



Catherine R. Schenk  
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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)

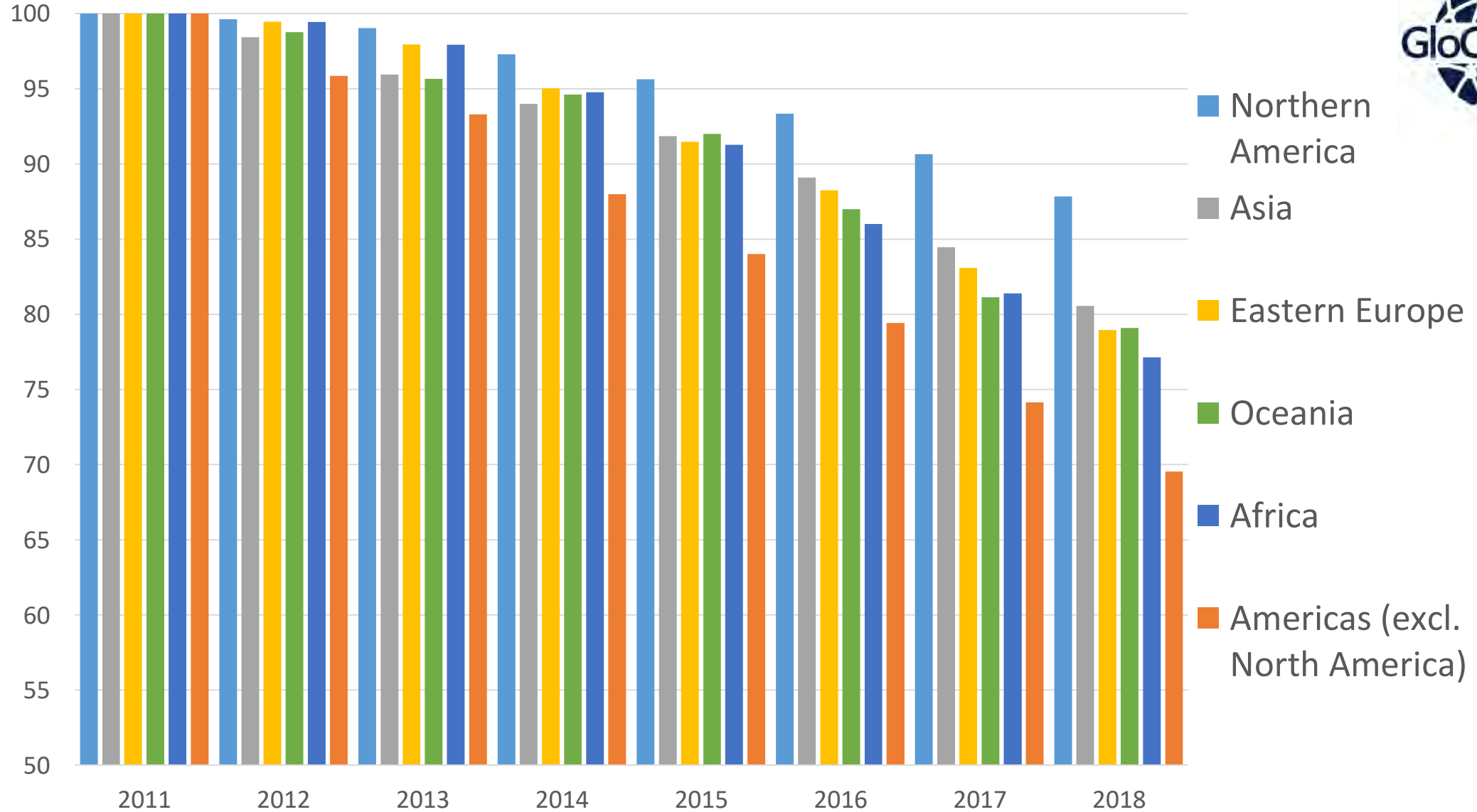


# GloCoBank: Global Correspondent Banking 1870-2000

- Plumbing of the global payments system: prone to leakage, diversion, points of failure, patches
- Decline in correspondent banking since 2008 (Erbenova et al 2016) <sup>25k</sup>
  - 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)
  - Danske Bank scandal 2007-14
- Response to financial crisis, conflict, technological innovation, bank business models



# 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)
- CPMI @ BIS/FSB



**BANCA POPOLARE DI MILANO S.C.aR.L.—4, Piazza F. Meda, Milan, Italy.**

*Established—1865.*

*General Manager—ANGELO SARACENO.*

*Telegrams—“Popolbanca, Milan.” Codes—Peterson’s 2nd, 3rd and 4th eds. Tel.—704722. Telex—MI 075.*

*London Correspondents—Australia & New Zealand Bank; Bank of America; Bank of West Africa; Bank of New South Wales; Barclays Bank; British & French Bank; Commercial Bank of Australia; First National City Bank of New York; Hambros Bank; Hanover Bank; Midland Bank; Martins Bank; National Provincial Bank; Philip Hill, Higginson, Erlanger; Swiss Bank Corp.; Standard Bank of South Africa; Westminster Bank.*

*New York Correspondents—Bank of America; Bankers Trust; Chase Manhattan Bank; Grace National Bank; Morgan Guaranty Trust; Hanover Bank; Irving Trust; Manufacturers Trust; First National City Bank; Swiss Bank Corp.; Swiss Credit Bank.*

	1958	1959		1958	1959
LIABILITIES, Dec. 31 :—	Lire	Lire	ASSETS, Dec. 31 :—	Lire	Lire
Capital . . . . .	352,045,500	354,006,000	Cash . . . . .	37,687,896,320	31,589,016,386
Reserves, &c. . . . .	2,822,347,904	3,099,321,170	Investments . . . . .	14,150,333,027	27,828,743,897
Deposits . . . . .	123,765,959,050	145,247,010,250	Loans & Discia. . . . .	81,680,086,747	97,394,813,543
Other Liab. . . . .	29,427,235,866	34,835,224,380	Other Assets . . . . .	23,120,728,890	26,999,308,648
Profit Balance . . . . .	271,456,664	285,320,674	Contra A/cs. . . . .	48,832,958,899	69,049,874,295
Contra A/cs. . . . .	48,832,958,899	69,040,874,295			
<b>Total . . . . .</b>	<b>L.205,472,003,883</b>	<b>L.252,861,756,769</b>	<b>Total . . . . .</b>	<b>L.205,472,003,883</b>	<b>L.252,861,756,769</b>

*Dividends—1948, 20 p.c.; 1949, 28; 1950, 32; 1951, 36; 1952, 40; four years to 1956, 42; 1957, 44; 1958, 46; 1959, 48.*

*Shares—Lire 500. Meetings—March. BRANCHES—7. AGENCIES—64. See “Geographical Index.”*

*(See Index to Advertisers.)*



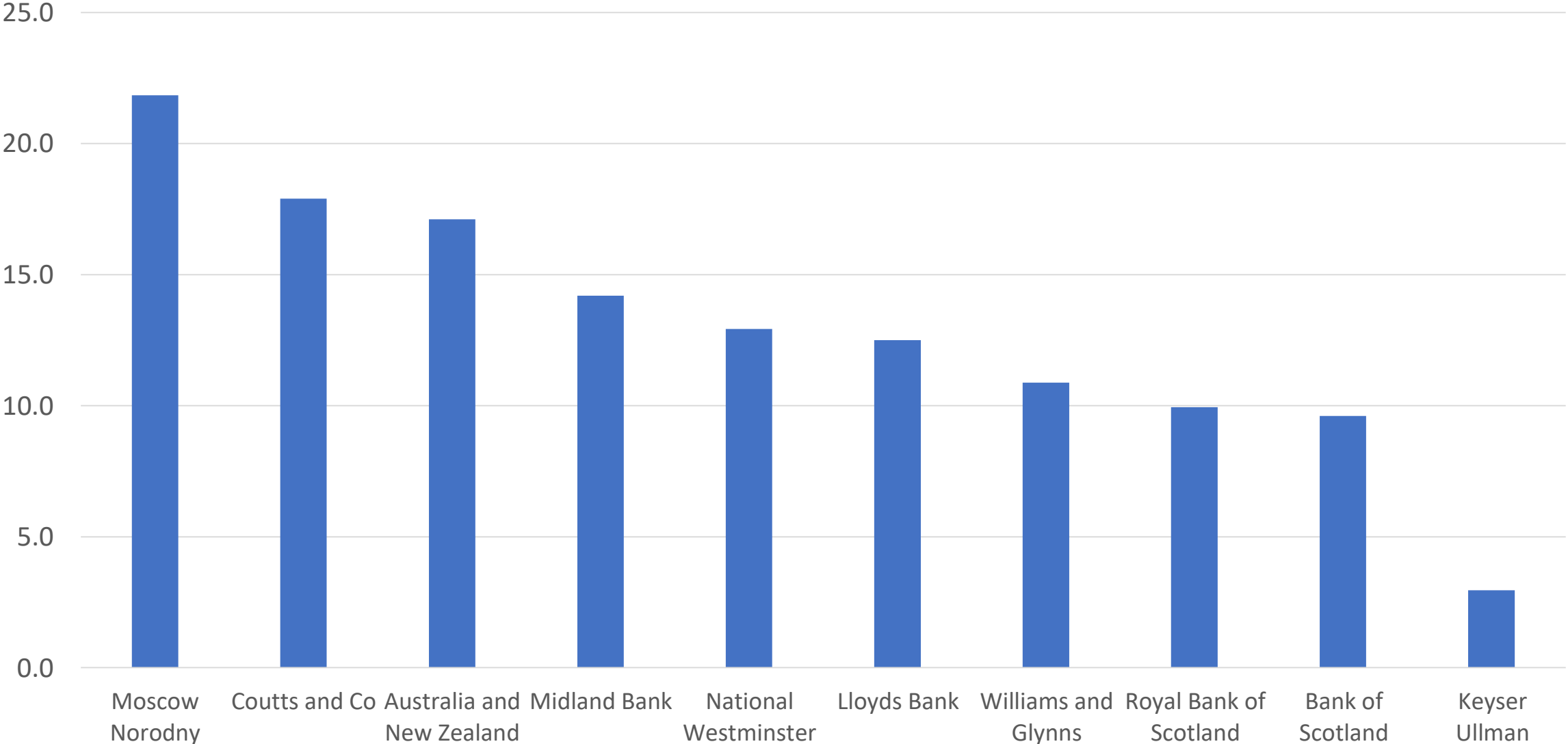


# Context for 1960s-1970s

- Early 1960s – Eurodollar market surge in global payments, integrated cross-border inter-bank market
- Late 1960s – rush/panic among banks to internationalise (Schenk 2017)
  - Branches
  - Subsidiaries
  - Cooperative Strategies, consortia
- Market Risk: floating exchange rates
- Operational Risk: ‘Paper Crunch’ in OTC Securities 1969-70 (Seligman 2003)
- Operational Risk: weak internal controls, complexity

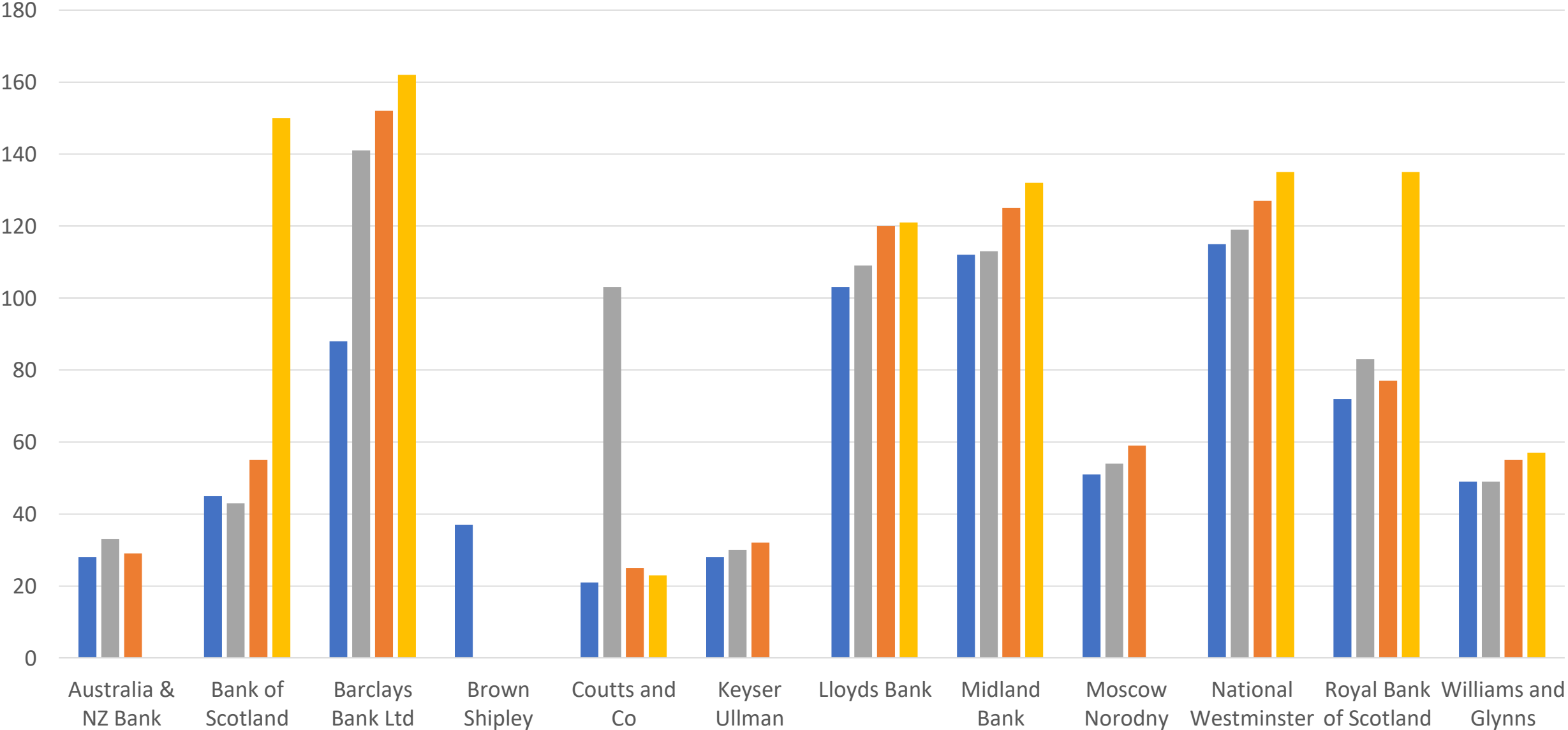


# Percent Change in Number of Respondent Banks 1970-75 (excl Barclays and Brown Shipley)





# Number of Territories with Respondent Banks 1970-81



# Barclays Bank's Correspondent Banks in 1970



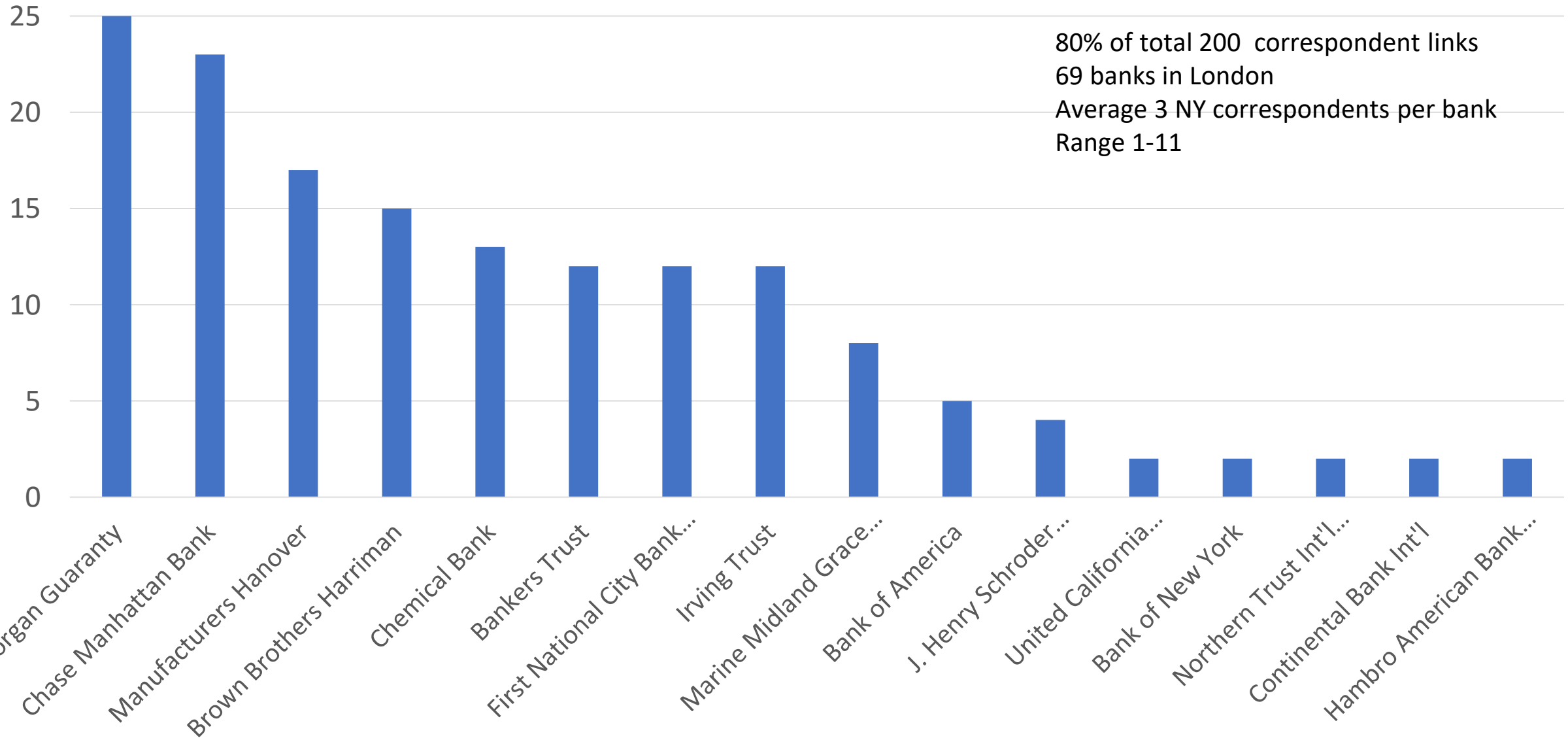
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# Barclays Bank's Correspondent Banks in 1975

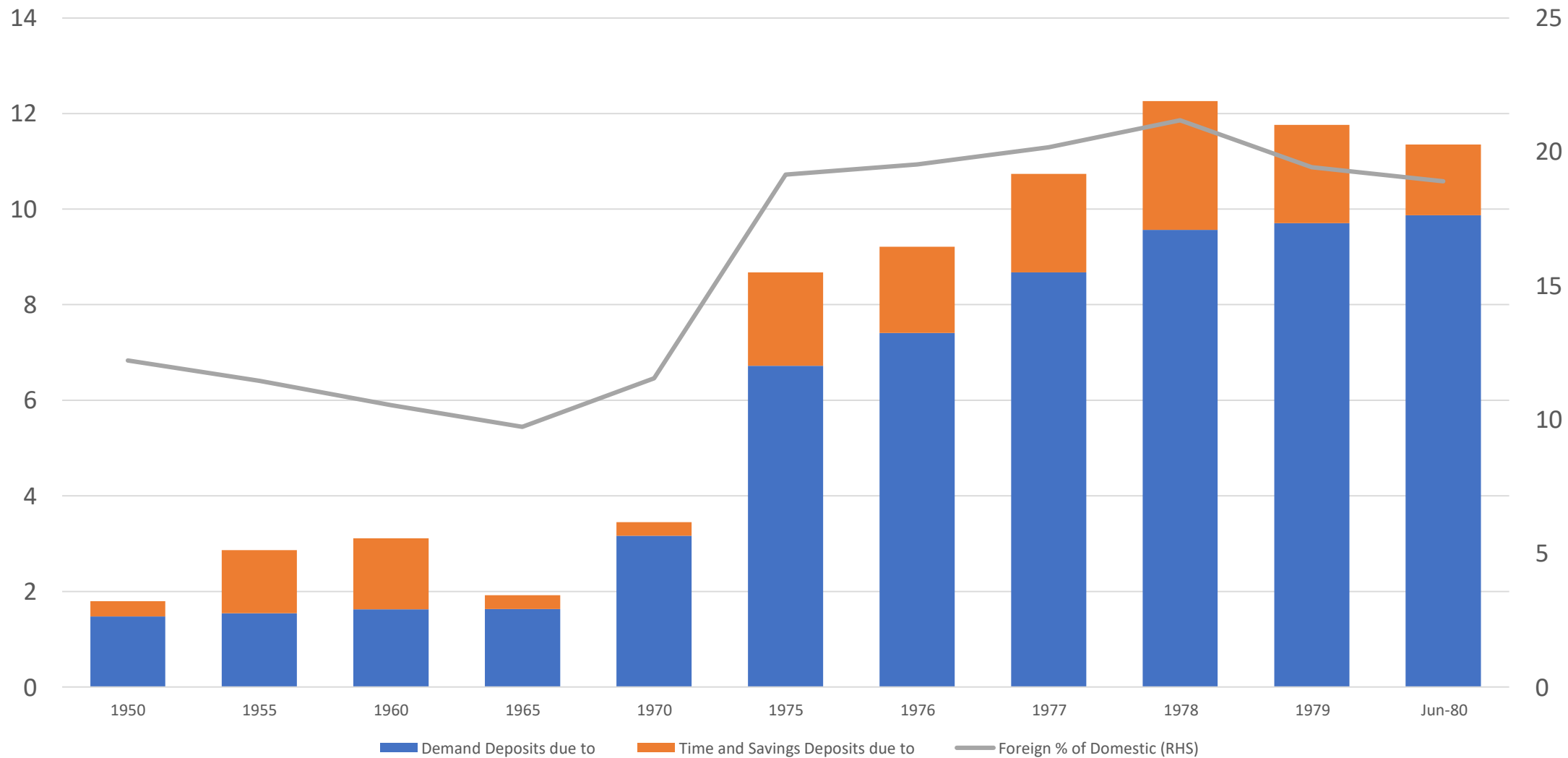


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# Leading New York Correspondents of Banks in London 1970



# 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?

Deutsche Bank  
Frankfurt

sterling

Midland  
London

Telex

Dollar deposit

Dollar deposit

Morgan  
New York  
Correspondent

Irving Trust  
New York  
Correspondent

Dollar cheque

Dollar credit

New York Clearing House  
International  
Payments Exchange (5 times daily)

# 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





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

**A NEW LEVEL  
OF COMPUTER  
RESPONSIVENESS**



3



2



5

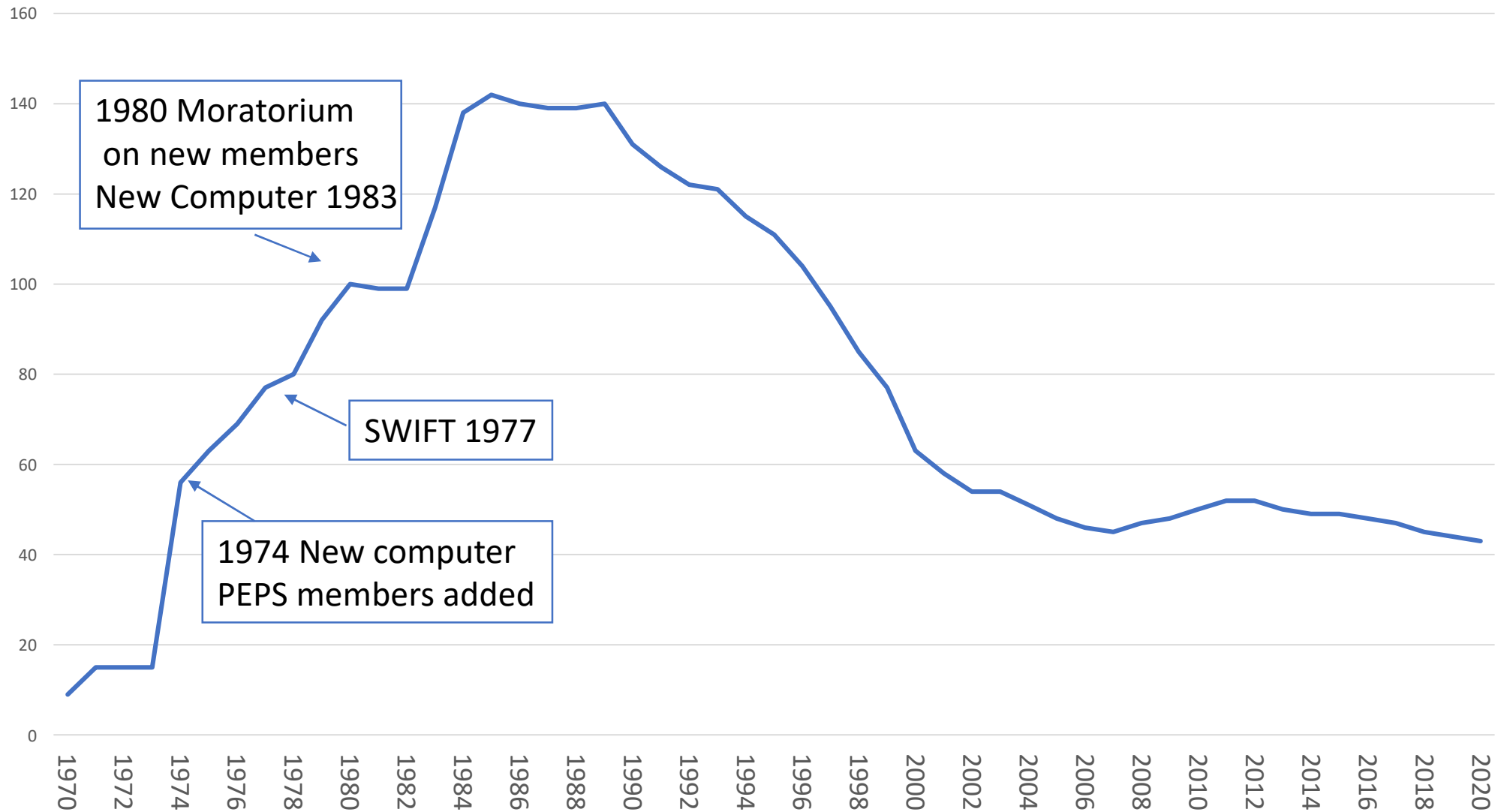


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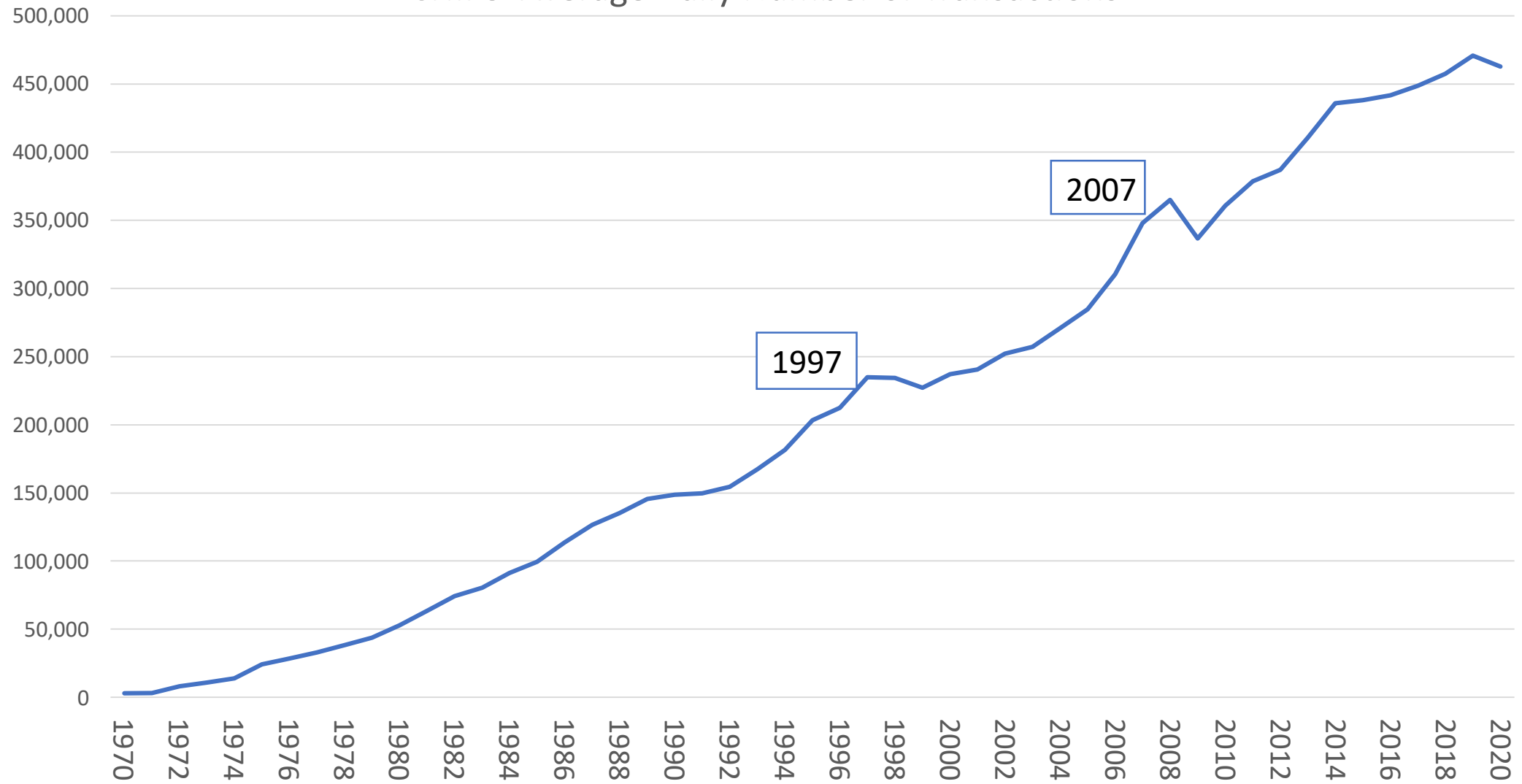


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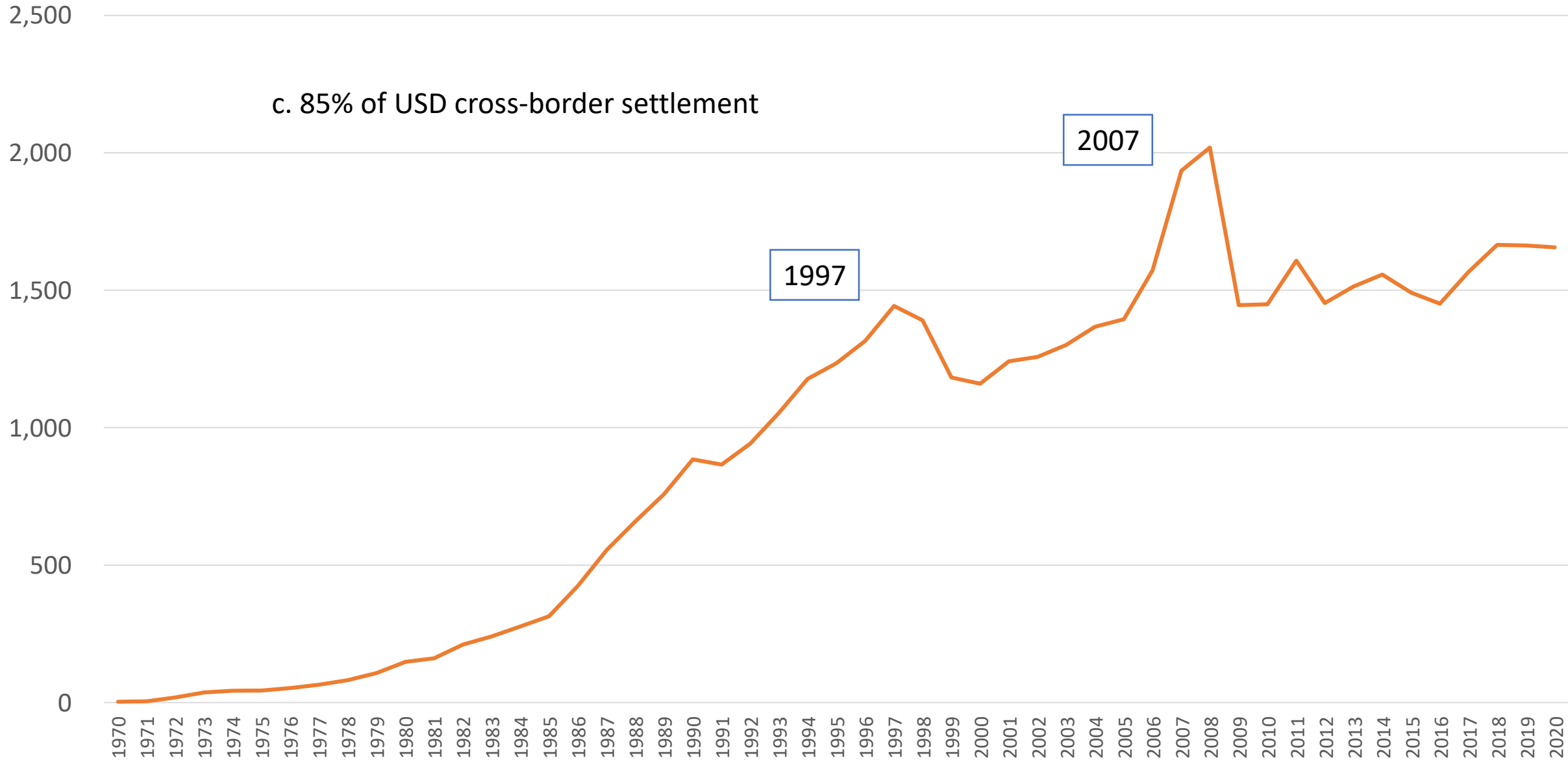
# CHIPS Number of Participants



# CHIPS Average Daily Number of Transactions



# Average Daily Value of Transactions USD billions

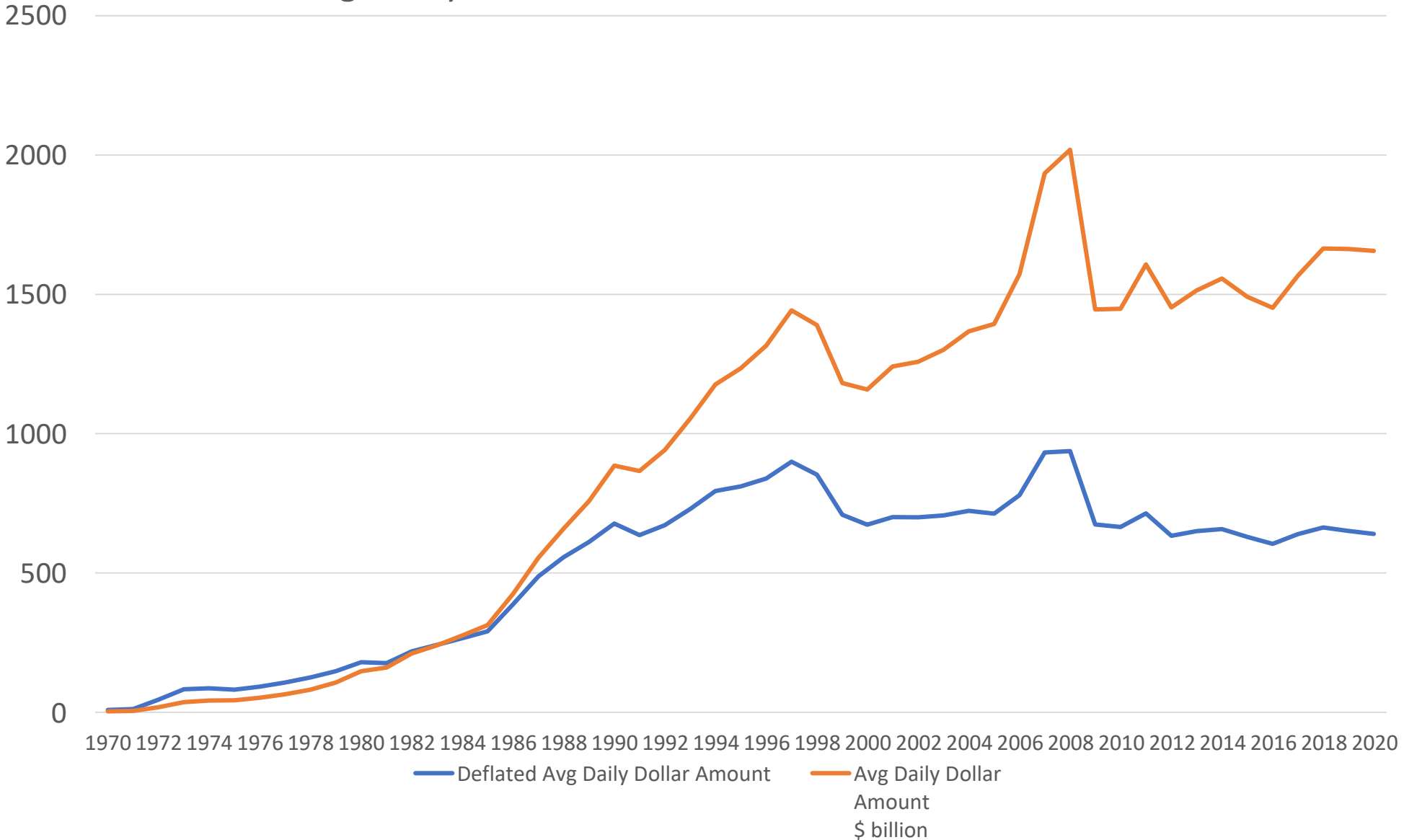


c. 85% of USD cross-border settlement

2007

1997

# Average Daily Value of Transactions: real and nominal USD billion



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# CHIPS – Issues 1970-1986

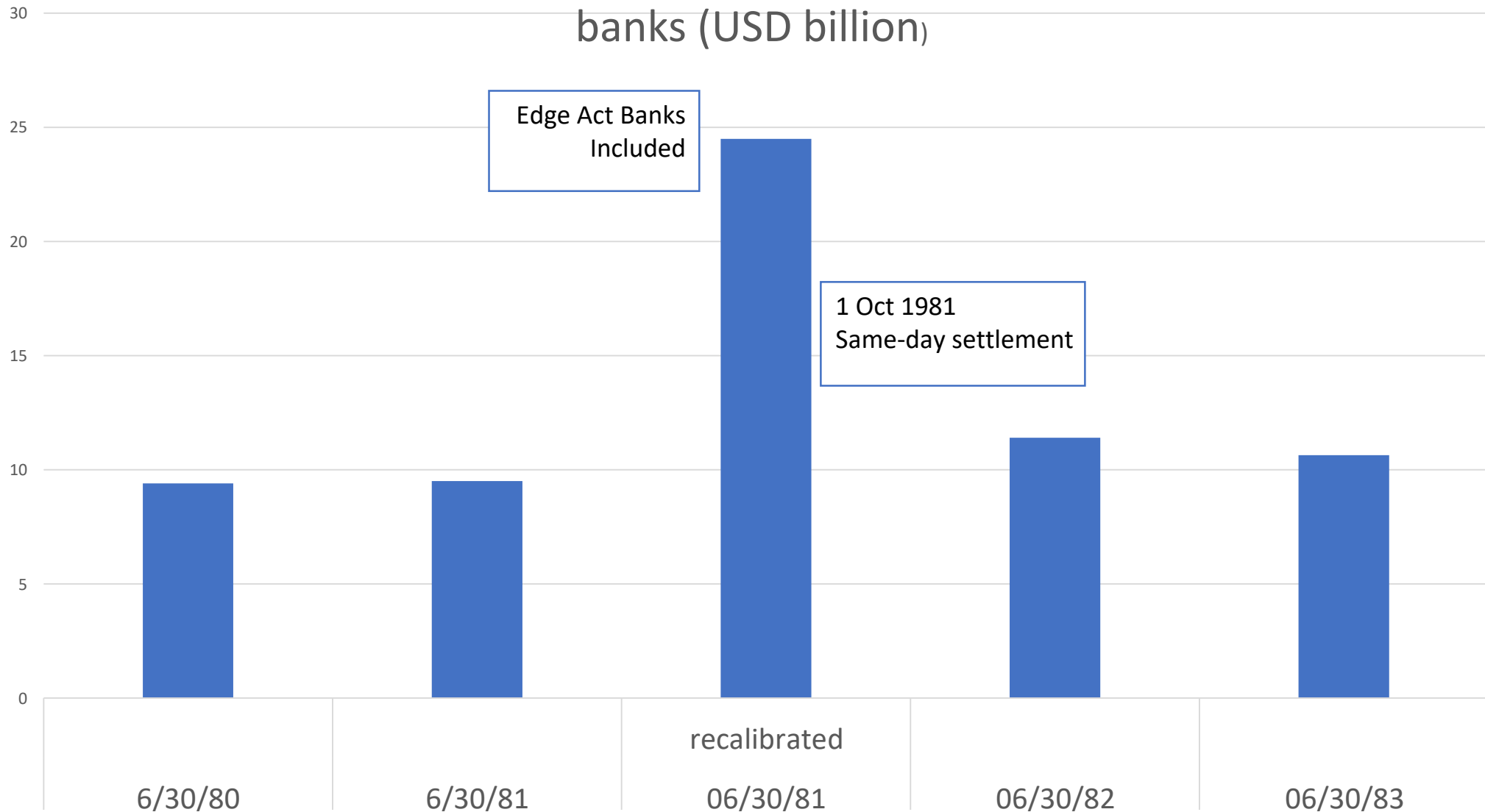
- FX payments immediately available but matching Dollars not available until next day: Clearing House Funds (1967-81)
- Friday funds not available until Monday: strategic holding over to put into money markets
- Daylight Overdrafts: float/deposits covers only a tiny proportion of turnover even for small 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**

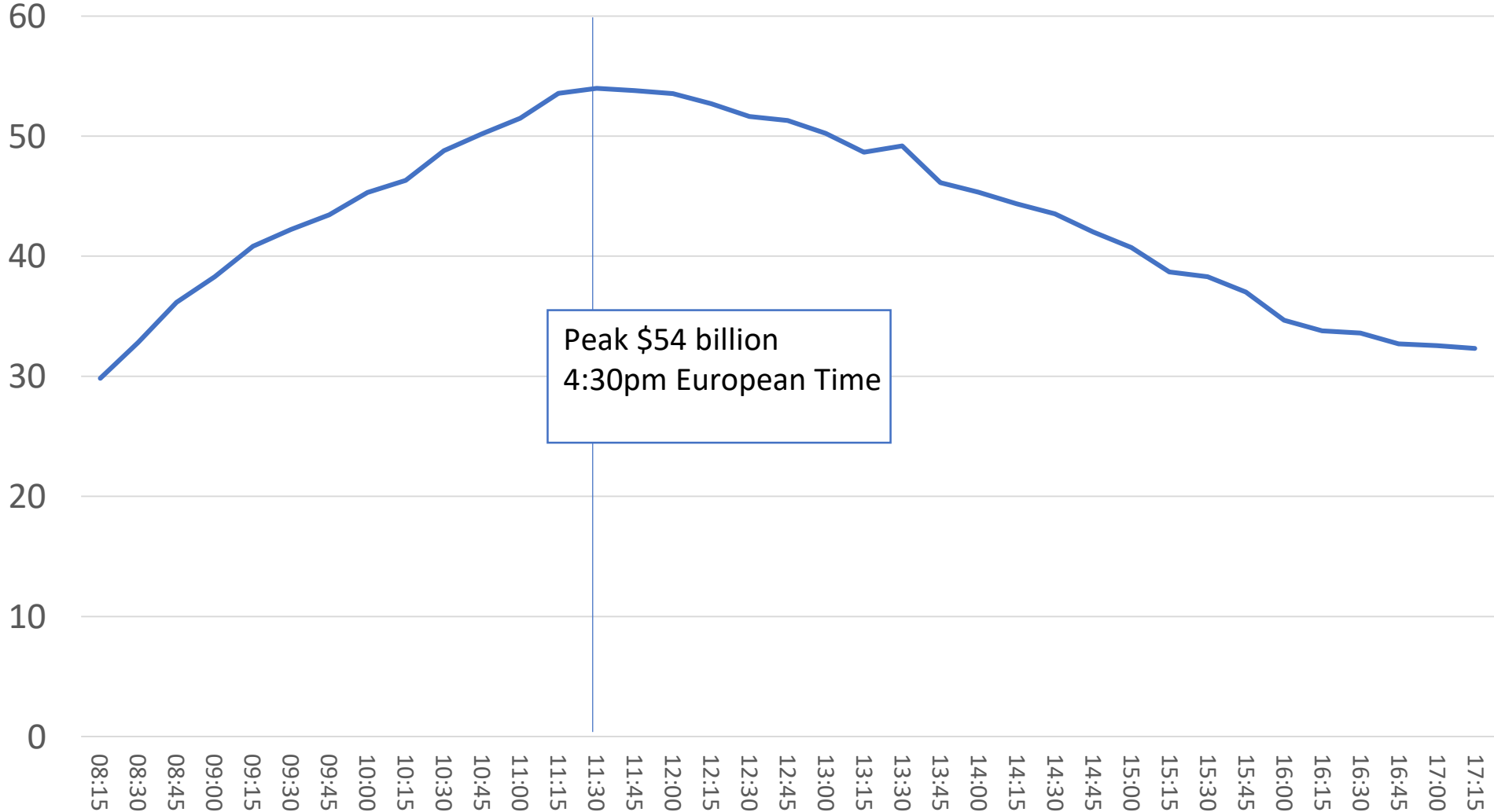
- Computer Capacity: Associates join 1974, clearing through Clearing House members, Moratorium on new members 1980-83

# 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: 26 June 1974

- Fraud, insolvency (25 June dollar plunge)
- 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

## RESPONSE FOR PAYMENTS

- Pending payments not released
- Next day retrieval of FX payments (symmetric to dollar settlement)
- Sharp fall in turnover (\$60b to \$36b)
- Sharp and sustained fall in average size of transaction



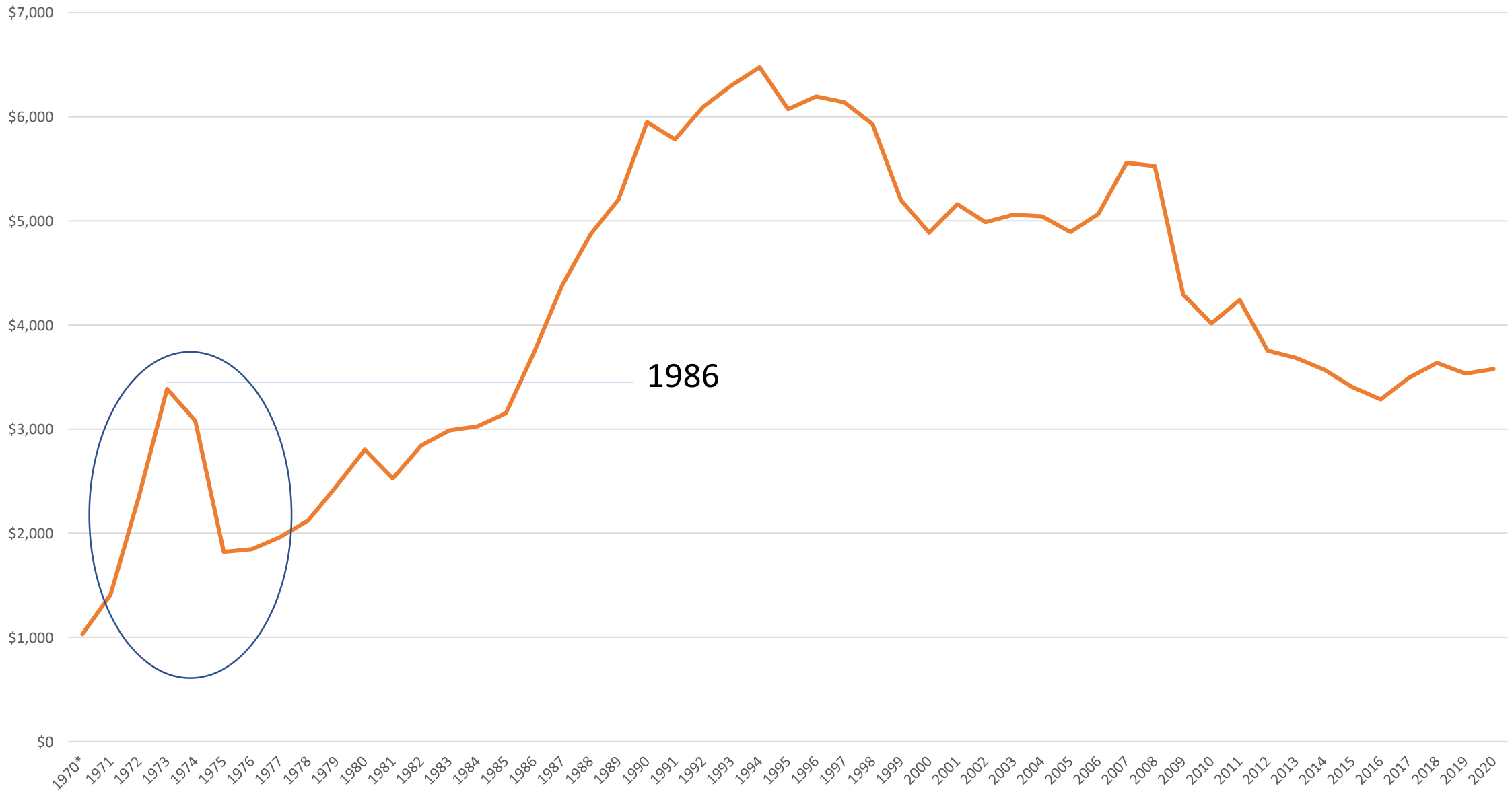
# Chase Manhattan: Correspondent

- Herstatt daily turnover \$150-400 million

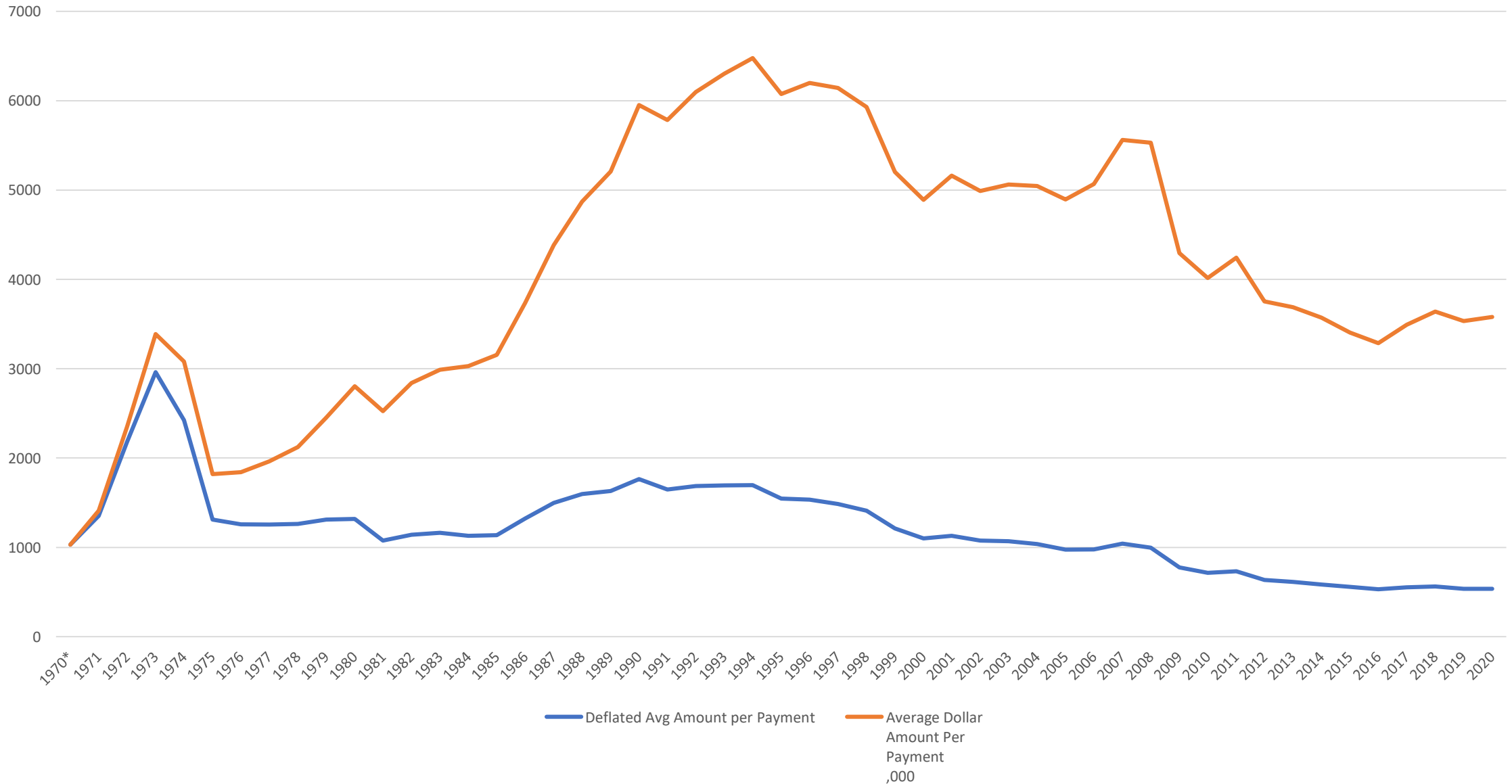
26 June 'fairly routine'

- Specific advice of \$300m into their Chase Account from 17 European banks (\$64m received: total \$156m on account)
- Instructions to pay out \$350m (stopped) to 14 banks in NY = c. \$1.8 billion in 2019
- Later increased to \$620m claims against Chase
- Court case, finalised in 1987

# Average Size of Payment '000s



# Average Size of Payment '000s



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# Longer term reforms



- 1979 Fed/OCC/FDIC/NY Bkg Dept Supervision  
Self-regulation 'Encouraged' by Federal Reserve
- August 1979: members <\$250m in capital require letter of comfort from parent
- October 1981: same day settlement
  - Reduction in deposits in NY esp in Edge Act: higher equity ratios for correspondents and lower costs for respondents
  - Reduction in # correspondents (consolidation to simplify)
  - European banks need more credit (to cover gap between Europe-NY close)
- October 1984: members set bilateral intraday net-credit limits (some cancellations) – announced Nov '83, tested June '84
- 1986 CHIPS sets intraday net debit limits

# 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 (variation)
- Governance (AML/CTF, transparency)
- Regulation (national and supranational, external, self-)
- Regional as well as global dynamics

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

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