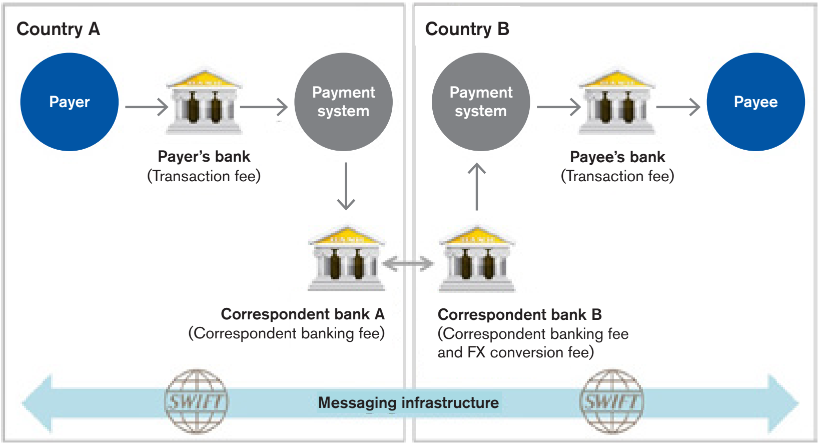
Figure 11 The Correspondent Banking Model



Source: Barry and Zaccardi (2015).

The involvement of multiple financial institutions increases costs and delays. Correspondent banks typically charge US$ 20 to US$ 60 for their service on top of the prevailing foreign-exchange spread, and while most cross-border payments could in theory be executed in one to two days, a 2015 McKinsey survey revealed that a typical retail cross-border payment takes three to five working days to complete (McKinsey & Company, 2016c).

The low efficiency of the current system has led startups, such as Ripple, to develop alternatives based on Blockchain.[46] Ripple is trying to transform payment systems – which they see as slow, limited in transparency and expensive – through its blockchain-based value exchange platform. The Ripple platform allows financial institutions to exchange, in real time and at little to no cost, currencies, cryptocurrencies, commodities and other tokens of value directly, without relying on traditional intermediaries of the international financial system. The process is bilateral and instant. When a payment order is entered into the platform, liquidity providers linked to the platform compete to provide the best exchange rate. Ripple then automatically chooses the best rate to settle the payment. According to Ripple, the entire process takes three to six seconds.[47]

Ripple has licenses with more than 100 banks and financial institutions and its ambition is to enable cross-border payments to become a truly global activity. The opportunity to circumvent correspondent banks could prove particularly interesting for developing countries, which were confronted with a decline in the number of