



Catherine R. Schenk
University of Oxford

“Constructing and Deconstructing the
Global Payments System 1870-2000”

S.A. James & J.L. Foorman, ‘Balanced banks
have chip on both shoulders’, *International
Financial Law Review*, 6(7), p. 29. (1987)

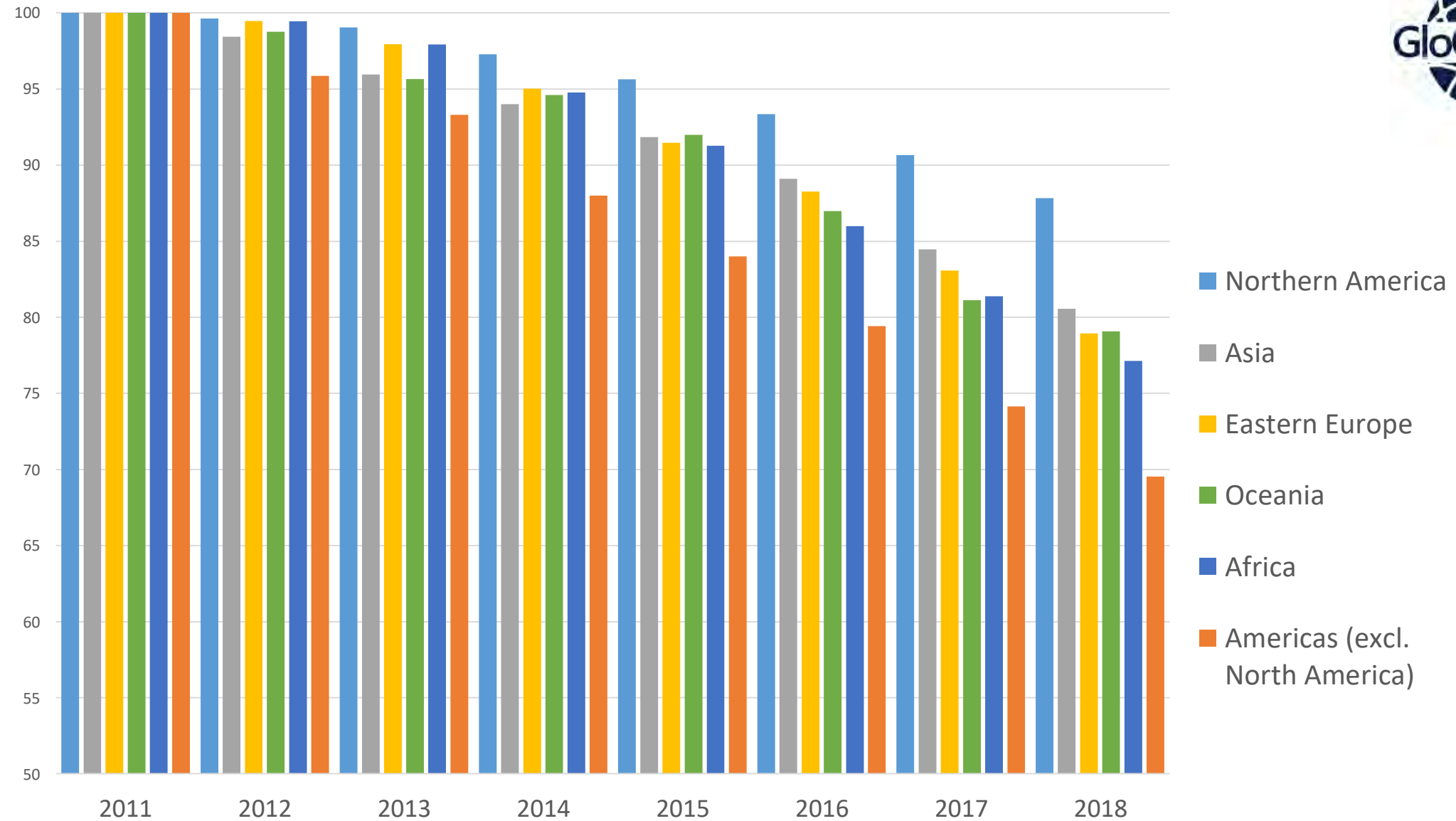


GloCoBank: Global Correspondent Banking 1870-2000

- Plumbing of the global payments system: prone to leakage, diversion, points of failure, patches
- Decline in correspondent banking since 2008 (Erbenova et al 2016):
 - Anti-Money-Laundering, Counter-Terrorist-Funding, Sanctions
 - Cost/Benefit of acting as a correspondent
- Challenge of other digital solutions, disintermediation, regulatory oversight, financial exclusion of poor countries (FSB/BIS attention)
- Response to financial crisis, conflict, technological innovation, changes in bank business models
- CHIPS (1970), SWIFT (1977)
 - ISO 20022



Index of Number of Active Correspondents 2011=100



Literature on Correspondent Banking

- USA
 - Richardson (2007)
 - James and Weiman (2010)
 - Das, Mitchener & Vossmeier (2018)
 - Mitchener & Richardson (2019)
 - Calomiris, Jaremski & Wheelock (2019)
- International:
 - London: Mollen (2012), Mollen & Michie (2012)
 - Australia: Merrett (1995) Panza & Merrett (2018) Chan (2001)
 - SWIFT: Scott & Zachariadis (2014)
- Contemporary
 - Meinster & Mohindru (1975)
 - Palmer (1990)
 - Lawrence & Lougee (1970)
 - Naughton & Chan (1998)
- Current issues:
 - Gustitus, Bean & Roach (2001)
 - Grollman & Jutsra (2017)
 - von Peter & Rice (2020)
 - CPMS @ BIS/FSB



Robert Bolman, Manager, Bank of California's International Division carries the ball to a leading West Coast importer

If the world is your market, let us carry the ball.

When your market includes the entire world, you need specialized financial assistance. The Bank of California's International Division and Bank of California International, (New York), are both staffed with experts on every aspect of international banking.

The Bank of California's International Division has headquarters in San Francisco with direct banking offices in every major Pacific Coast port city, a Far East representative office in Manila, plus a worldwide network of 1800 foreign correspondent banking offices developed during over a century of international banking.

Bank of California International, (New York), has affiliates in Taiwan and Guatemala and a staff of seasoned international bankers, enabling them to make fast decisions on banking problems anywhere in the world.

When you need a team of international banking pros, you can depend on The Bank of California and Bank of California International, (New York), to carry the ball for you.

THE BANK OF CALIFORNIA, N.A.

INTERNATIONAL DIVISION

Head Office: 400 California Street
San Francisco, California 94120
Phone: (415) 981-3000 Cable: "BANKOFCALA"
Offices in: California, Oregon, and Washington

BANK OF CALIFORNIA INTERNATIONAL

Two Wall Street
New York, New York 10005
Phone: (212) 962-5700
Cable: "BANKOFCALA"



A vice president of the International Division of The Bank of California carries the ball to Howard Boone, Regional Manager of Cargill, Inc., San Francisco, shown here beside dock facilities for handling copra imported by Cargill.

If the world is your market, let us carry the ball.

For import-export, the only tri-state national bank in the U.S. carries the ball best. The Bank of California is uniquely able to deal with market complexities on a global scale through direct, tri-state offices in all major Pacific Coast seaports, from Puget Sound to mid-Southern California. On both coasts our International Division and the Bank of California International, New York, are staffed with experts on every aspect of international banking.

The Bank of California's International Division, in addition to its direct service to all major Pacific Coast seaports, maintains a Far East Representative office in Manila, plus a world-wide network of 1,800 correspondent banking offices, developed over a century of international banking.

Bank of California International has affiliates in Taiwan and Guatemala and a staff of seasoned international bankers, empowered to make a fast decision on banking problems anywhere in the world.

Depend on The Bank of California and Bank of California International to carry the ball for you.

The Bank of California, N.A. International Division

Head Office: 400 California Street
San Francisco, California 94120
Phone: (415) 981-3000
Cable: "BANKOFCALA"
Offices in: California, Oregon, Washington

Member F.D.I.C.

Bank of California International

Two Wall Street
New York, New York 10005
Phone: (212) 962-5700
Cable: "BANKOFCALA"



Perry G. Holland, Assistant Vice President of The Bank of California's International Division in Portland, Oregon, carries the ball to William J. Frank, Vice President - Finance and Director of Hyster Company, Portland, Oregon.

If the world is your market, let us carry the ball.

When Hyster needs a lift in international finance, they frequently turn to The Bank of California's International Division. We give them the specialized financial counsel and care they need in this complex field, plus unique advantages that may be of interest to you, too.

For one thing, The Bank of California is the only national bank offering direct banking offices in Oregon, Washington and California. That assures you of direct, at-the-port service in Portland, Seattle, Tacoma, Sacramento, Stockton, Oakland, San Francisco, Los Angeles, Long Beach and San Diego, which means The Bank of California is the bank best equipped to serve the Pacific Basin. And our wholly-owned subsidiary, Bank

of California International (New York) gives your international transactions immediate East Coast attention. Through this office and our International Division, you receive affiliate service in Taiwan and Guatemala, and a representative office for Asia in Manila. All this, plus a network of 2,000 correspondent banking offices all over the world.

But geography isn't everything. Working with us, you're dealing with the oldest international division in the West, dating back to 1864. That kind of experience in international finance can be worth its weight in gold.

If this is the kind of international banking team your company can use, let us carry the ball for you!

The Bank of California, N.A. International Division Member F.D.I.C.
Head Office: 400 California Street
San Francisco, California 94120
Phone: (415) 765-0400
Cable: "BANKOFCALA"
Offices in: California, Oregon and Washington

Bank of California International
Two Wall Street
New York, New York 10005
Phone: (212) 962-5700
Cable: "BANKOFCALA"



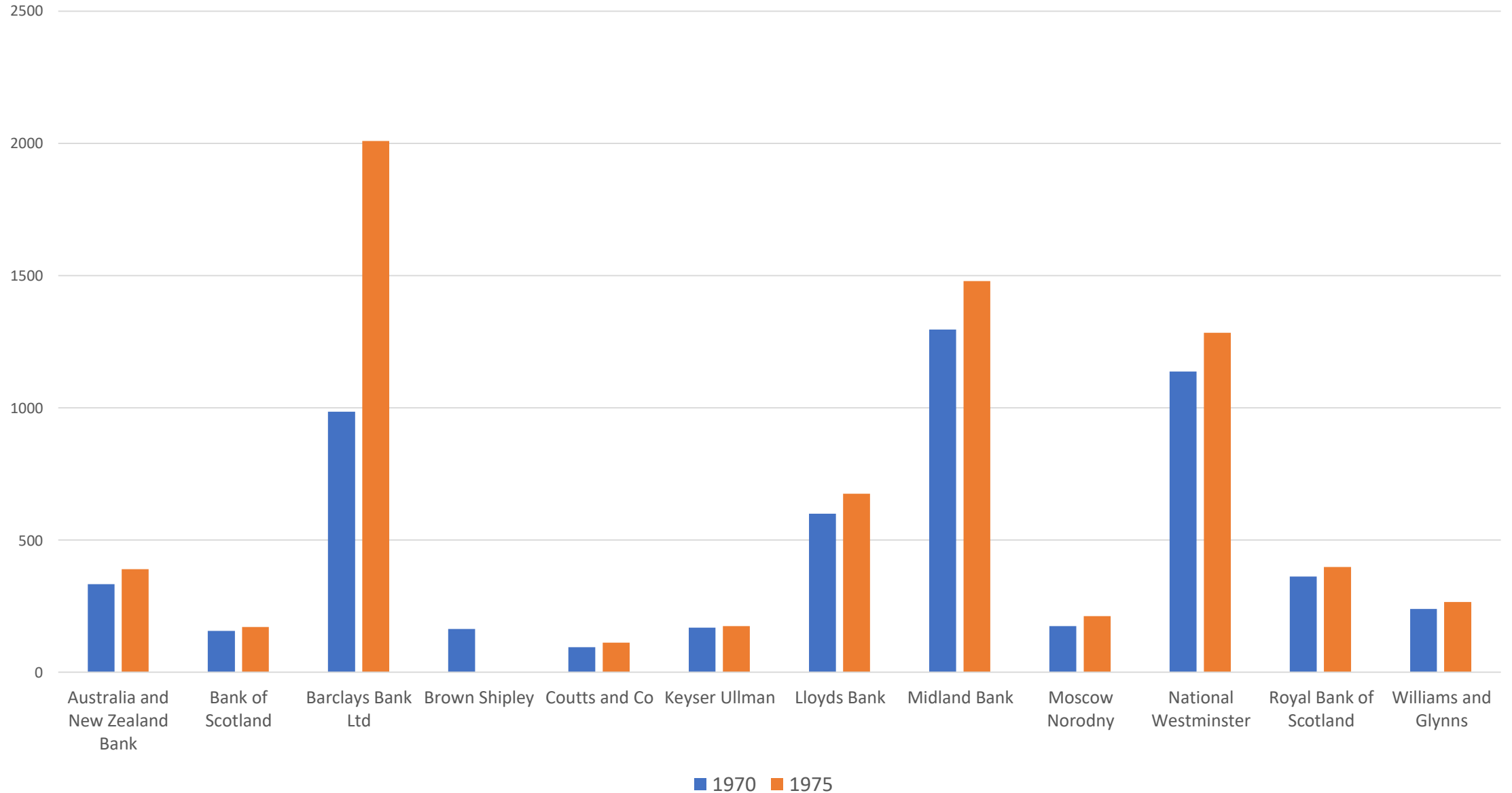
Bank of California 1968 Campaign: 2000 Correspondents around the world



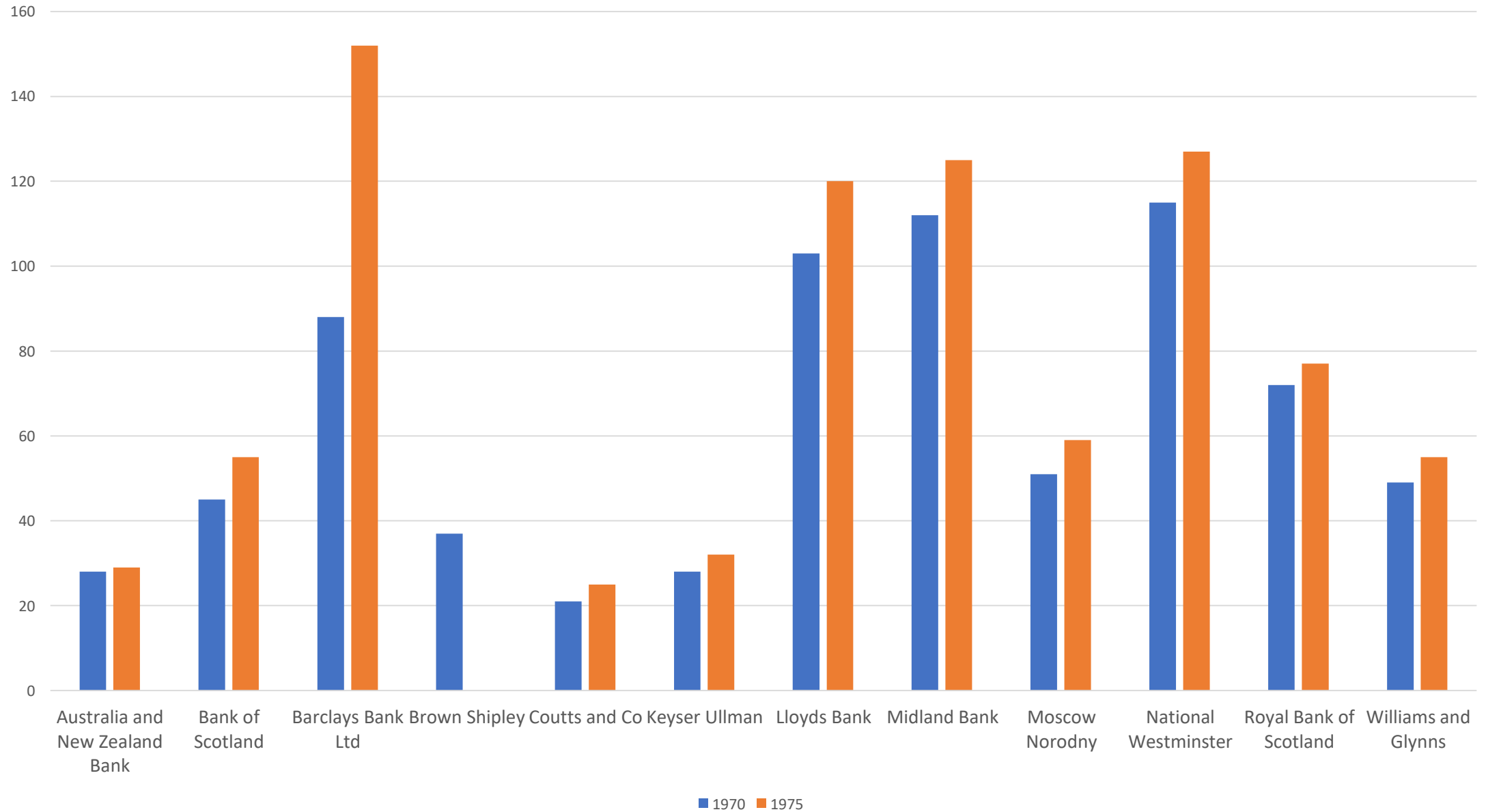
Context for 1960s-1970s

- Early 1960s – Eurodollar market surge in global payments, integrated cross-border inter-bank market
- Late 1960s – rush/panic among banks to internationalise
 - Branches
 - Subsidiaries
 - Cooperative Strategies
- Market Risk: floating exchange rates
- Operational Risk: ‘Paper Crunch’ in OTC Securities 1969-70 (Seligman 2003)
- Operational Risk: weak internal controls, complexity

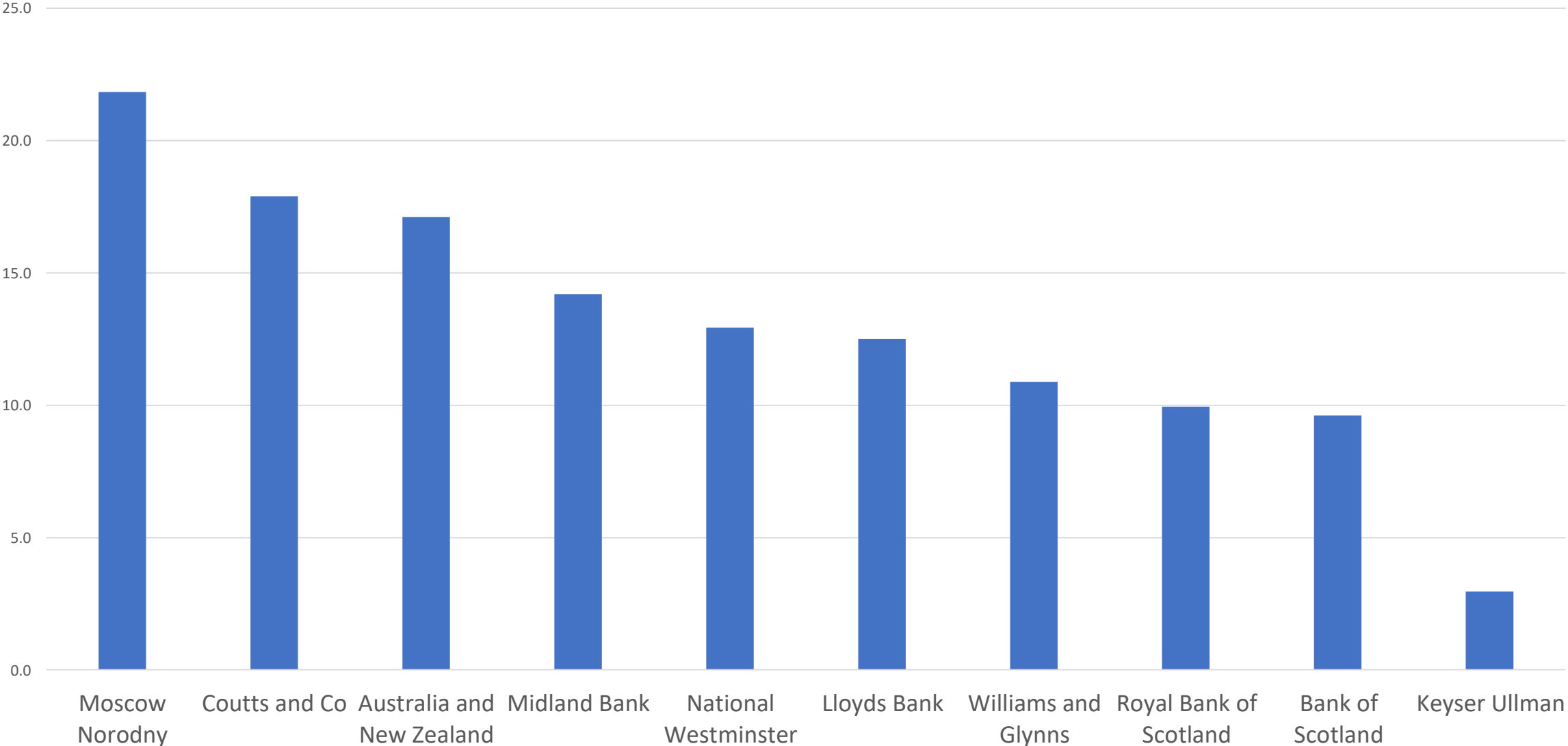
Number of Respondent Banks for Banks in London 1970 and 1975



Number of Countries with Respondent Banks 1970 and 1975



Percent Change in Number of Respondent Banks 1970-75 (excl Barclays and Brown Shipley)

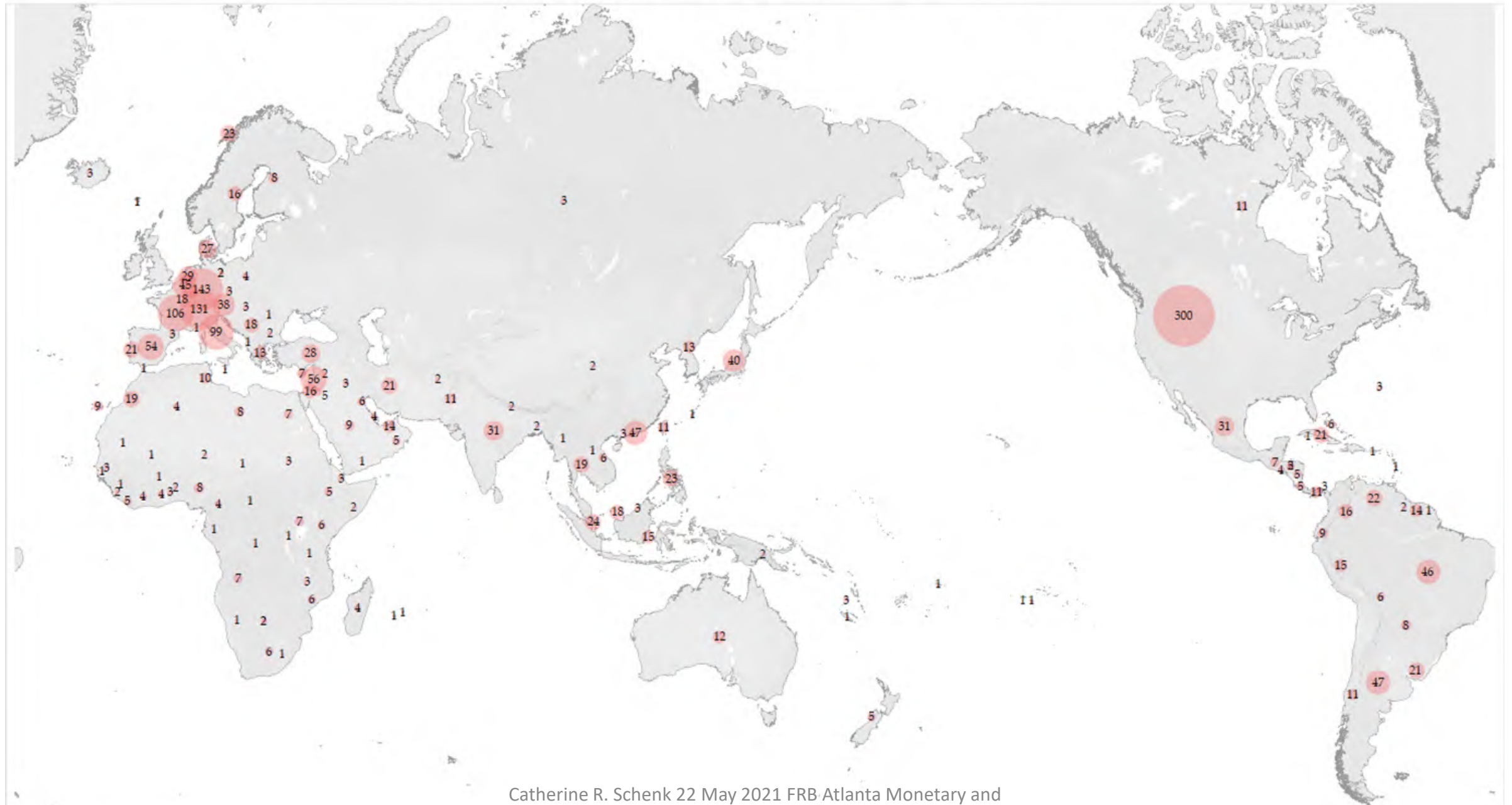


Barclays Bank's Correspondent Banks in 1970



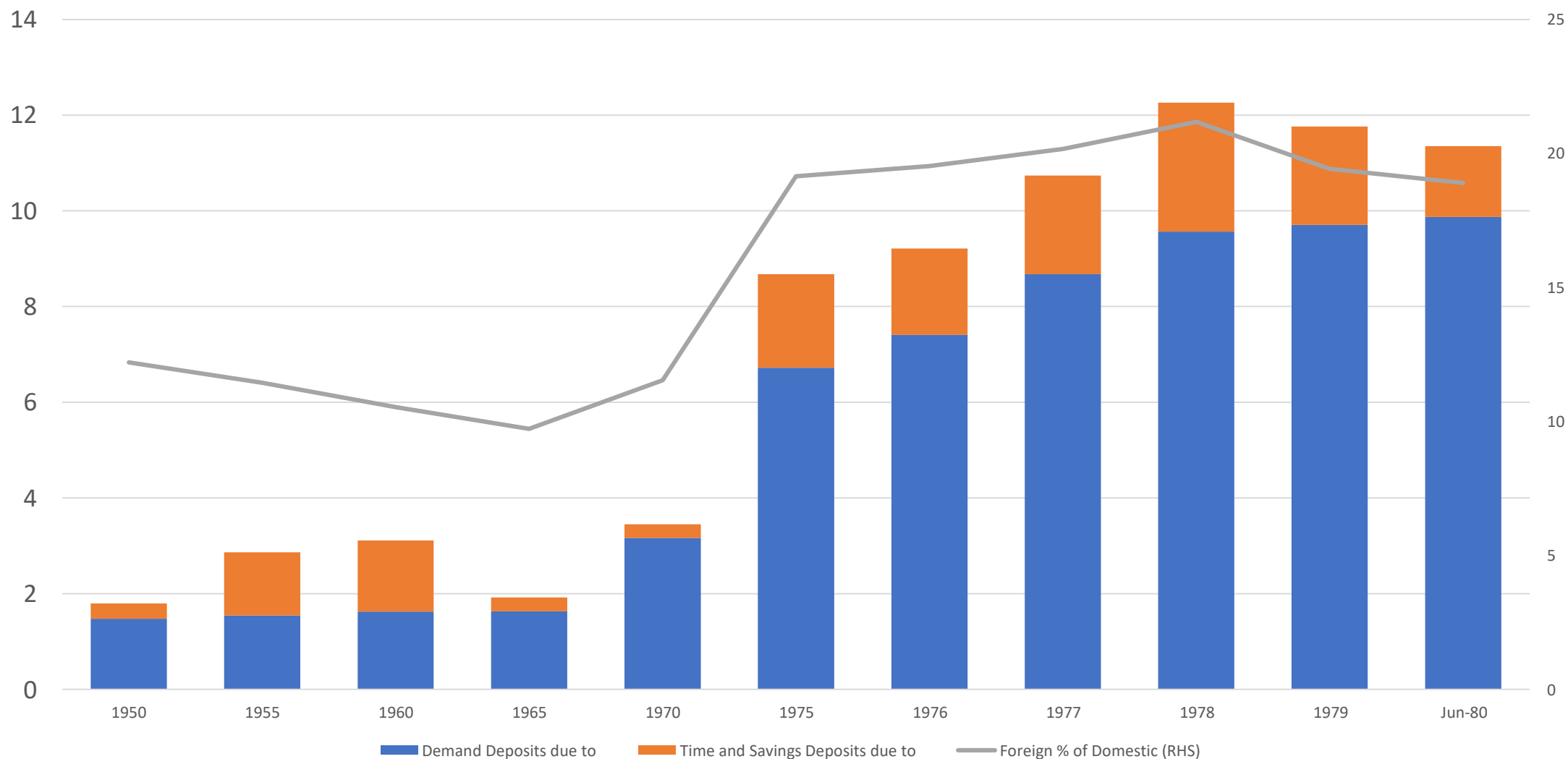
Catherine R. Schenk 22 May 2021 FRB Atlanta Monetary and Financial History Workshop

Barclays Bank's Correspondent Banks in 1975



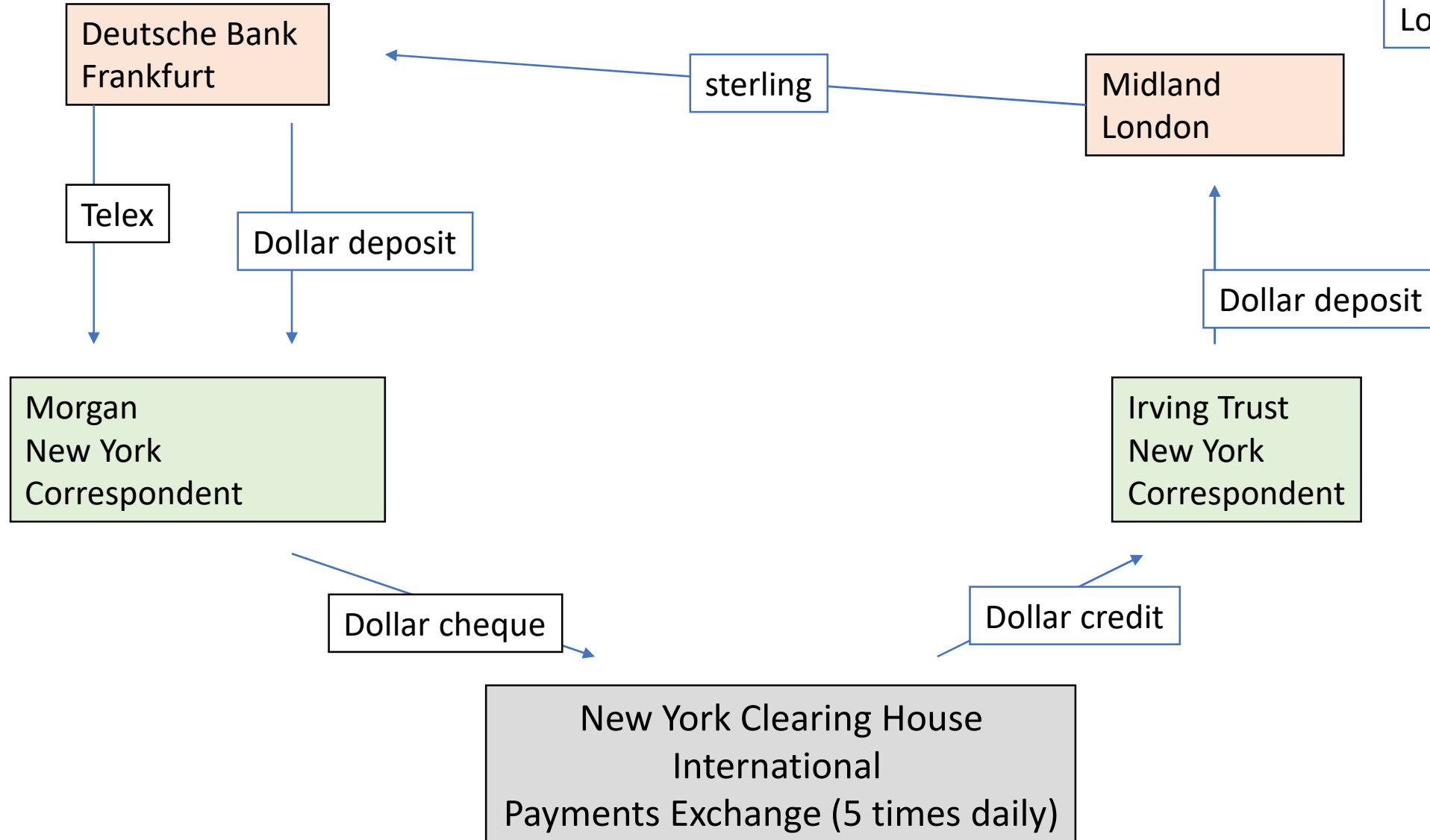
Catherine R. Schenk 22 May 2021 FRB Atlanta Monetary and
Financial History Workshop

Correspondent Bank Deposits of US Banks: due to Foreign Banks *Excluding Edge Act Banks (USD billion)*



BEFORE 1970
Deutsche Bank buys Sterling against Dollars

Deutsche Bank
London?



Clearing House Interbank Payments System

- All day entries through computer terminals, final netting out at end of day, 30 minutes to meet any deficit, final payment through FRBNY
- 1970 – demand driven (too many cheques, too many messengers, too many clerks, focused on last daily clearing)

‘one New York bank had its payments staff drop from an average of 22 years in the bank to an average of 8 months in a two-year span’ (Crowley FRBNY 5 July ‘74)

- Technological innovation available (adapted from domestic use)
- New York Clearing House Members
 - Associated members, Edge Act subsidiaries



**•Burroughs B 2500 AND B 3500 ELECTRONIC DATA PROCESSING
SYSTEMS** A NEW LEVEL OF COMPUTER RESPONSIVENESS

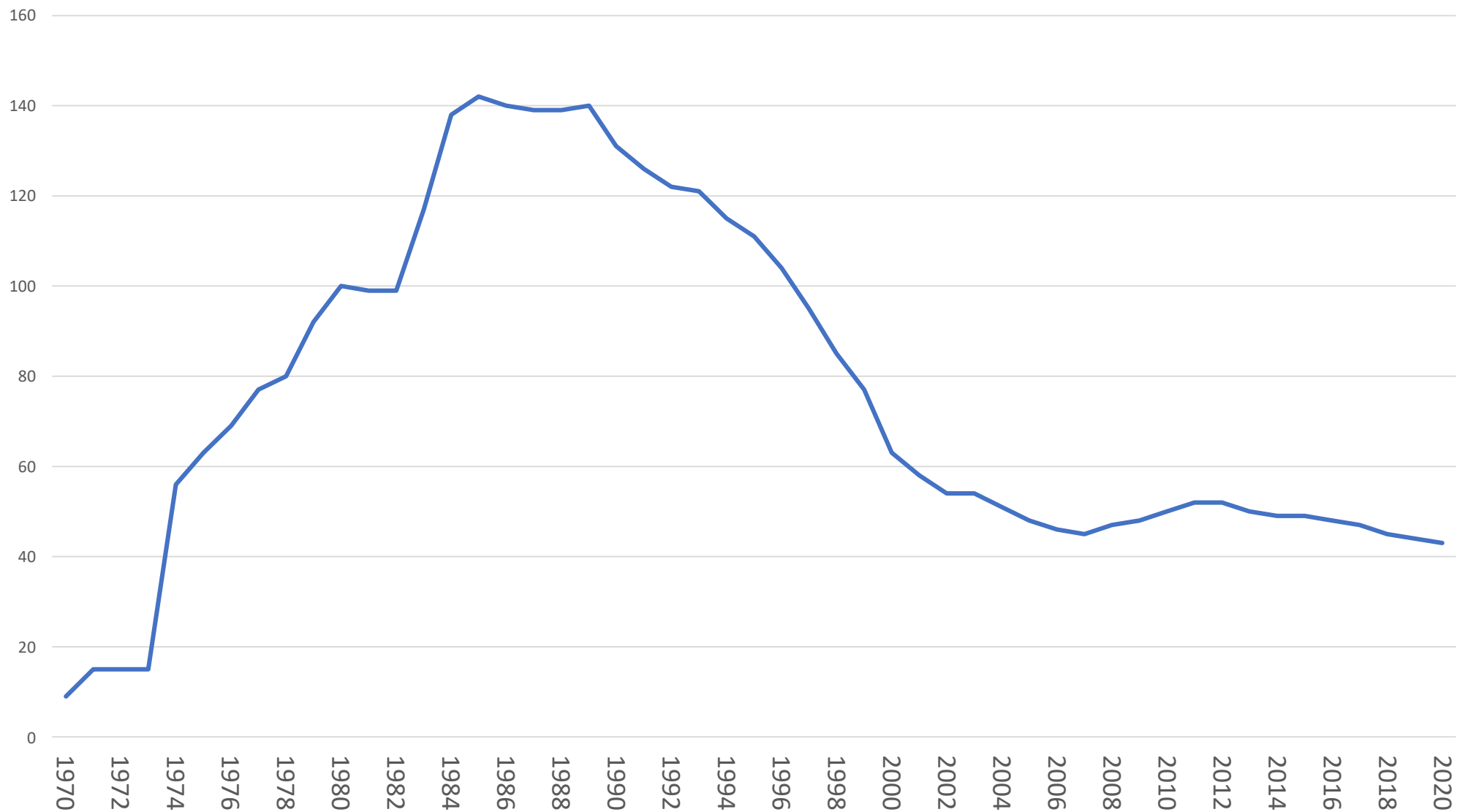


**Note: Gendered element to technology
Clerical tasks**

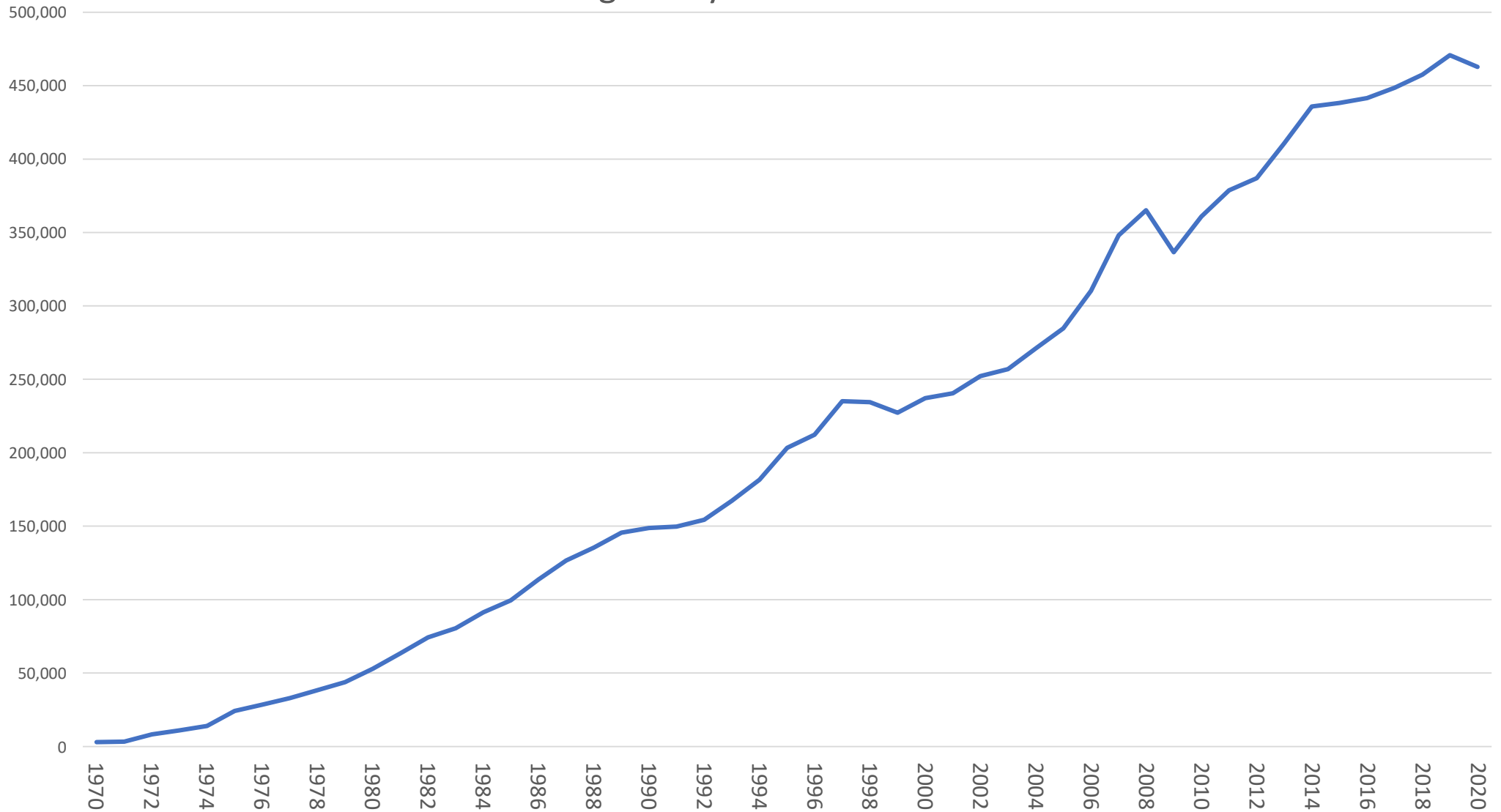
**A NEW LEVEL
OF COMPUTER
RESPONSIVENESS**



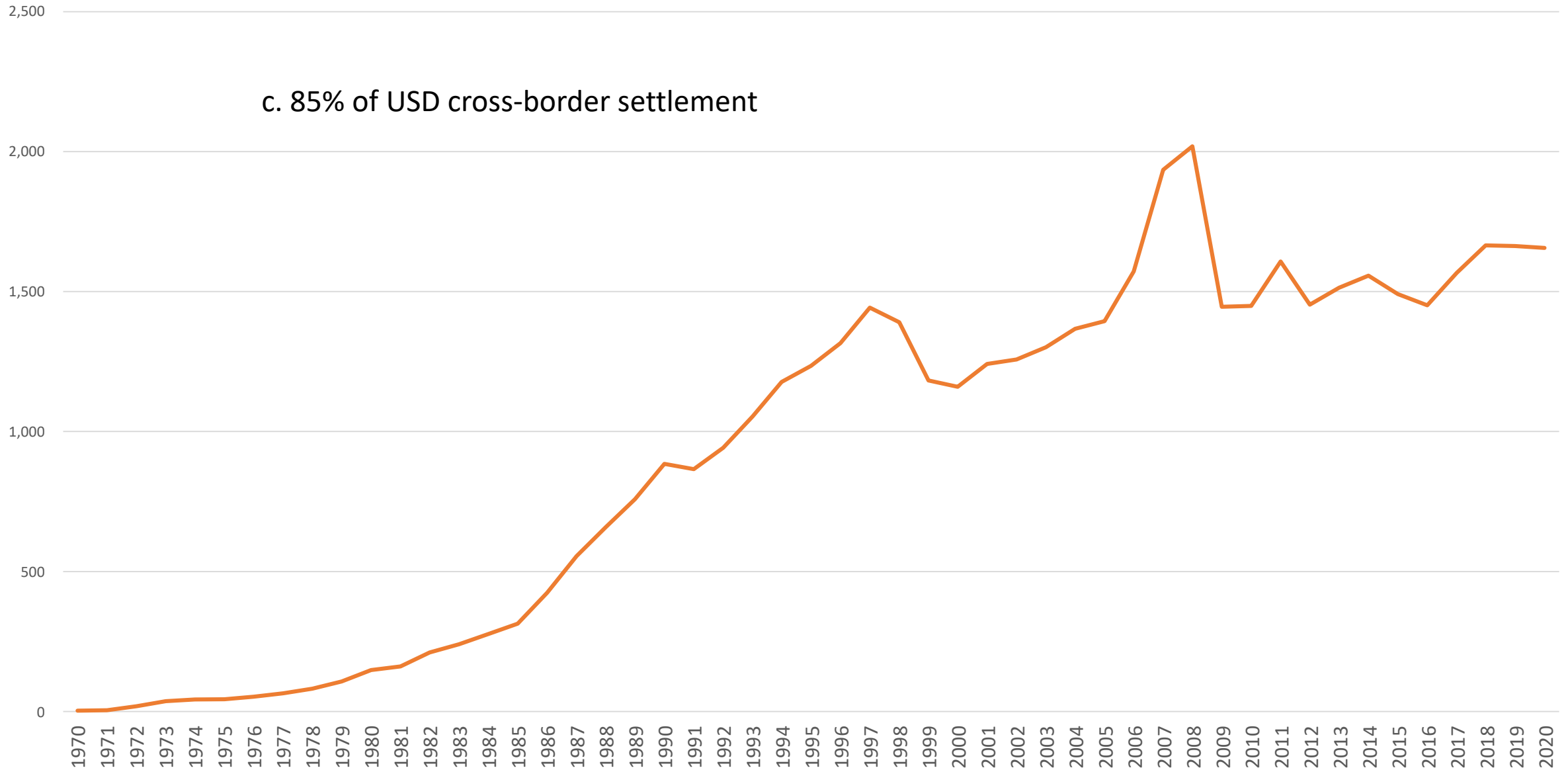
CHIPS Number of Participants



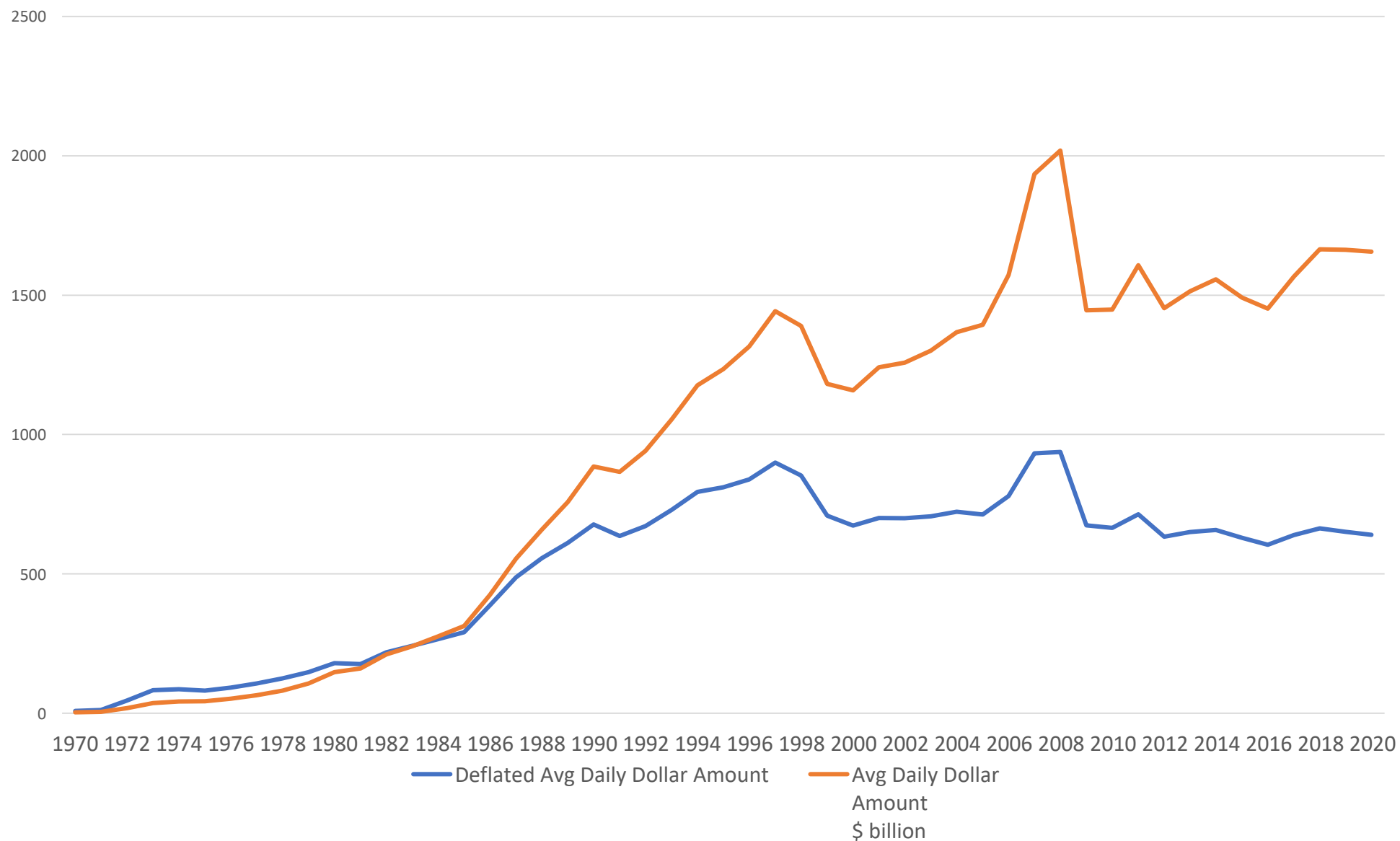
CHIPS Average Daily Number of Transactions



Average Daily Amount of Transactions USD billions



Average Daily Amount of Transactions: real and nominal USD billion



CHIPS – Issues 1970-1986



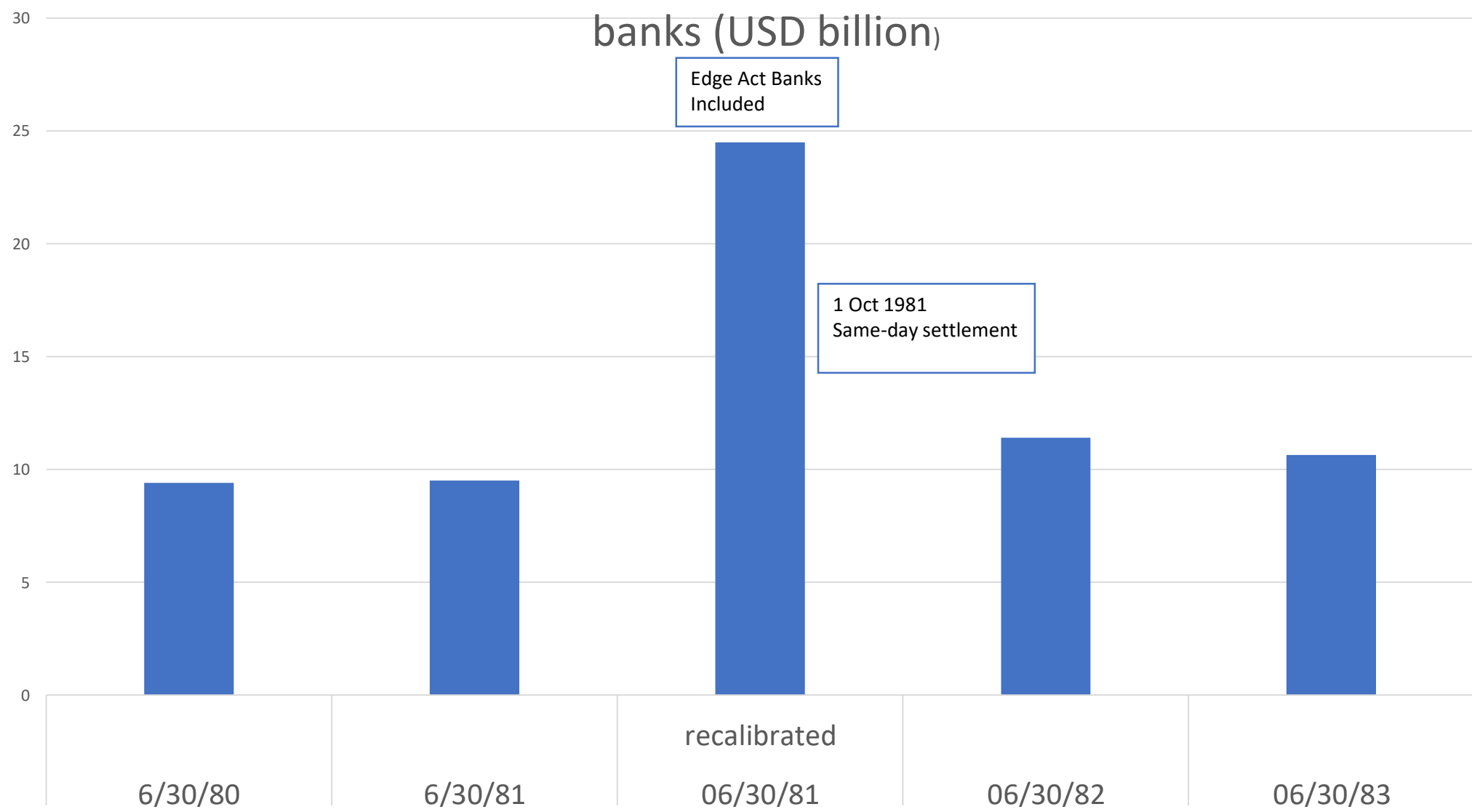
- FX payments immediately available but matching Dollars not available until next day: Clearing House Funds
- Friday funds not available until Monday: strategic holding over to put into money markets
- Daylight Overdrafts: float/deposits covers only a tiny proportion of turnover even for small respondents
- Time change NY-London-Europe: NY clearing not completed before European banks close

‘it is a business in which trust and confidence is essential’

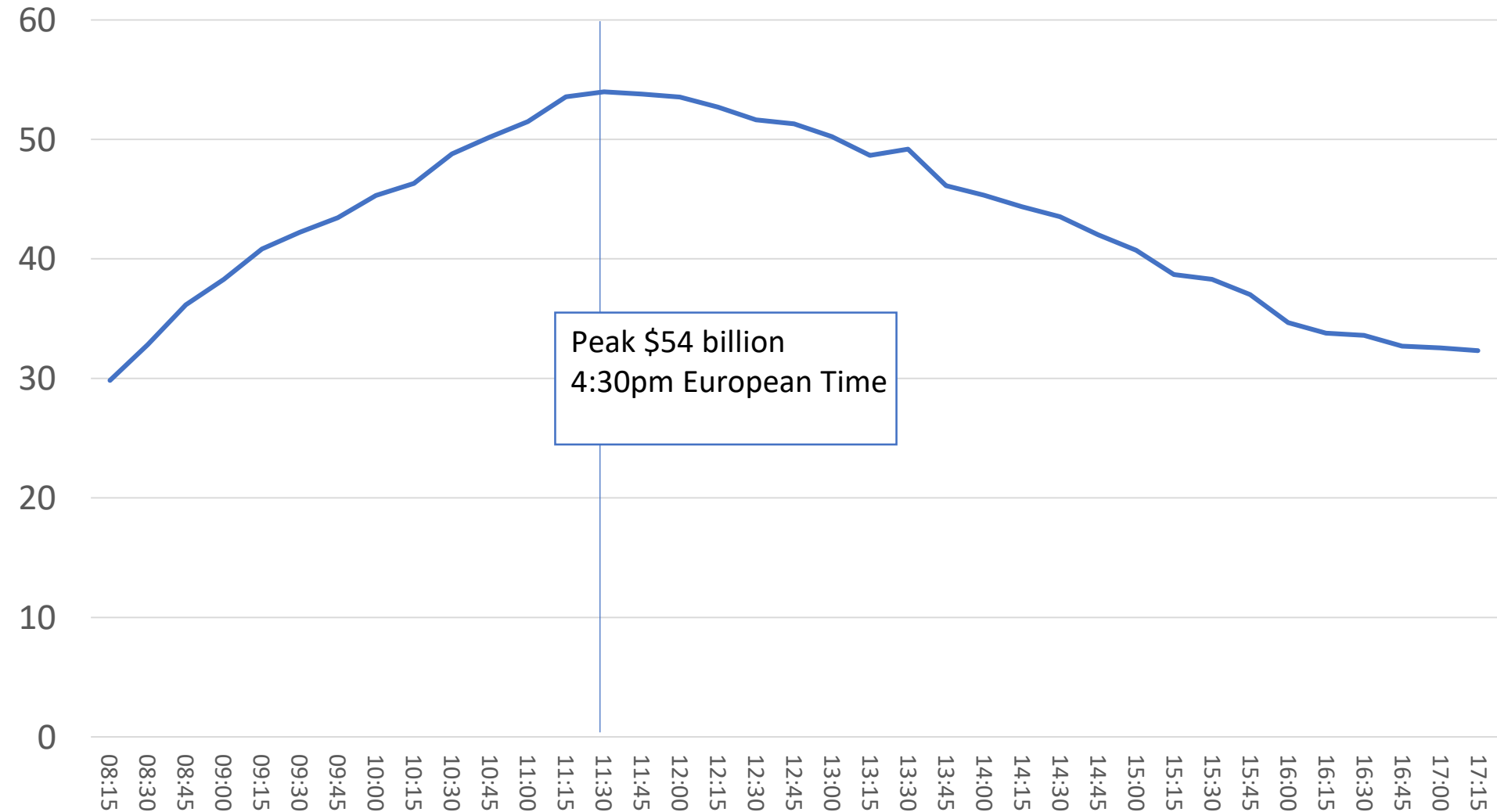
Crowley FRBNY 5 July ‘74

- Associate members don’t have direct access: clearing through Clearing House members

Correspondent Banking Deposits of US Banks: due to foreign banks (USD billion)



CHIPS Average Total Net Credit Positions Through the Day Feb 9 to Feb 22 1989 (USD billion)

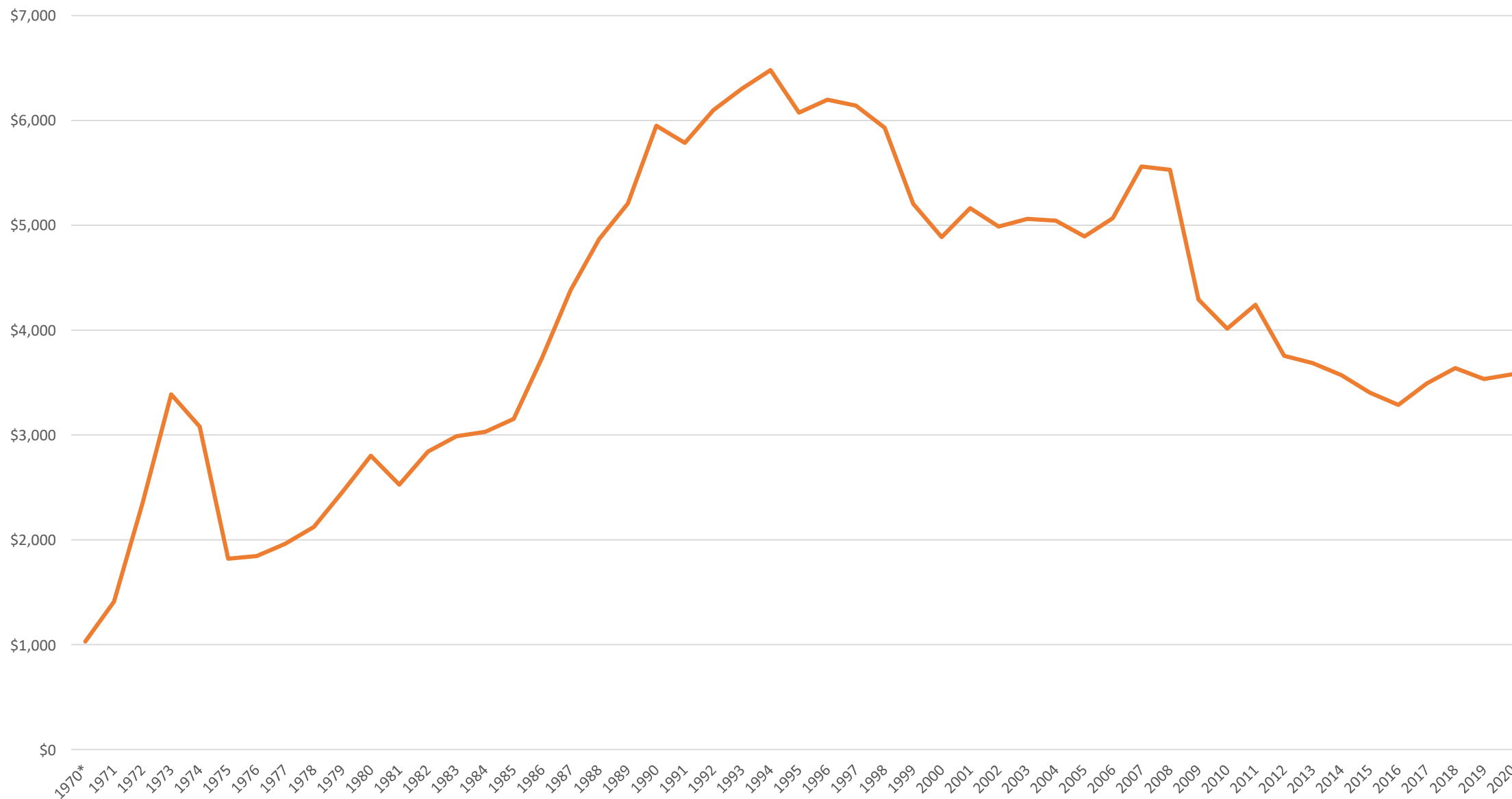




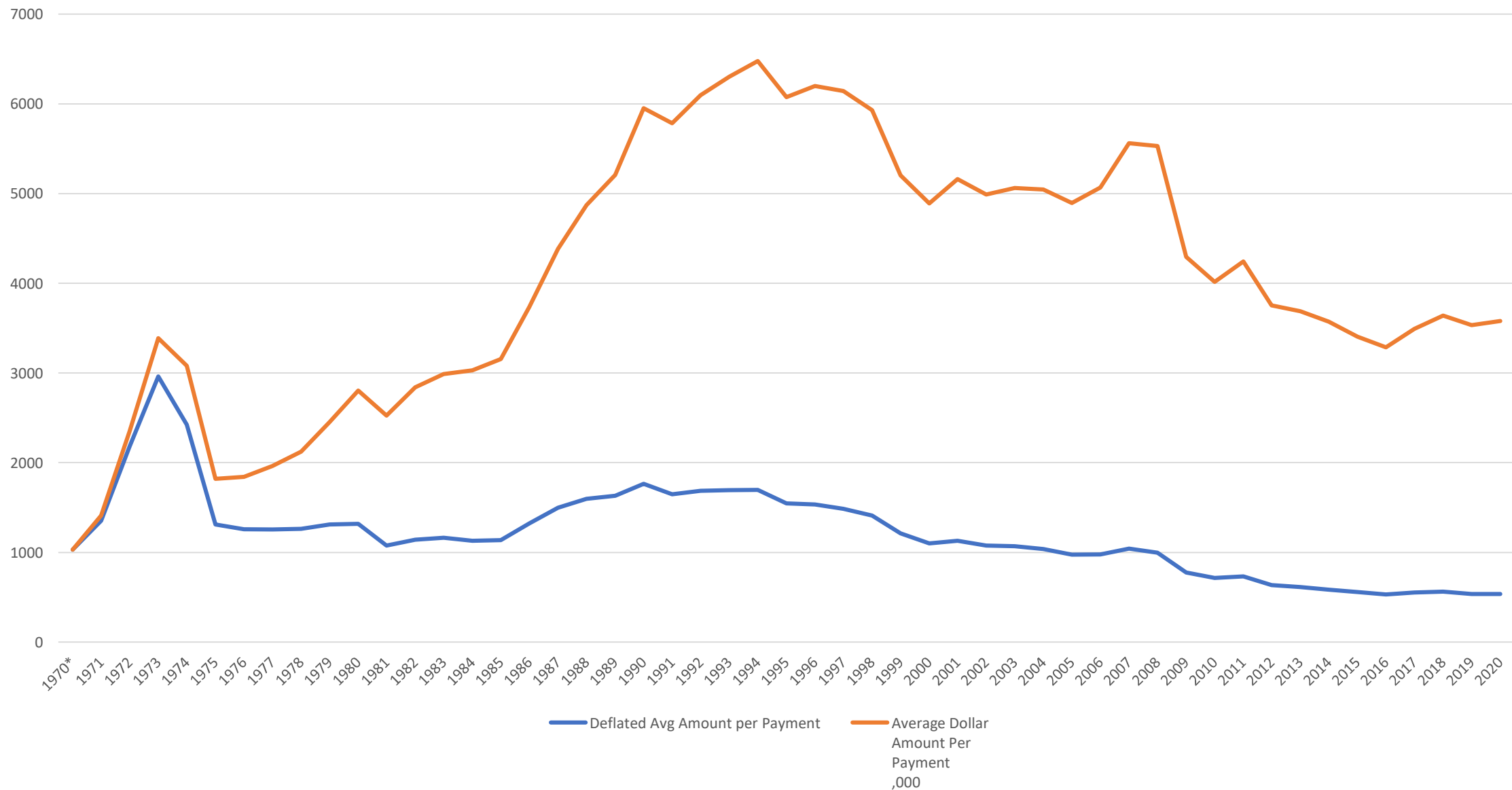
Herstatt Bank Collapse: July 1974

- Fraud, insolvency
- German authorities close Herstatt before dollar payments to cover FX payments on behalf of Herstatt (Mourlon-Druol 2015; Schenk 2014)
- Exposes counterparty risk in CHIPS
- Chase Manhattan: main correspondent bank
- Next day retrieval of FX payments (symmetric to dollar settlement)
- Sharp fall in turnover
- Sharp and sustained fall in average size of transaction

Average Size of Payment '000s



Average Size of Payment '000s



GloCoBank 2021-2026



There is a lot still to learn about Correspondent Banking system

- Geopolitics
- International Trade
- Technological innovation (ICT, competing/complementary networks)
- Financial Crisis: response and role in
- Bank strategies (divergence)
- Governance (AML/CTF, transparency)
- Regulation (national and supranational)
- Regional as well as global dynamics

<https://glocobank.web.ox.ac.uk/#/>

@GloCoBank

Catherine R. Schenk 22 May 2021 FRB Atlanta Monetary and
Financial History Workshop

