative providers that prioritize speed, transparency, and low costs, according to Citi's 2023 and 2024 client surveys, based on responses from more than 100 institutions.<sup>6</sup> Banks anticipate losing market share to fintechs over the next five to 10 years (fintechs believe it will happen within two to five years).

Citi believes this shift is not necessarily from banks to fintechs but from providers failing to deliver the best client experience to those that do. To retain a place as a consumers preferred financial institution for making payments, banks urgently need to revamp their strategies to manage risks, engage customers effectively, and integrate payments into digital experiences. Banks that offer fintech-like client experiences can tap into growth, fight off emerging competition, and capture market share from less adaptable providers.

### **How to respond to competition**

To compete with fintechs, banks need to be able to match them on client experience, emphasizing speed, transparency, cost-effectiveness, and the breadth of payment types they offer. However, legacy technologies and budget constraints pose significant challenges, as resources are often pre-allocated to mandatory enhancements, leaving limited room for innovation.

Despite these headwinds, the payments space – once a commodity – offers ample room for differentiation. Citi client surveys suggest banks know what improvements are needed to retain and capture market share, with many focused on the following opportunities:



<sup>4</sup>2024 Citi Survey: Banks: The Industry's Perspective on AI; Innovation and key themes

<sup>5</sup><https://www.thebrainyinsights.com/report/cross-border-payments-market-14186>

<sup>6</sup>2023 Citi Survey: The Future of Payments; 2024 Citi Survey: Banks: The Industry's Perspective on AI; Innovation and key themes.

## 1. Meeting the need for digital wallets

A total of 80% of bank clients recognize a significant demand for alternative payment methods, with digital wallets leading the charge. By 2026, it is projected that more than 60% of the global population, approximately 5.2 billion people, will be using digital wallets.<sup>7</sup>

Digital wallets offer several advantages:

- **Simplicity:** Payers may not know the beneficiaries' International Bank Account Numbers (IBAN), but they are familiar with the payees' email address and/or phone number, which serves as the wallet ID.
- **Speed:** Transactions are often completed in real time.
- **Full value delivery:** The entire amount is delivered to the beneficiary.
- **Transparency and track-ability:** Faster transactions allow for instant confirmation of payments.
- **Cost-effectiveness:** Digital wallets can be less expensive compared with traditional payment methods like wire transfers.

Given these benefits, consumers and businesses are increasingly looking for solutions to make payments into wallets. If banks don't offer this option, they risk losing clients to competitors.

## 2. Unlocking FX opportunities

Cross-border payments are closely linked with FX opportunities. According to our survey, 80% of our bank customers see untapped potential in extracting FX revenues from existing cross-border flows.<sup>8</sup> This isn't about acquiring more market share but rather optimizing revenue from current operations.

Tools like Swift GPI allow banks to track when a payment is converted, providing insights that were previously unavailable. By analyzing data and payment flows, banks can uncover opportunities to increase FX revenues.

Digital transformation is crucial for unlocking these opportunities, but simple steps can also yield significant benefits. For instance:

- **Enhancing online banking platforms:** Prompt users to make payments in local currency.
- **Enabling different payment methods:** Use local currencies for ACH or instant payment schemes as they can be more cost-effective and faster, opening new FX revenue streams.

As a simple example, a retail customer wanting to send a payment to Bangladesh may not have access to pay in Bangladeshi taka (BDT) via their bank. The customer may have only one option – to send U.S. dollars to the payee in Bangladesh where the FX conversion will take place. This may result in the customer choosing another provider that offers BDT, resulting in the bank losing out on payment revenues and potentially not being considered next time the consumer needs to make a cross-border payment. By offering multiple currencies, banks can capture FX flows and retain the overall client relationship.

On the flip side of this opportunity, some banks may already have nostro accounts open to support extended currency access but may find they are underutilized and where the cost of maintaining the nostro outweighs the transactional FX revenue opportunity. This is an opportunity for banks to outsource such nostros to other providers, and rationalize their own nostro footprint, allowing the bank to continue tapping into the FX revenue, but removing the costs. By selecting a provider that can also provide access to cross-border payments, it is possible to eliminate additional costs such as lifting fees (e.g., via cross-border ACH or instant payments), resulting in a material win for banks.

Both corporate and retail sides of banking need a robust FX strategy to capture these opportunities. The revenue from cross-border payments is growing at a 7.5% compound annual growth rate (CAGR).<sup>9</sup> Additionally, there are associated revenues from deposits, liquidity and other ancillary streams that result from being the preferred financial institution for making payments.

## 3. Facilitating a real-time world

The demand for 24/7 payment solutions is on the rise, driven by a global operating environment often associated with e-commerce.

Citi's initial use cases for 24/7 clearing involved treasury payments on U.S. holidays to manage liquidity between branches and subsidiaries of a particular bank. For example, a bank with branches in the UK and India, both holding accounts with Citi, faced challenges in managing liquidity or moving U.S. dollar equity on holidays like Thanksgiving. With Citi's 24/7 solution, banks can manage liquidity in real time without needing to pre-fund branches ahead of U.S. holidays.

The second use case expanded this service to offer commercial payments to underlying clients, eliminating unnecessary cutoffs and friction. This allows clients to process U.S. dollar transactions on U.S. holidays, effectively enabling them to operate whenever their local branches are open. For instance, transactions initiated in Asia early Monday morning, while still Sunday in the U.S., can be processed immediately through Citi's 24/7 service.

<sup>7</sup> <https://www.juniperresearch.com/press/digital-wallet-users-exceed-5bn-globally-2026/>

<sup>8</sup> 2024 Citi Survey: Banks: The Industry's Perspective on AI, Innovation and key themes

<sup>9</sup> <https://www.thebrainyinsights.com/report/cross-border-payments-market-14186>

## *Payment transparency and track-ability are critical for clients.*

An emerging use case involves end-to-end 24/7 payments from sender to beneficiary. With correspondent banks processing transactions around the clock, local banks are incentivized to offer 24/7 U.S. dollar payments to their clients and enhance their systems accordingly.

### 4. Selectively leveraging new technology

As banks work to deliver the best customer experience, new technologies are crucial. But it's important to distinguish between genuine use cases and mere hype. We asked our clients to evaluate the impact of emerging technologies in the short to mid-term and long term.

- **24/7/365 operations:** In the short to mid-term, the shift towards 24/7/365 operations stands out as the most impactful innovation. Citi has embraced this change with 24/7 clearing: There are already almost 200+ clients live. This continuous operational model significantly enhances payment speed and accessibility.
- **Artificial intelligence (AI):** AI is a major focus area, though its application in financial services is still being explored. The highly regulated nature of the financial sector necessitates absolute accuracy in AI-generated responses, which it has yet to consistently achieve. Citi is conducting more than 60 AI experiments within its Services business to understand and harness its potential.
- **Blockchain and distributed ledger technology (DLT):** Citi has launched Citi® Token Services for Cash and Trade. However, individual institutions can only achieve so much within their own environments. Industry-wide projects, such as the Regulated Liability Network (RLN) and BIS Project Agora, will be crucial for broader adoption.
- **The key role of APIs:** While AI and blockchain capture the headlines, APIs are fundamental to enhancing digital client experiences. They are the backbone of real-time solutions, ensuring seamless integration and delivering real-time rates, transaction tracking, and AI-driven advisory services directly to client interfaces.

### 5. Capitalizing on the move from Swift MT to MX

By November 2025, all financial institutions must switch from legacy Swift MT messages to the new MX messages. This new ISO 20022 standard is more transparent, holds more data, and is expected to enhance interoperability between banks. As banks prepare for this transition – planning development schedules, assigning technology resources, and securing funding – there is an opportunity to maximize the return on investment.

With minimal development efforts and slight adjustments to Swift MX formatting, banks can integrate with Citi's WorldLink® solution. This integration gives banks access to Citi's extensive cross-border wire, cross-border ACH, and cross-border instant payments network, as well as payments into digital wallets and via card networks globally. Additionally, Citi's WorldLink via Swift MX can be paired with API FX for real-time FX rate requests and bookings, enhancing a range of full-value, near-instant, and 24/7 cross-border payments.

This quick-to-market solution allows banks to improve their customer experience, tap into new FX revenue streams, and remain competitive in the evolving market.

### Emerging use cases for real-time payments

Citi has implemented several use cases for real-time payments, such as paying gig economy workers and freelancers with instant payments into wallets and cards. This functionality can underpin on-demand payroll models, which are increasingly important for healthy freelance economy supply chains.

Citi's traditional corporate clients, such as airlines, are also now exploring real-time compensation for passengers in case of flight cancellations. Similarly, insurance companies are recognizing the benefits of paying claims instantly into accounts, wallets or via card networks – providing additional choice and convenience to customers. Cost-efficient payment methods via low-value ACH are also important for pension and payroll payments. By providing electronic account credits in local currency, intermediary or beneficiary bank charges are avoided, thus reducing costs.

### Payment transparency is critical for both payer and payee

Payment transparency and track-ability are critical for clients. While bank customers often receive tracking information, beneficiaries usually do not have visibility of incoming funds, when they will arrive, and how much will be credited to their account. This uncertainty can lead to beneficiaries raising an enquiry with the remitter, who then contacts the remitting bank.

Citi® Global Beneficiary Services Payment Tracker enables beneficiaries to track payments, reducing service queries and associated costs. One Citi client, a travel agency, now sends proof of payment for last-minute hotel bookings using Citi Global Beneficiary Services Payment Tracker saving significant time and resources and making the proof of payment process a lot easier and more efficient for its hotel beneficiaries.

## How Citi can empower banks

Institutions are at various stages of delivering enhanced cross-border payment experiences. Those further along in this journey – delivering improved capabilities and experiences to customers – are gaining market share from slower adopters.

For regional and local banks, competing in a world of cross-border instant payments, digital wallets and AI may seem daunting.

Certainly, navigating the plethora of innovations and regulatory challenges requires them to make strategic decisions. While some technological upgrades must be built in-house, leveraging alliances for other solutions can streamline the digital journey, ensuring an efficient and timely digital transformation.

Citi's 'Enable Banks' proposition delivers the cost, speed and transparency that clients need to compete in cross-border payments, while ensuring ease of implementation for clients. Solutions typically require no additional or minimal, development or technology resources. For example:

- Citi's 24/7 clearing solution works seamlessly with Swift, requiring no implementation by the client.
- Typically, unless a payment is sent as a full value transfer, deductions by correspondent or beneficiary banks are hard to predict. Confirmed Value Transfer addresses this lack of transparency in downstream deductions. Citi now guarantees upfront knowledge of deductions, providing visibility and certainty.
- Citi's WorldLink via Swift MX offering enables banks to access traditional payment methods, including cross-border wires and cross-border ACH in more than 135 plus currencies, and a range of real-time cross-border payments, including payments into account, digital wallets and via card networks, with minimal development effort.

Starting the cross-border payment digital transformation journey as soon as possible is crucial. Finding a bank that understands your needs, and your customers' needs is critical. Finding a bank that appreciates that digital transformation is a journey and engages in a consultative way should be non-negotiable. By balancing internal development with external relationships with market-leaders such as Citi, banks can address client demands for faster, more transparent, and cost-efficient payments while managing regulatory and technological challenges effectively. ■

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