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“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)

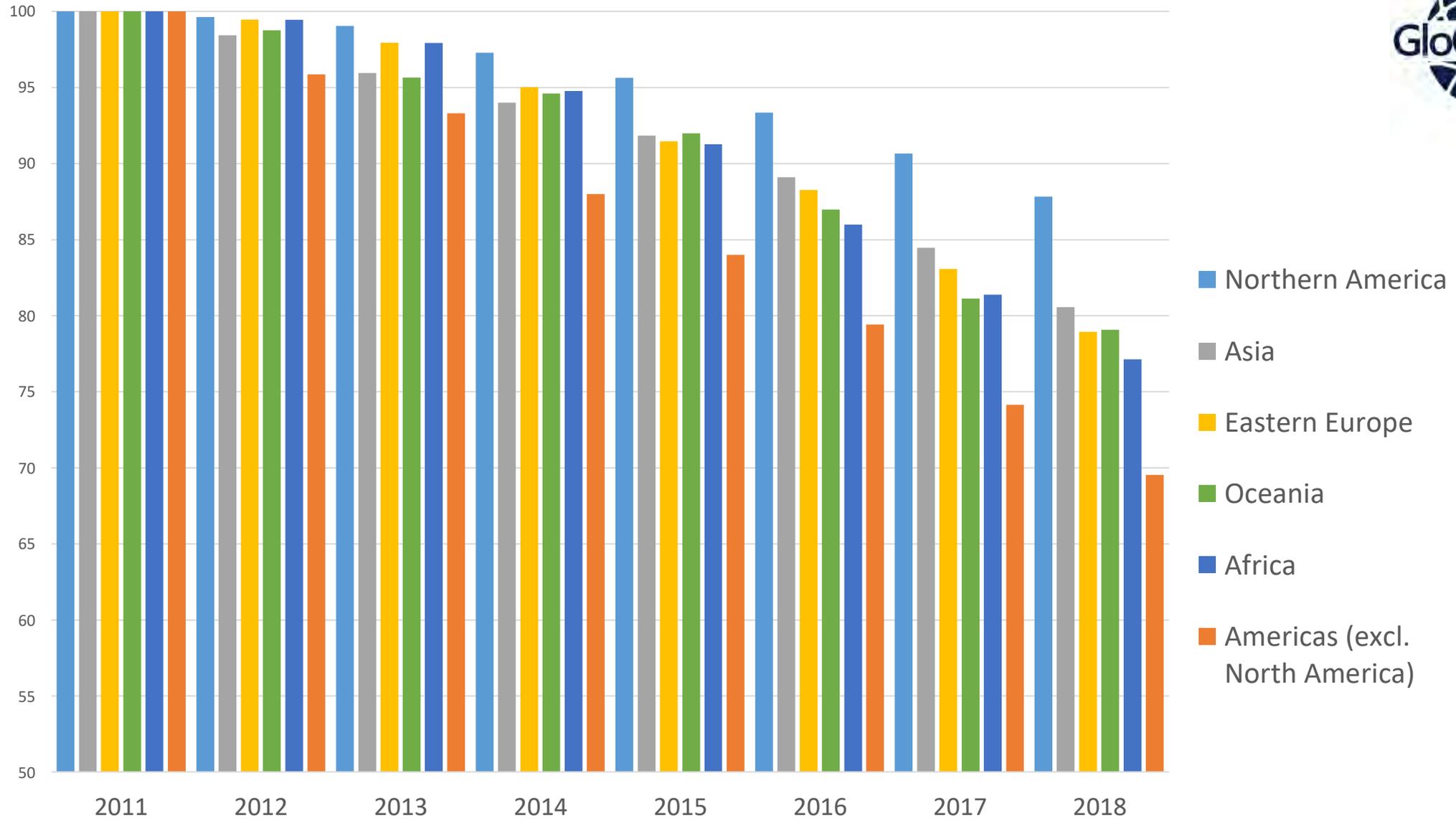


GloCoBank: Global Correspondent Banking 1870-2000

- 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

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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.

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

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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.

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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.

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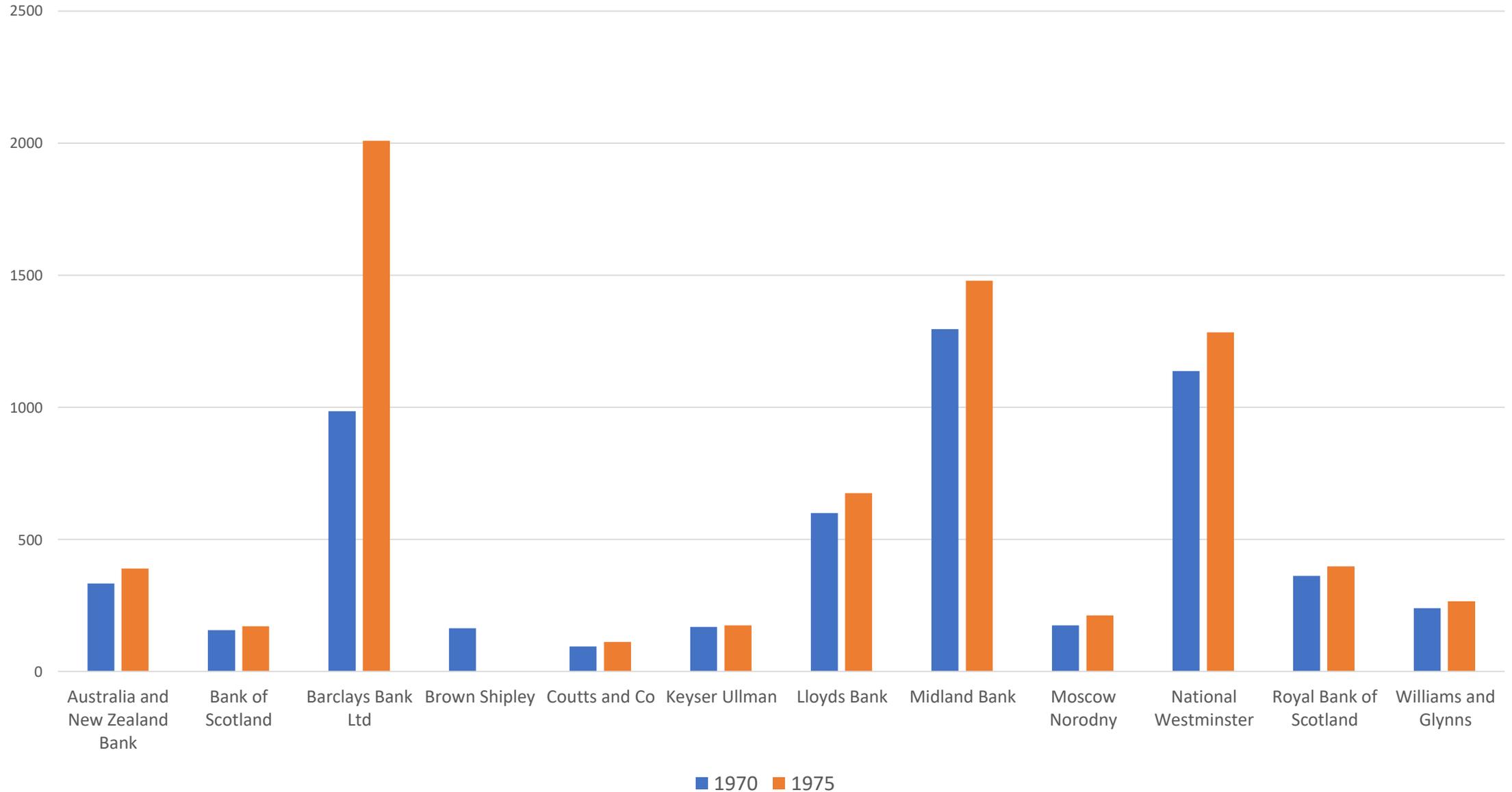
Bank of California 1968 Campaign: 2000 Correspondents around the world



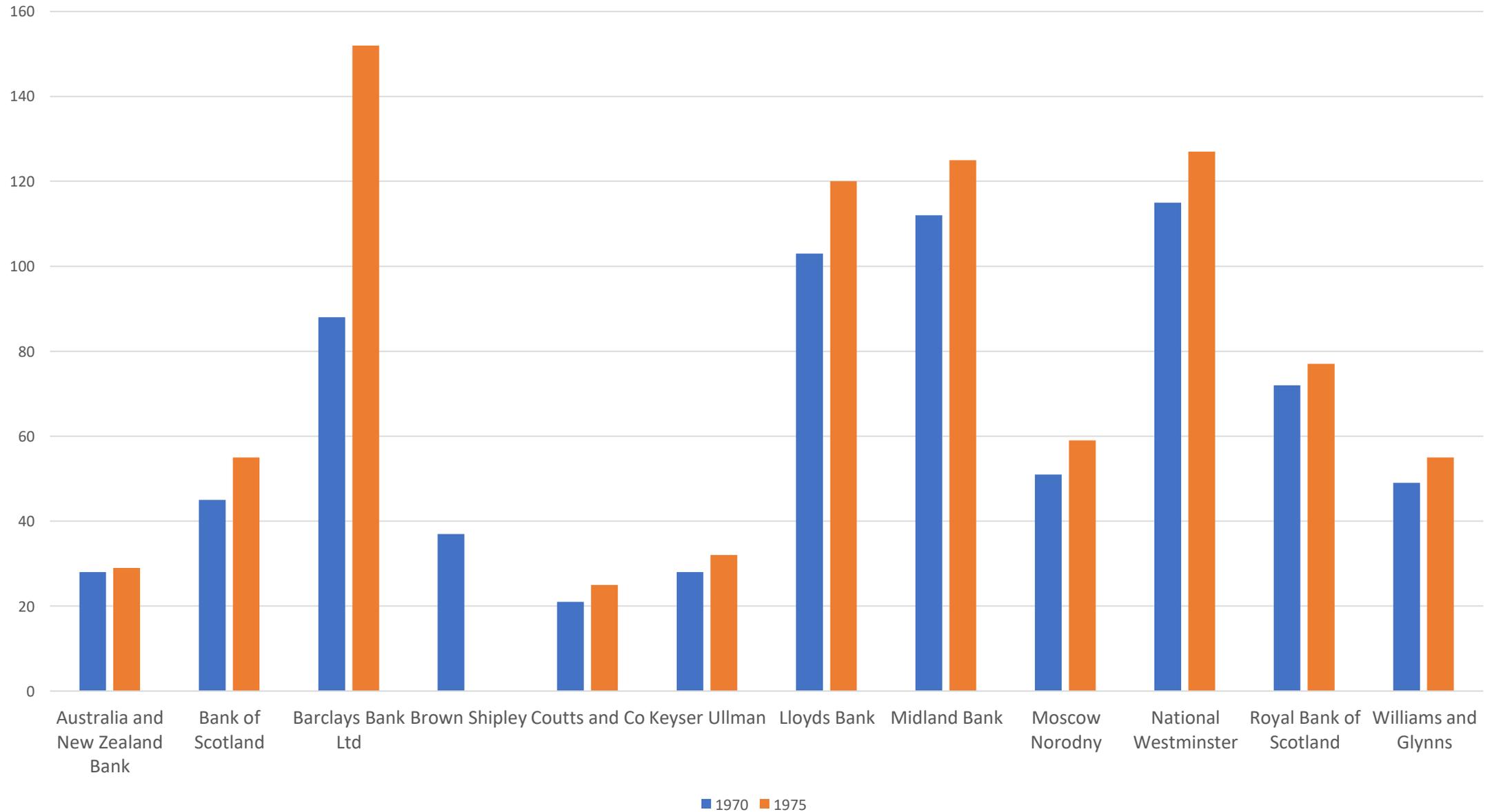
Context for 1960s-1970s

- 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

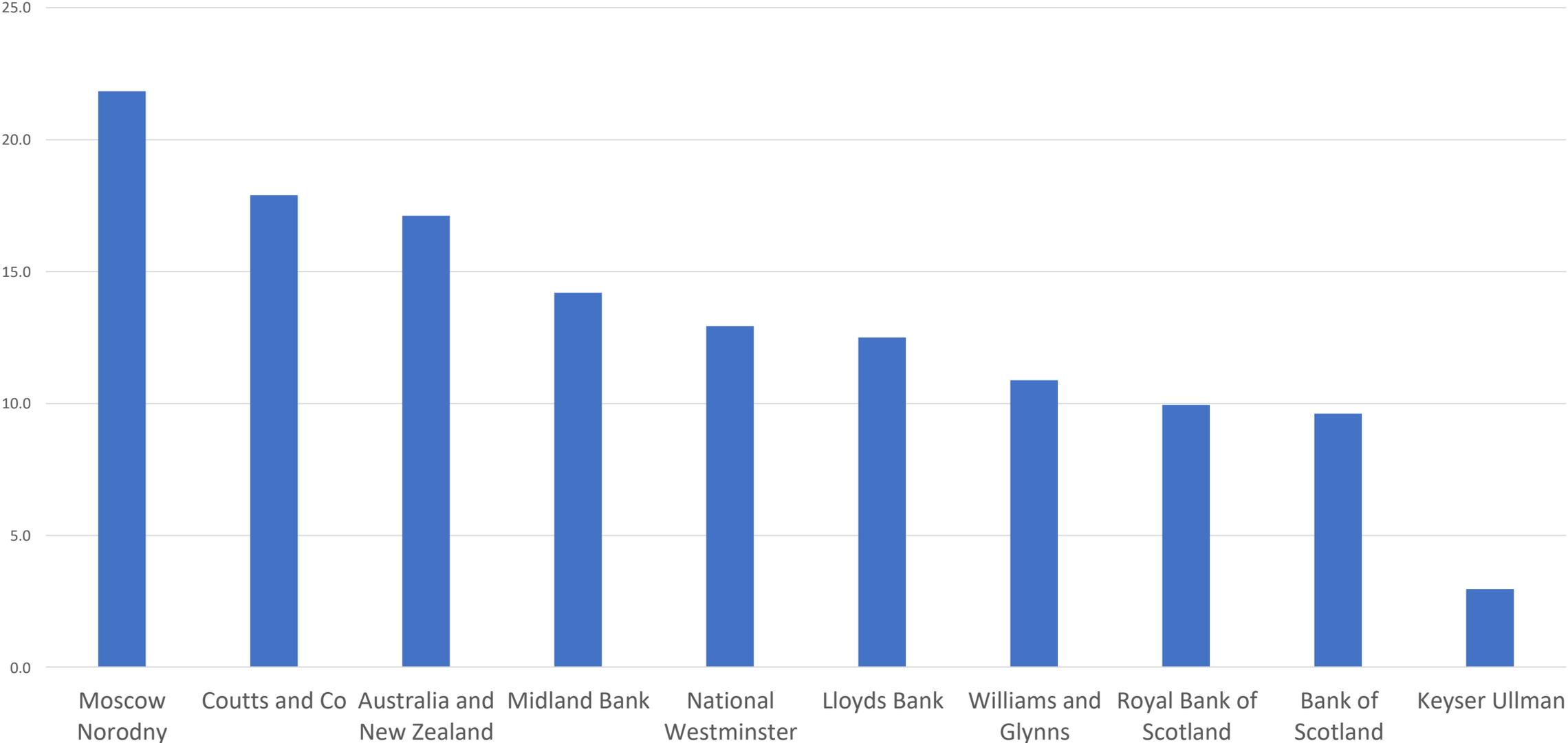
Number of Respondent Banks for Banks in London 1970 and 1975



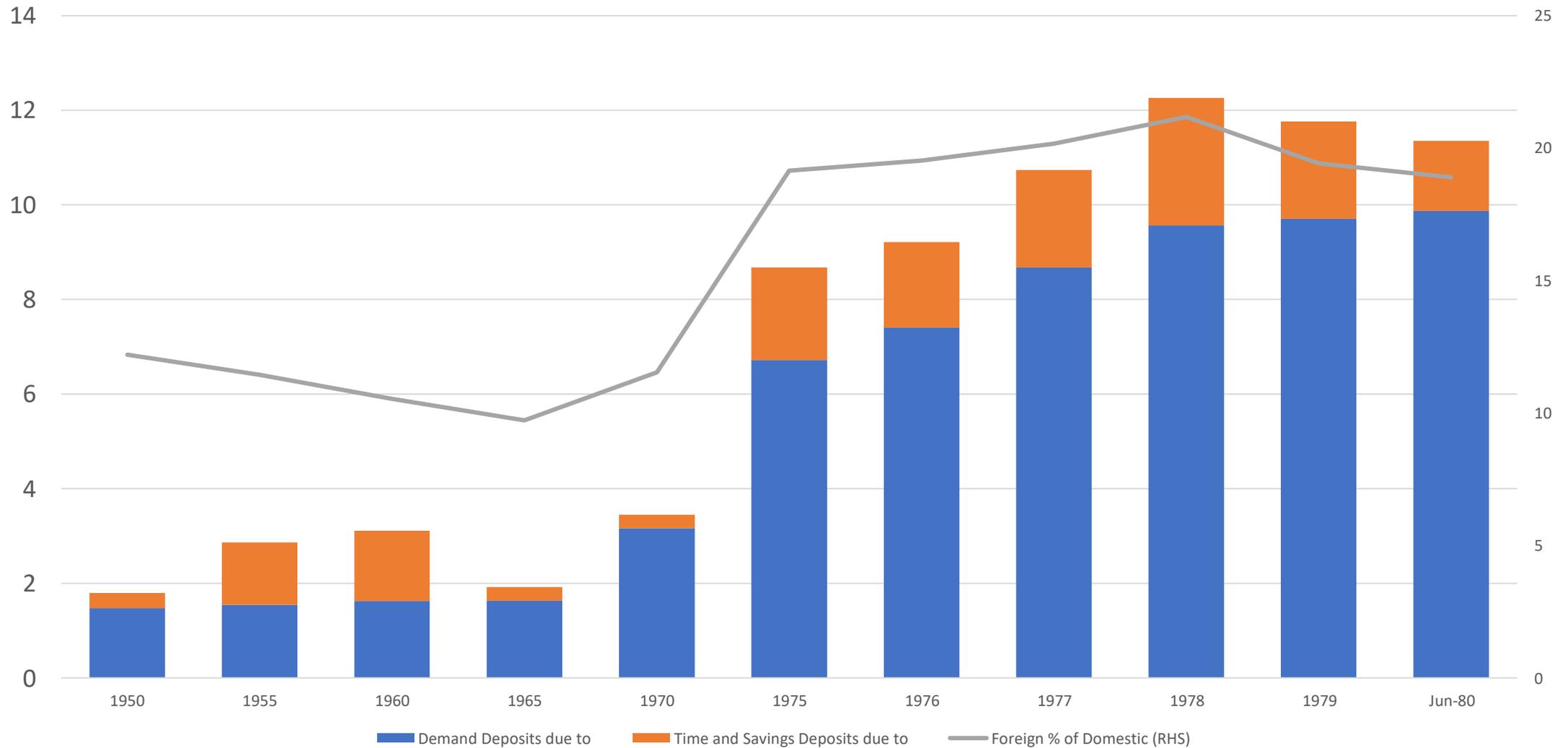
Number of Countries with Respondent Banks 1970 and 1975



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

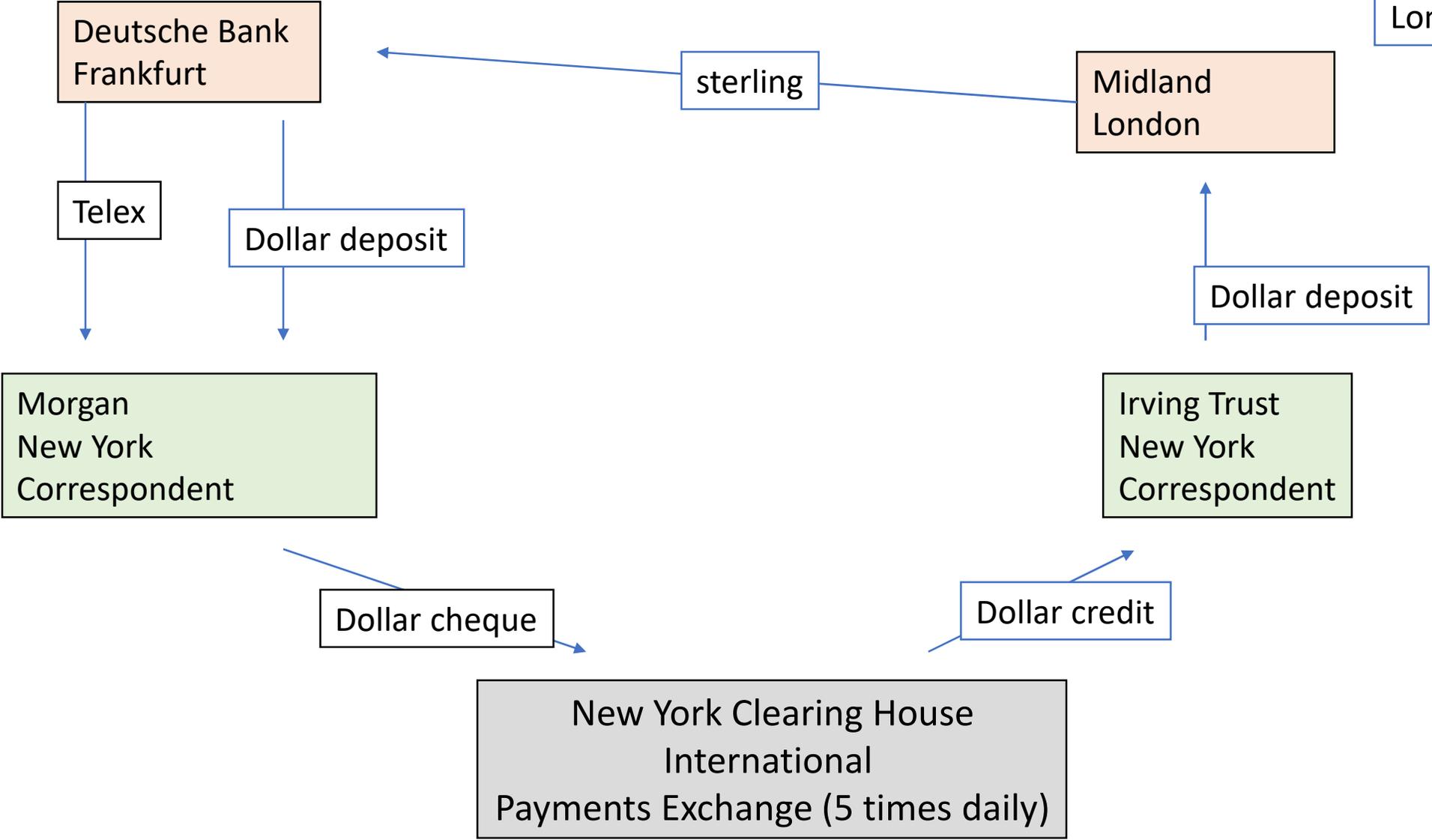


Correspondent Bank Deposits of US Banks: due to Foreign Banks *Excluding Edge Act Banks (USD billion)*



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**



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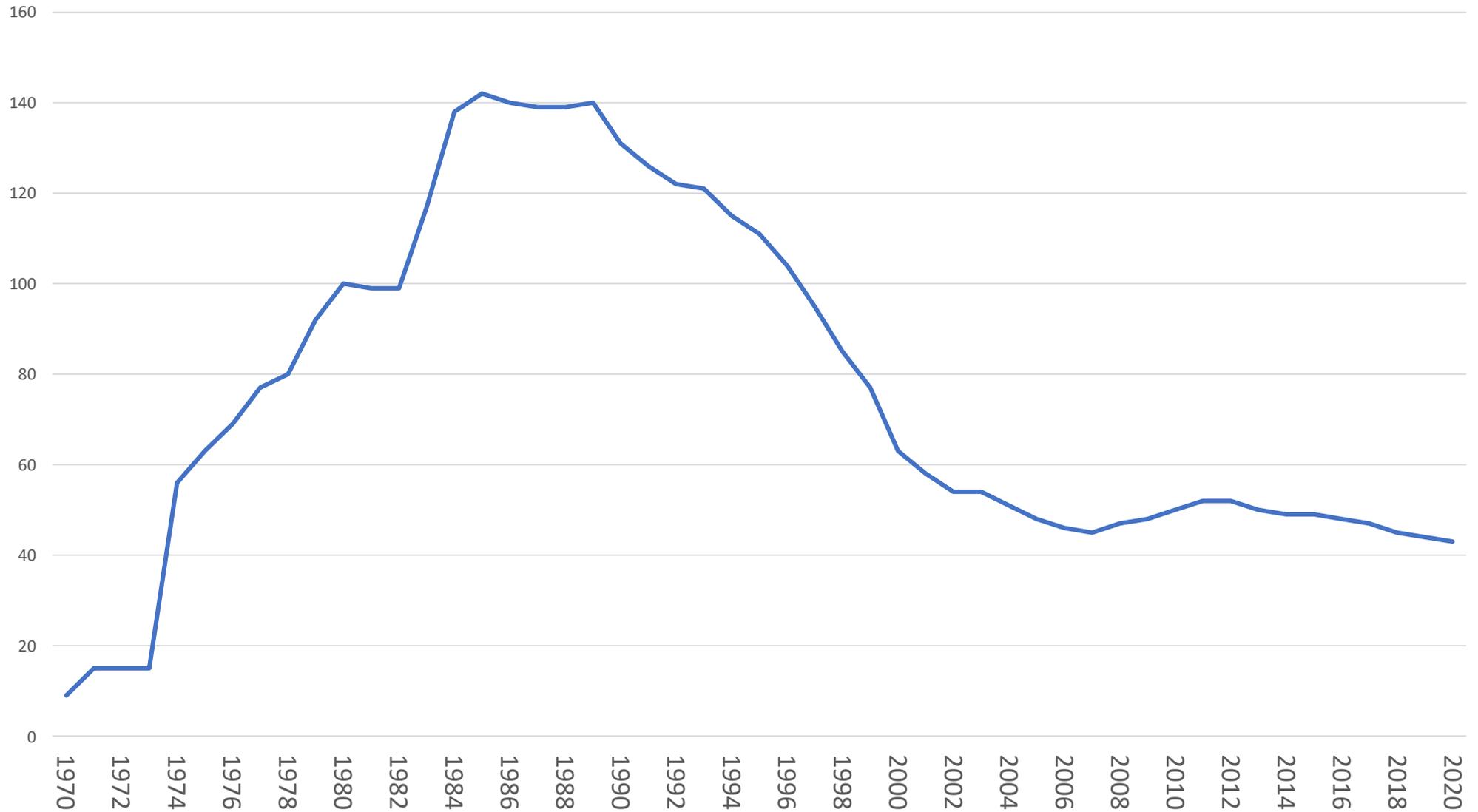
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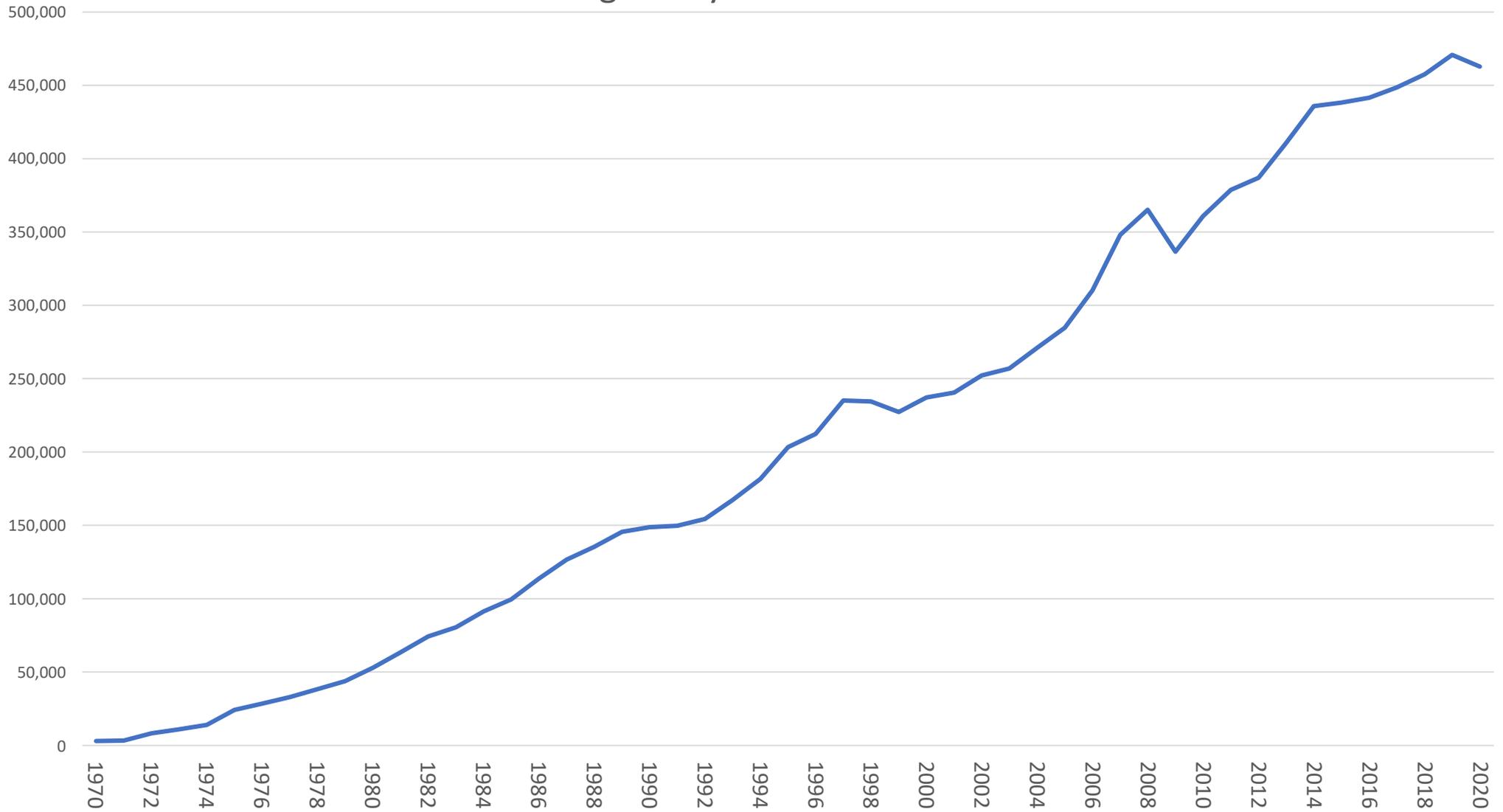
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CHIPS Number of Participants

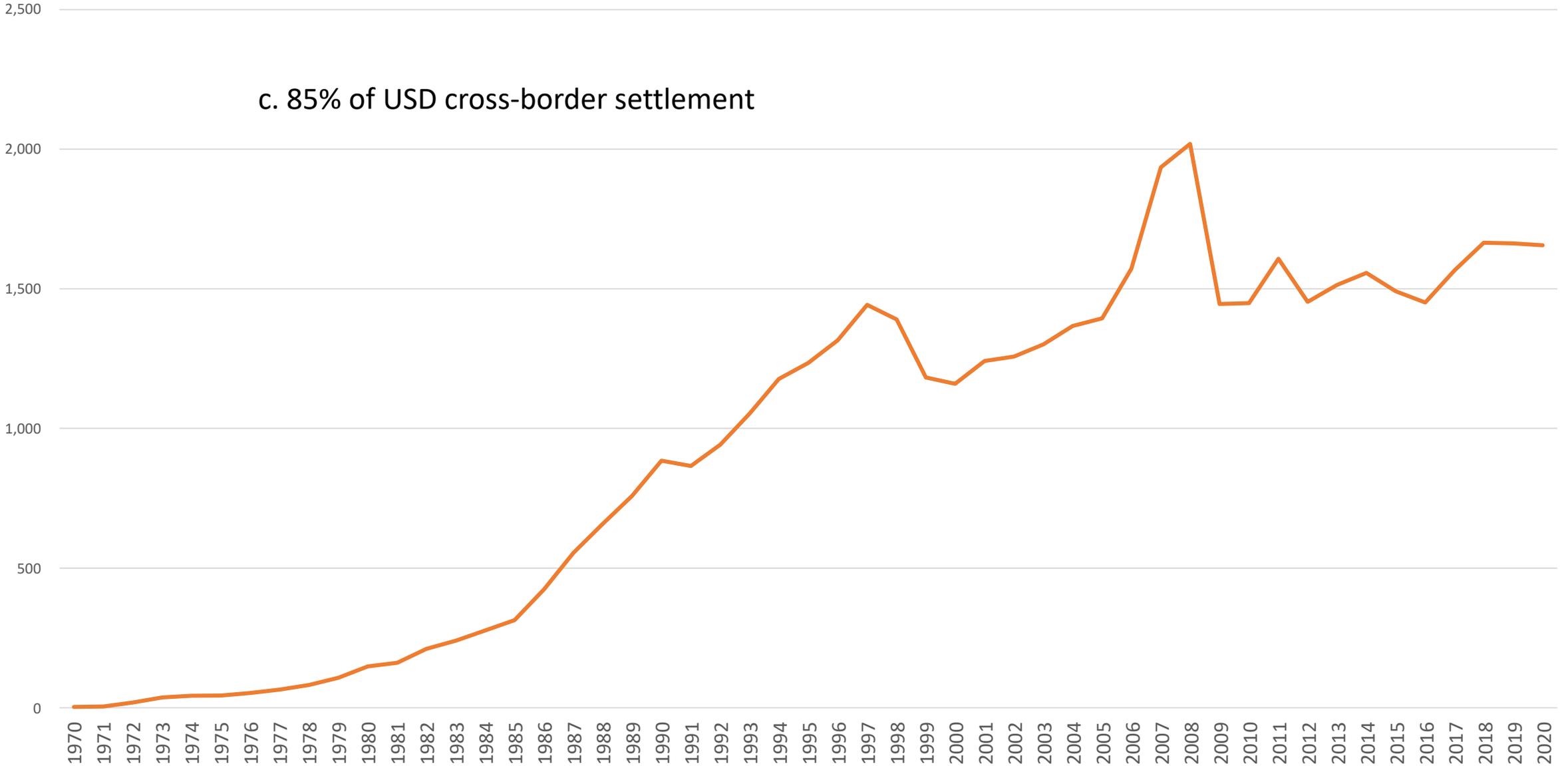


CHIPS Average Daily Number of Transactions

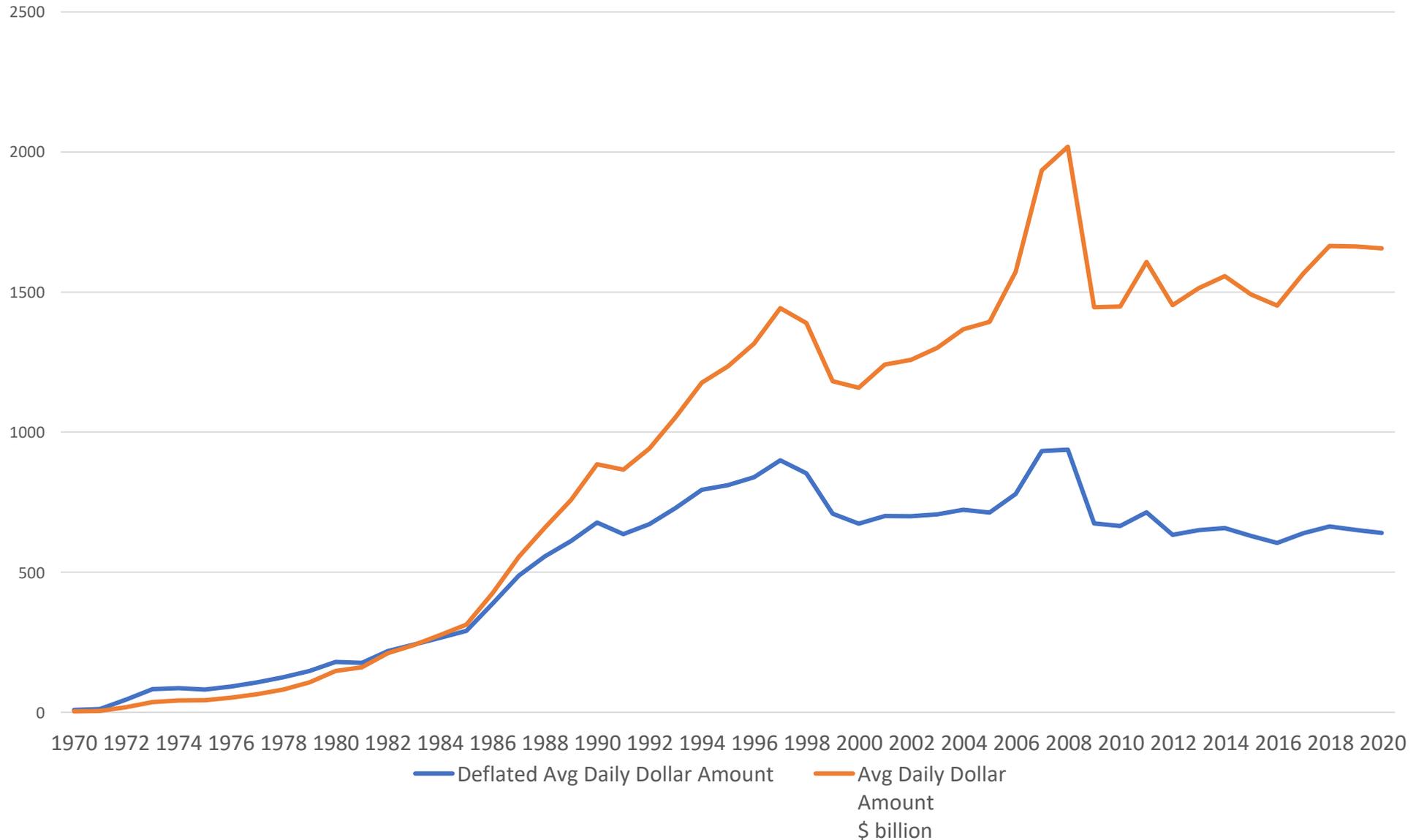


Average Daily Amount of Transactions USD billions

c. 85% of USD cross-border settlement



Average Daily Amount of Transactions: real and nominal USD billion



CHIPS – Issues 1970-1986



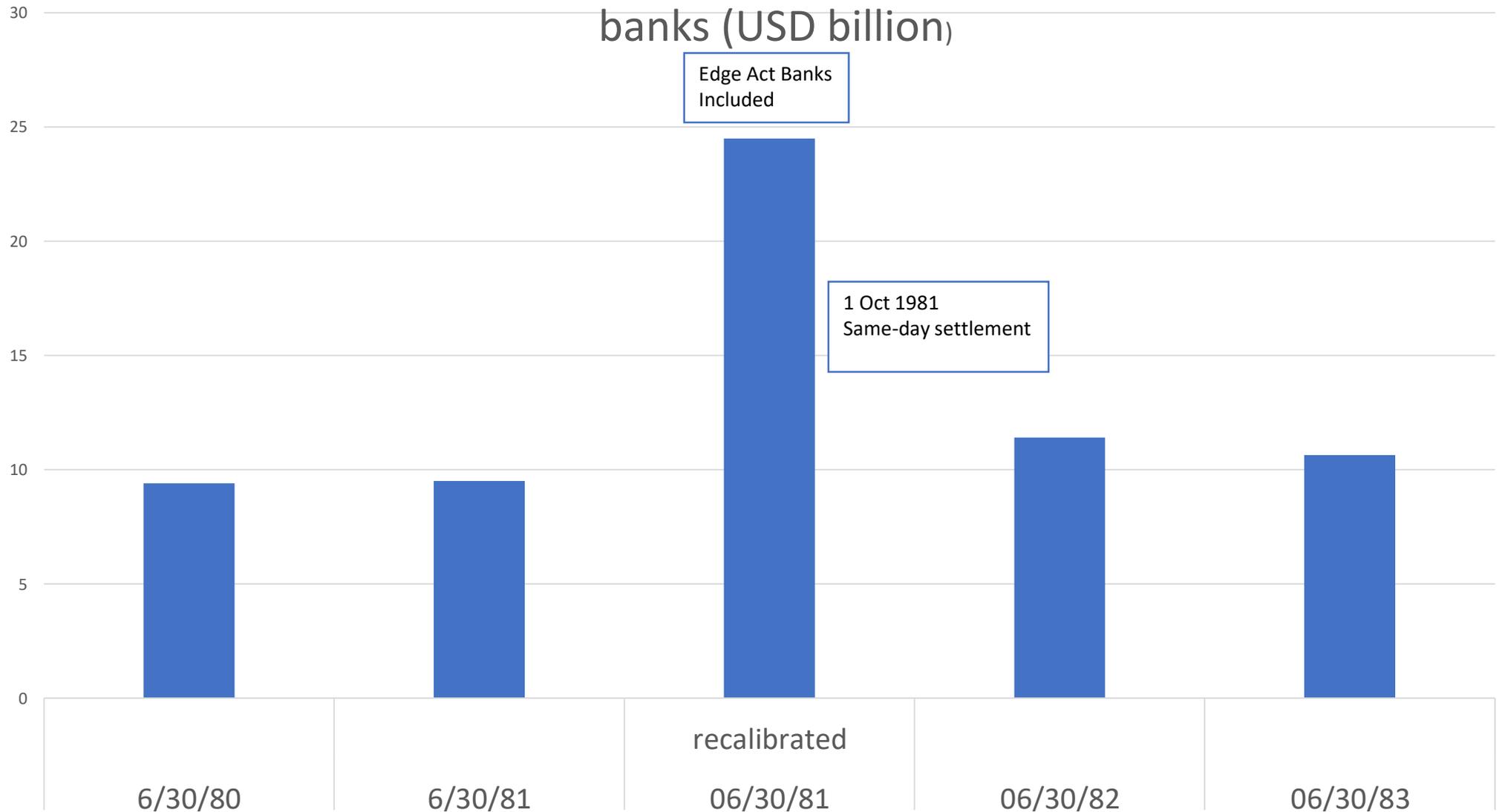
- FX payments immediately available but matching Dollars not available until next day: Clearing House Funds
- Friday funds not available until Monday: strategic holding over to put into money markets
- Daylight Overdrafts: float/deposits covers only a tiny proportion of turnover even for small respondents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

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

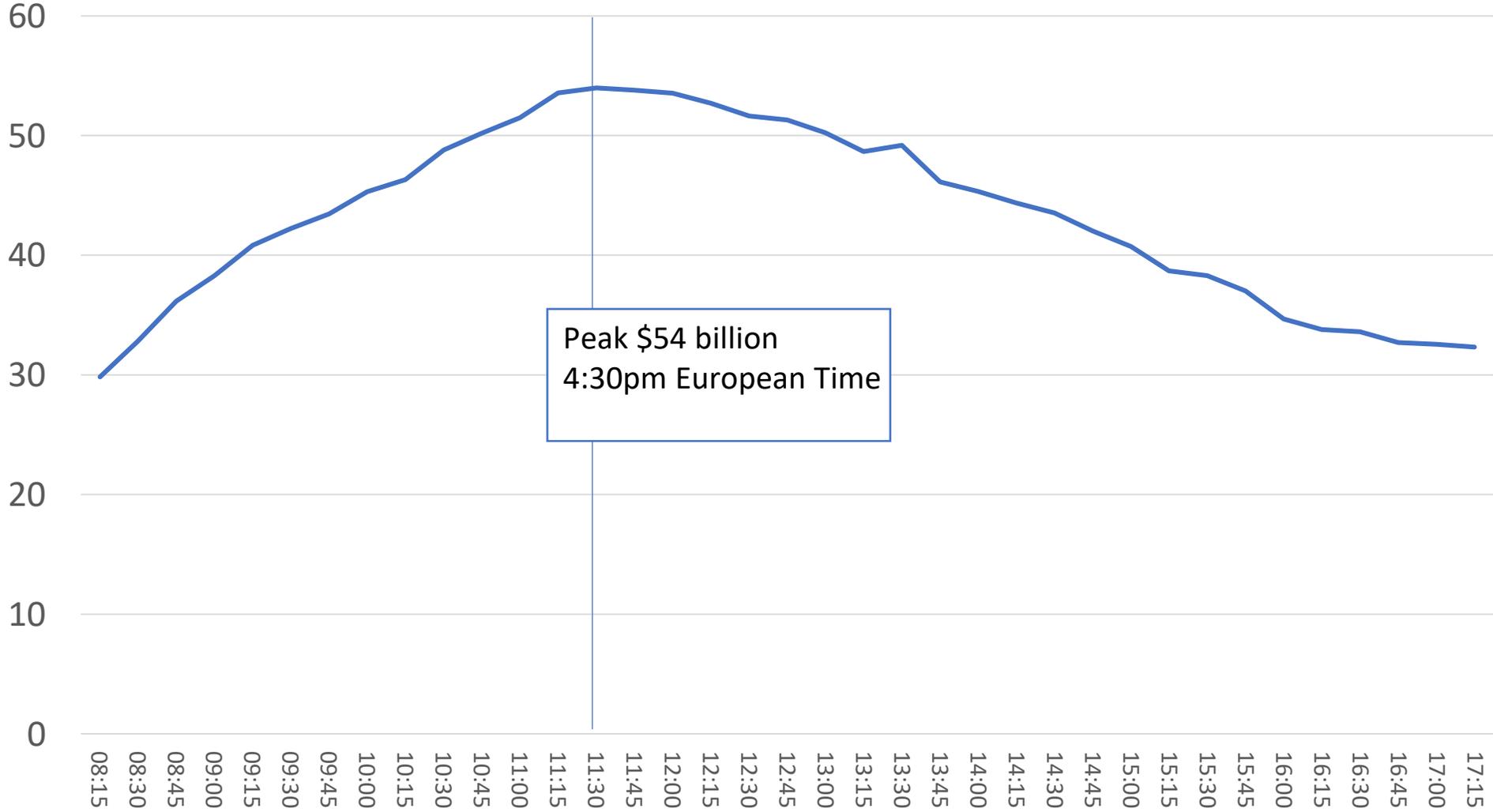
Crowley FRBNY 5 July ‘74

- 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)

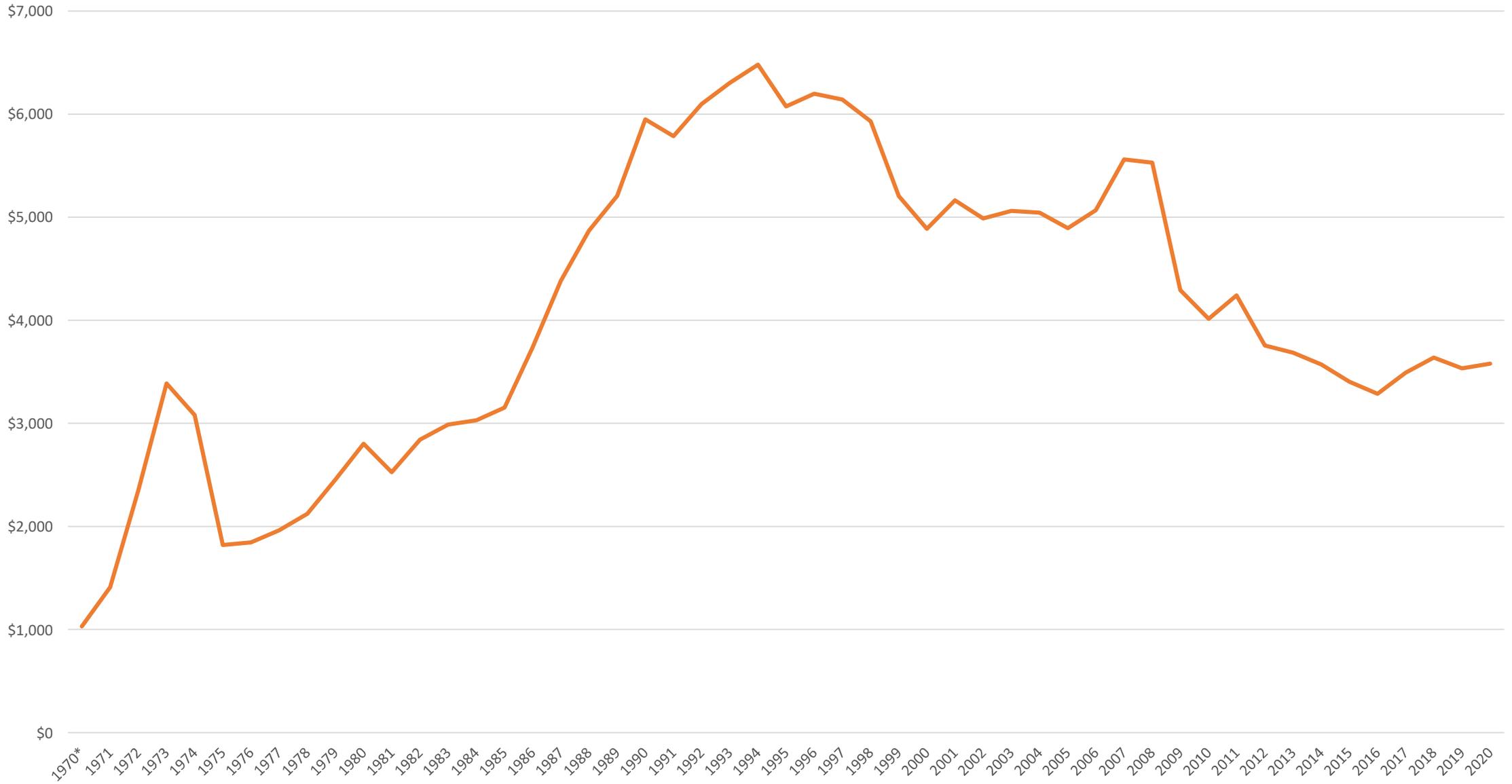




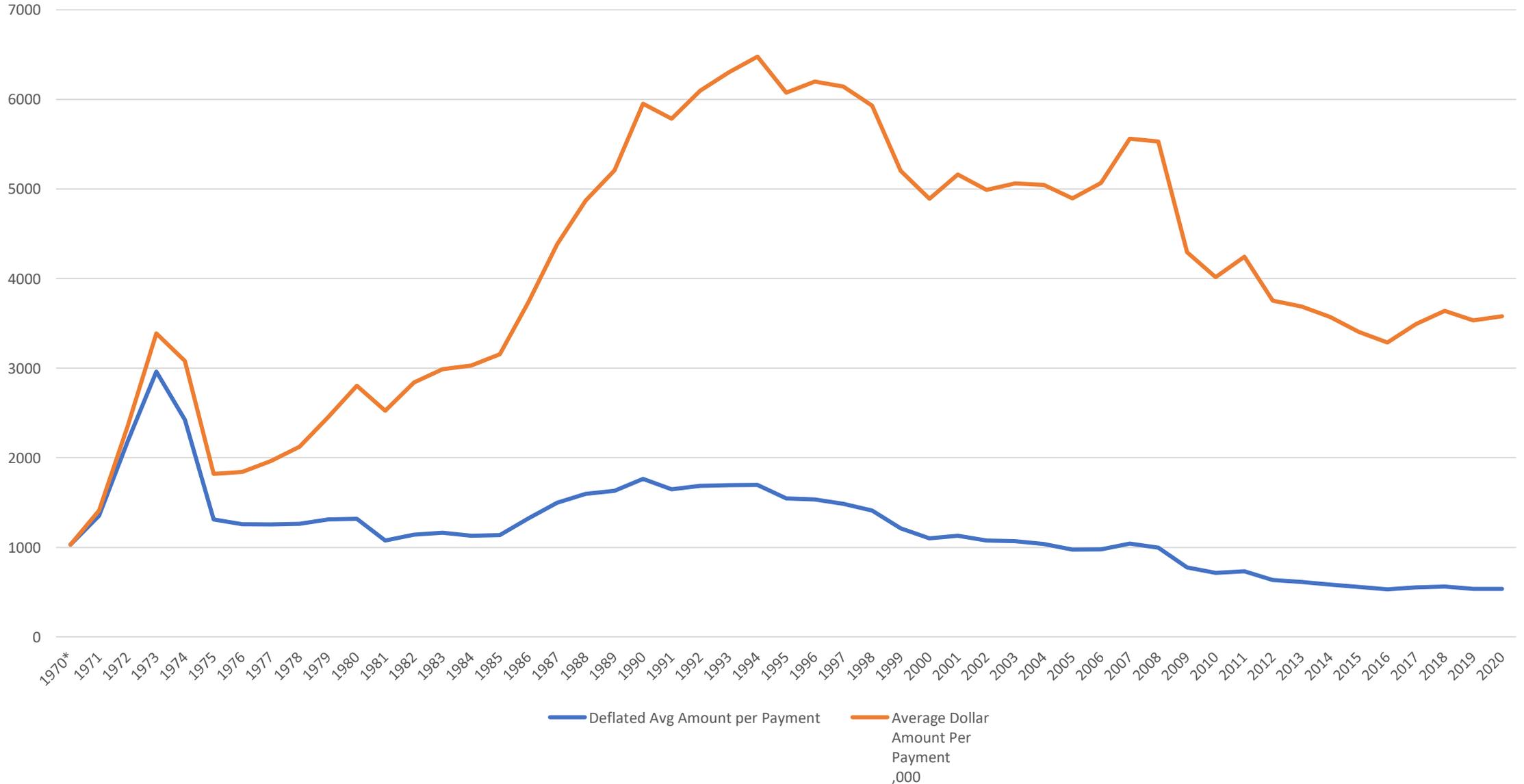
Herstatt Bank Collapse: July 1974

- 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



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

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/#/>

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