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FRESH PERSPECTIVES ON CROSS–BORDER BANKING IN THE 20TH CENTURY: NEW EVIDENCE OF ITALIAN CORRESPONDENT BANKING

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Foreword

The *GloCoBank 1870–2000 Working Papers* series reflects the work in progress of the researchers associated with the ERC Horizon 2020 funded project Global Correspondent Banking 1870–2000 (GloCoBank) and of others whose papers directly address GloCoBank research themes. The papers are peer reviewed by GloCoBank and associated researchers and seek to identify and analyse the international network of correspondent banking relationships across the 20th century.

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Abstract

The global payments system forms the essential plumbing of globalisation, but it has attracted remarkably little attention from historians or economists and remains an underexplored dimension of bank internationalisation. This paper provides new micro evidence on how the structure of the system evolved in Italy. This is a fresh approach, examining the pattern of thousands of bilateral payment connections between banks in Italy and London over the 20th century at a much more granular level than existing approaches. Moreover, this perspective enhances our understanding of the geography of cross-border economic activity by reaching beyond the national scale of most existing analyses of trade and payments to expose the very local dimension. Thus, the data reveal how smaller banks in towns and cities across Italy were connected to the global payment system to provide services to local migrants, traders, and investors. The data also reveal the variation between regions over time in the intensity of their direct connection to the global payment system. We map the connections and relate them to regional economic activity to demonstrate the potential for further analysis.

Keywords

Payments, Italy, International Banking, Correspondent Banking

The global payments system forms the essential plumbing of globalisation, but it has attracted remarkably little attention from historians or economists and remains an underexplored dimension of bank internationalisation. Despite dramatic changes in the scale and scope of cross-border payments, the fundamental reliance on bank-to-bank correspondent relationships persisted throughout the 20th century. Mollan (2017) demonstrated how evidence of correspondent banking maps onto the distribution of international economic activity for selected years, with a particular focus on banks in East Asia. Panza and Merrett (2019) used bank archives to identify Australian banks' strategy in choosing their multiple London correspondents in the 1930s. Eichengreen and Flandreau (2012) and Accominotti and Ugolini (2020) have uncovered details of the acceptance credit aspect of correspondent banking payments, but only at a national level based mainly on the years before 1940. Scott and Zachariadis (2014) described how banks developed a standardised messaging service to increase the efficiency of correspondent banking in the 1970s. These studies demonstrate the potential that a more comprehensive view of correspondent banking could offer for understanding bank internationalisation, international payments and the nature of globalisation and de-globalisation.

This paper provides new micro evidence on how the structure of the system evolved in Italy. This is a fresh approach, examining the pattern of thousands of bilateral payment connections between banks in Italy and London over the 20th century at a much more granular level than existing approaches, which instead have focused on branching and subsidiarisation by large banks (Barbenni 2023, D'Alessandro 1999, 2000, di Quirico 1999, 2000, Stanciu 2000). Moreover, this approach enhances our understanding of the geography of cross-border economic activity by reaching beyond the national scale of most existing analyses of trade and payments to expose the very local dimension. Thus, the data reveal how smaller banks in towns and cities were connected to the global payment system to provide services to local migrants, traders, and investors. The data also reveal the variation between regions over time in the intensity of their direct connection to the global payment system. These services were crucial for producers and traders to engage in international commerce because they were the primary means by which payments were sent and received across borders. Borchert et al (2023) have shown that losing a direct correspondent banking link can have a detrimental effect on producers in the immediate vicinity. The Italian economy is characterised by a large

number of banks and close links between local firms and their local banks, especially for new and smaller firms (Aristei and Gallo 2017). By geolocating the banks in our dataset, we show whether smaller banks further from banking centres were more affected by contractions in the network of correspondent banks historically – an issue that is of policy interest given the differential effects on regions produced by the current contraction in the number of global correspondent banking links (Rice, von Peter, and Boar 2020; Borchert, de Haas, Kirschenmann, Schultz 2023). We are also able to relate the pattern of regional economic activity to direct access to payment services in London.

The underlying structure of correspondent banking remained relatively unchanged from the early 19th century, based on bilateral inter-bank connections (often contractual) through which payments were instructed out of one customer's account and into another's bank. Certainly, in Italy as elsewhere, the mechanics of these connections were affected by technological change, which especially affected the transfer of information through telegraph, then telex and later computer networks. The architecture was also reshaped by banks' own cooperative efforts to streamline their operations from the late 20th century, (Scott and Zachariadis 2012, Schenk 2023). But the basic structure of the system of initial instruction and final settlement through correspondent banks persisted throughout the 20th century.

We show how the architecture of the global payments system responded to the waxing and waning of globalisation over the period from 1920–1985, a period when London was the major international banking centre and host of the largest foreign exchange market. We focus on the case of Italy, which is particularly interesting for several reasons. First, Italy is a developed industrial country but quite peripheral in the global financial system during this period. It is thus a good case study since producers and traders need to be connected to the global financial system, but they are not in the position of dictating their conditions. Second, Italy is a bank based financial system but has had a fragmented banking system, with many local banks playing an important role in financing local entities and firms (Carnevali 1994, A'Hearn 2005). This allows for a high level of granularity in the geographic evidence within our dataset compared to economies where bank branch networks were more dominant. Thirdly, Italian economic development during the 20th century has a strong regional dimension (A'Hearn, Venables, 2013, Felice 2019). Therefore, analysing how cross-border

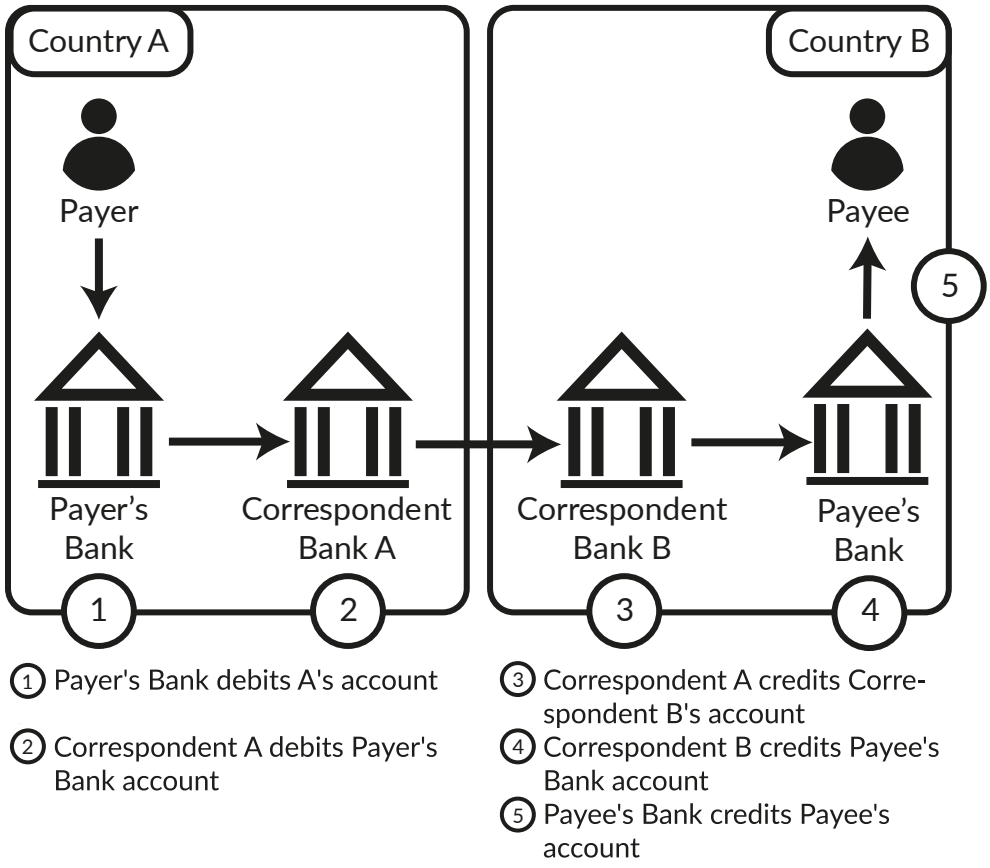
correspondent banking links for Italian banks changed over time offers fresh insights into how this pattern was related to the pace and nature of economic change. Finally, we use this case as an experiment in a fresh methodology for examining the nature of historical globalisation.

We present a new dataset for Italy of over 7,000 pairs of correspondent bank relationships across more than 200 Italian cities over 70 years. The data were collected from the *Bankers Almanac,* which was published in London as the main reference for bankers around the world to identify correspondent banks to make payments in up to 1,000 cities around the world. The data on these connections may not be fully comprehensive, but they capture the partners that banks wanted to advertise, demonstrate considerable geographic as well as institutional granularity for smaller towns and cities around the world and were updated on an annual basis, showing change from year-to-year. Based on this evidence, we show that the data provides an unprecedentedly deep and broad concept of the architecture of global payments across this long and volatile period.

Figure 1 offers a stylised view of the mechanics of correspondent banking. Banks established correspondent agreements that included holding accounts in each others' ledgers. They agreed fees for passing payments and settlement through these accounts (often linked to commercial credit) and set the interest payable on these accounts. An importer, for example, instructs their bank to pay an exporter in another country. The importer's bank then instructs its correspondent in that country to make the payment to the exporter's bank and all the banks adjust their accounts to settle the payment. These instructions may go through a domestic payments system that acts as a clearing house. If the importer's bank does not have a direct foreign correspondent banking link, then the sequence of interbank transactions becomes more prolonged, going first through one or more additional banks. Time introduces the key element of risk; payments are likely to go out before funds are finally received by the exporter's bank and this introduces market risk (in case of exchange rate changes) and counterparty risk (in case the payer's bank fails and the funds are not forthcoming) or operational risk (if the ICT system fails). The inter-connectedness of interbank accounts and the large volume and value of transactions (which may be dependent on each other) also introduce systemic risk. Gross pre-funding, or waiting until all accounts have been finally reconciled before settlement, is costly for customers, so banks tend to take on these remote risks in return for lucrative customer fees. These risks make it particularly interesting to

examine the correspondent banking network where payments were instructed and settled based on contractual agreements between banks rather than through the branch network of a multinational bank, where these risks (and costs) could be internalised. Providing payment services was a core business of commercial banks, associated with commercial credit and foreign exchange trading on behalf of their customers. This business generated income from fees, interest margin, foreign exchange margin and cross-selling of other services to bank customers.

Figure 1



Historical Evolution of Correspondent Banking in the 20th Century

The 20th century payments system grew out of the first globalisation of the 19th century when London was the world's major international banking and financial centre and the Bill on London was an important way to finance and settle payments between traders. Payments could also be internalised within the branch networks of merchant banks, British overseas

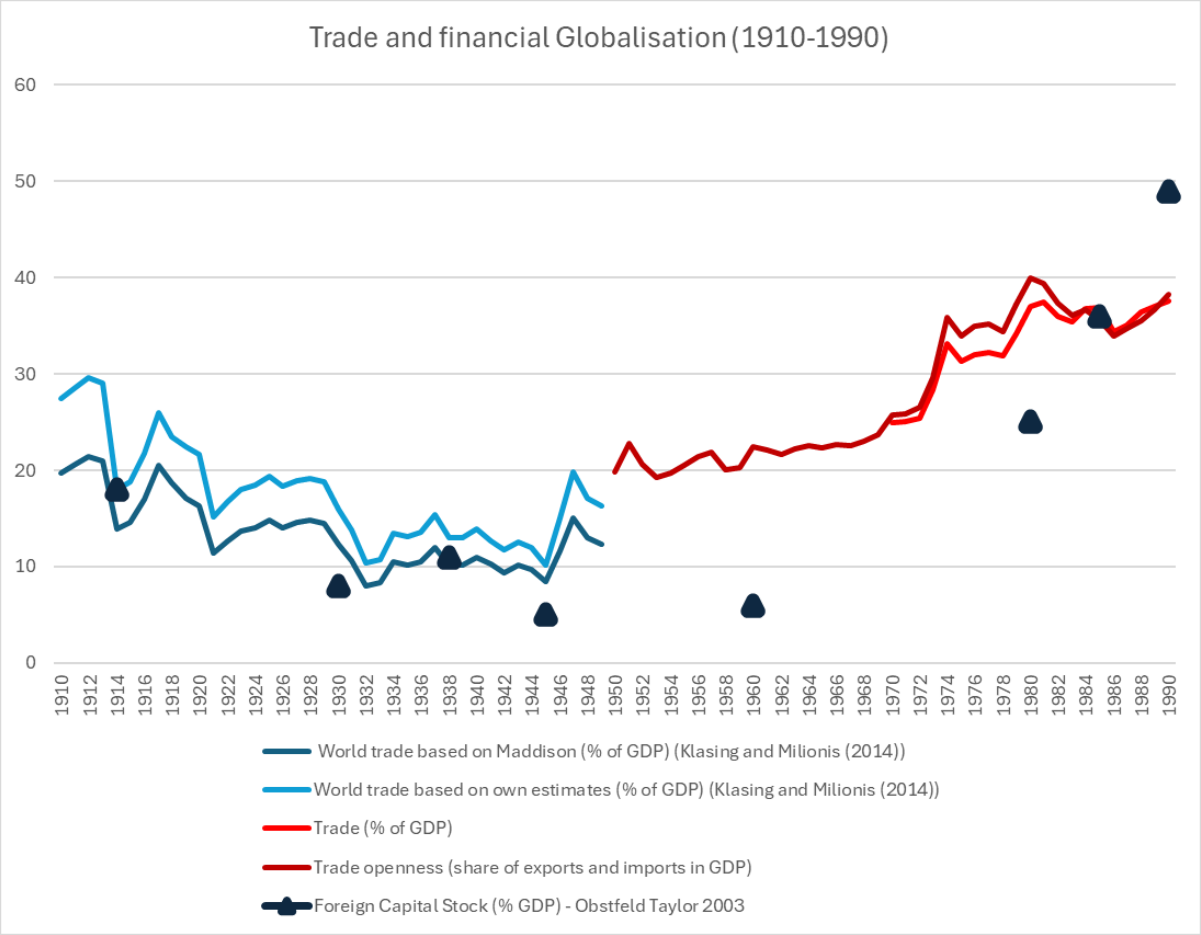
banks and internationally active commercial banks but, given the distance (and therefore time) involved in trade to Africa, Latin America and Asia, even these payments instructions were usually accompanied by bills of exchange, which could be discounted to allow exporters to be paid quickly while the goods were in transit. In order to settle payments instructions, banks operated bilateral contractual relationships to adjust ledgers related to payments between their customers through 'nostro' and 'vostro' accounts. After the end of the Second World War, the bill of exchange gradually disappeared from international payments and direct correspondent banking payments based on telexed instructions became the primary means of cross-border payments. The bilaterally-based structure has persisted into the present day despite dramatic changes in communications and information technology and elaborate institutional arrangements to facilitate multilateral netting and clearing.

Comprehensive evidence on the evolution of correspondent banking (and on the payments system generally) is scarce, and this paper introduces a new dataset. As an indication of the overall reach and structure of the system, we have collected the number of distinct banks recorded as engaging in correspondent banking with institutions in London in the *Bankers Almanac* from 1920–1985.[1] Throughout the 19th and 20th centuries bankers around the world used the *Almanac* to access information on how to send payments through London, and each year it records thousands of bilateral banking links. As noted above, the dataset does not capture every correspondent contract, but it represents the links the banks themselves wanted to advertise and were likely the most important or useful. The *Almanac* includes all British registered banks and a large number of internationally active banks headquartered across the rest of the world. There was no charge for entries into the *Almanac*; it was published and sold annually, and considerable year-to-year variation suggests that the lists were updated regularly. Another caveat is that our historical data only show the system's architecture, not the number or value of payments flows. However, our data are an improvement compared to the available modern SWIFT transaction data because they include bilateral country and city links/corridors rather than just the number of active correspondent banks and number of payments messages by region.

[1] Each bank entity may have had links to London through branches in multiple cities or countries. The dataset includes a total of c.110,000 bilateral bank links from London to the rest of the world for 19 years (average 5790 p.a.). For reference in 2005 there were 7,863 users of SWIFT.

The pattern revealed by the *Bankers Almanac* shows a U-shaped retreat in the number of links during the Interwar Great Depression and world wars and then recovery from the 1960s as trade increased and exchange controls relaxed. This interwar contraction was due not only to the fall in trade and payments in the Interwar Great Depression but also to the collapse, merger and appropriation of many banks, especially in Germany and central Europe, which reduced the number of potential correspondents. Figure 2 shows the U-shaped curve of globalisation across the (long) 20th century based on an index of the sum of world exports and imports (relative to world GDP) and foreign capital assets (relative to world GDP). Although this data is likely to be incomplete and biased toward richer countries, we might expect it to relate roughly to the volume of global commercial payments (although it neglects investment flows). In the 1920s the Bank of England discouraged London's clearing banks from opening offices overseas, which further encouraged more contractual relationships with overseas banks. Accominotti and Ugolini (2020) have shown that the changing structure of international commercial finance across the 20th century resulted in the retreat of specialised acceptance houses (which dealt in bills of exchange) after the 1930s. During the Bretton Woods era of the 1950s–1970s the Bank of England authorised commercial banks in London to operate the official exchange controls imposed on foreign payments from the UK. As world trade grew rapidly in these decades, this gave British banksgreater agency in payments business. In these ways, the pattern of direct correspondent banking links followed the pattern of cross-border commerce in the 20th century.

Figure 2



Sources: Trade from Esteban Ortiz-Ospina, Diana Beltekian, and Max Roser (2018) - "Trade and Globalization" Published online at OurWorldinData.org; Foreign Capital from Obstfeld and Taylor (2003).

The data we present relate only to links to payments and settlement services in London. London was the world's largest international banking market through most of the 20th century (based on share of banks' foreign assets/total assets) and was host to the world's largest foreign exchange market as well as commodity markets, shipping and insurance and other international commercial services. Eichengreen and Flandreau (2012) have shown that there was a drift from the use of sterling to the US dollar as the leading commercial currency in the 1920s, but the dollar did not permanently overtake sterling as an invoice and settlement currency in international trade until the late 1950s. In 1957 the British Treasury prohibited the use of sterling in third-party trade and the City of London quickly switched many of its operations to the US dollar; notably the rise of the Eurodollar market dates from this period

(Schenk 1996). By 1986, 70% of the London foreign exchange market turnover was in currencies other than sterling (Bank of England 1989b). London remained a leading international banking market accounting for 27% of the international banking business of G10 countries in 1980, twice as much as the USA and well ahead of any other individual centre (Bank of England 1989a).

New Italian data

This paper presents a new dataset of correspondent banking relationships between Italian banks and their London agents in 1920–1985 at five-year intervals. Our data on Italy includes 7,738 correspondent banking relationships between 177 correspondent banks in London and 518 banks in Italy, spread across 223 distinct Italian localities. As noted above, the main source that underpins this database is the *Bankers Almanac*, a banking directory published in London since the 1840s.[2] We are not the first to use this source, but we have made the most comprehensive collection of data across the 20th century.[3]

The *Almanac* has two sections from which we retrieve our data, the 'British Bank Section' (BBS) and the 'International Bank Section' (IBS). The British Banks Section reports all banks registered or incorporated in London, including subsidiaries of foreign banks and also British overseas banks (which did not offer retail services in the UK).[4] Each bank reported its name, address, contact (telex, telephone, telegram or SWIFT code), and in most cases the names of the directors, a succinct version of the latest balance sheet along with a brief institutional history. British banks listed the banks for which they acted as a correspondent in London, organised by country or region, as well as their own correspondents in other cities/countries, principally in New York. The International Banks Section (IBS) reports the details of

[2] The directory has operated under three titles and publishers: *The Banking Almanac, Directory, Year Book and Diary* (London: Groombridge & Sons, 1845-1919); *The Bankers' Almanac and Year Book* (London: Thomas Skinner, 1920-1993); and *The Bankers' Almanac* (East Grinstead: Reed Information Services, 1993-present). While initially focused on British banks, from the early 1890s the directory expanded its coverage to include foreign banks using British and foreign banks in London as correspondents. The directory's utility was enhanced in the mid-1920s with an improved finding aid to locate foreign banks and their branches (Panza & Merrett 2019).

[3] Mollan and Michie (2012) used it to analyze London's international banking connections at four benchmark dates (1890, 1912, 1938, 1961); Panza and Merrett (2019) mapped global correspondent banking networks in 1935; Battilossi (2006) examined multinational banking before 1914; Choi et al (2003) ranked international financial centres based on branch offices; while Merrett (1995) and Chan (2001) used it for Australian case studies.

[4] From 1979 onwards, only banks considered as such by the 1979 Banking Act are included in this list.

'internationally active' banks registered outside the UK and includes a list of London (and New York) correspondents of each listed bank. We collected all the links from both sources, standardised the bank names over time and assigned a unique ID to each bank. Then, we removed the duplicates resulting from the same relationship recorded in both sections. Table 1 presents the number of Italian banks that maintained at least one formal correspondent link with a bank in London each year, with the section of the *Almanac* where they appear and the count of unique connections. As the number of international banks listed in the IBS increased after 1950, the overlap between the coverage of the two sections also increased, but still only about 40% of the links were reported in both sections. This is mainly because British banks reported links to smaller Italian banks that were not included in the IBS, but also because Italian banks reported correspondents in London that were branches of other foreign banks that did not appear in the BBS. The long-term shape of the data follows the U-shaped arc of globalisation shown in Figure 2. Overall, the 1920s had the highest rate of banks disappearing from the dataset as participants in correspondent banking links to London and at the same time the highest rate of new banks entering. This is consistent with the volatile interwar period of economic recovery and then the financial crisis. The number of banks reporting links to London fell during the great reversal in globalisation of the 1930s and 1940s due both to a decline in cross-border trade and payments and the collapse or merger of many banks, before recovering in the 1960s. In Italy, the number of banks fell from 4,657 in 1926 to 2,042 in 1936 (Biscaini-Cotula and Ciocca 1979). In the first half of the 1970s, there was a surge in the intensity of international trade (from 26% to 36% of world GDP), and this is reflected in a sharp acceleration in the number of banks with correspondent links to London in our dataset. The decline in unique connections from 1965–70 reflected the merger of District Bank, National Provincial Bank and Westminster Bank in 1968, each of which had previously managed their own correspondent banking business.[5] Clearly the number of banks in London as well as the number of banks in particular countries around the world conditions the number of unique connections identified in the dataset.

[5] The three constituent banks had 24 Italian banks in common, and removing the overlapping entries corresponds closely to the total number of links for National Westminster Bank in 1970.

Table 1

Correspondent banking connections reported between Italy and London 1920-1985

year	BBS links	IBS links	both BBS & IBS	unique connections
1920	263	232	43	452
1925	347	266	84	529
1930	333	253	72	514
1935	296	166	57	405
1940	185	108	35	258
1945	185	84	33	236
1950	317	220	82	455
1955	221	337	93	465
1960	303	460	117	646
1965	358	523	143	738
1970	310	531	149	692
1975	457	497	172	782
1980	490	449	176	763
1985	613	402	212	803

Source: *Bankers Almanac and Yearbook*, Thomas Skinner, London. BBS = British Banks Section, IBS = International Banks Section.

The *Almanac* has several strengths as a historical source. It was designed for practical use by bankers to facilitate international payments, so there were strong commercial incentives for accuracy (Mollan 2012). Its comprehensiveness in covering banks engaged in international transactions created important network effects - the more banks that registered their details, the greater the benefits to other banks to report their correspondents (Panza and Merrett 2019). The reliability was verified for the pre-1914 period by cross-checking with other contemporary sources (Battilossi, cited in Mollan 2012). By the 1930s, its coverage may have improved compared to earlier periods when London banks were still being urged to supply "particulars of those they represent in London" (Panza and Merrett 2019).

However, the *Almanac* also has limitations that must be acknowledged. Importantly, it does not provide information on the volume or nature of correspondent activity between banks, making it impossible to validate whether reported relationships were active or dormant (Mollan 2012). The data thus support a view of the architecture of the correspondent banking system but not the scale or nature of payments themselves. We had to exclude some entries as some banks did not list their correspondents at all (Panza and Merrett 2019). Earlier

editions before the 1890s suffered from the imprecise classification of domestic bank types (Nishimura, cited in Mollan 2012) and so we truncate our data collection to 1920–1985 when the presentation of the data was standardised.

So far, there has been no comprehensive source against which the *Almanac* can be verified for the 20th century. Some discrepancies have been noted between published sources and internal bank records regarding the number of correspondents, as in the case of Midland Bank (Mollan 2012). However, the scale and complexity of the data make comprehensive verification through archival research impractical. Given that the *Almanac* was a public directory, we assume that the recorded links were considered the most useful or important by the banks themselves, whether to demonstrate their largest or most significant correspondents or to advertise the breadth of their overseas networks.

Examining archival evidence from Banca Commerciale Italiana (BCI), which had both an extensive branch and correspondent banking network, we can more thoroughly understand how the information was collected.[6] The process was systematic and iterative. Each year, Thomas Skinner & Co., located at Gresham House in London, sent banks a proof copy of their current entry in the *Almanac* for review and update. Typically sent in June, a first letter requested banks to "carefully revise" their entry and return it "with as little delay as possible, even if no correction is required." Banks were specifically asked to verify information not typically available in published reports, such as details about branches and agencies, and to provide their most recent annual accounts. If banks did not respond promptly, follow-up letters were sent - as evidenced by the September 1936 letter to BCI (France) - urging the return of the proof along with updated balance sheets. The proof of the entry itself was highly detailed, containing financial information including capital, reserves, deposits, asset structure, branch locations, telegraph codes, leadership information, correspondent relationships, and dividend history. The publisher actively sought updates and confirmation of information, with handwritten annotations on the proofs requesting specific updates, such as "please state later dividends" visible on BCI's proof. This evidence suggests that the compilation of the *Almanac* was not a passive collection of information but rather an active, annual verification process conducted directly with the banks, strengthening its reliability as

[6] ASISP, Comit, FE/FR, cart.11

a historical source. The *Almanac* was published each November, incorporating all the verified and updated information.

The accuracy of the Bankers' *Almanac* can also be validated against archival evidence from Banca Commerciale Italiana (BCI), which demonstrates the general reliability of the source, though with some discrepancies. We cross-checked the correspondent relationships reported in the *Almanac* against the lists that banks from around the world sent to the New York branch of BCI in the 1930s.[7] For some banks, like Bank Handlowy w Warszawie S.A., the match is perfect – it told BCI's New York branch that its London correspondents included BCI, Hambros Bank Ltd, Midland Bank Ltd, Lloyds Bank Ltd, and Guaranty Trust Company of New York, which are all accurately reflected in the *Almanac*. Similarly, the Deutsche Effecten und Wechsel-Bank's connections with BCI in London and New York are correctly reported. However, some discrepancies emerge in other cases. The Banque Federale's entries show some differences: while both sources list Midland Bank, Westminster Bank, and Barclays Bank among its London correspondents, the *Almanac* lists additional relationships (like Credit Lyonnais and Banque Belge pour l'Etranger) that the Banque Federale did not reveal to BCI New York. Similar minor discrepancies appear for Banco Lisboa & Acores, where not all correspondents listed in the *Almanac* appear in the lists these banks sent to BCI New York. These differences might reflect the dynamic nature of correspondent relationships, the timing of updates, or different reporting standards/purposes. Nevertheless, this partial evidence suggests that the *Almanac* can be considered a reasonably reliable, albeit not fully comprehensive, source for mapping international correspondent banking relationships across the 20th century.

Patterns of Italian Correspondent Banking

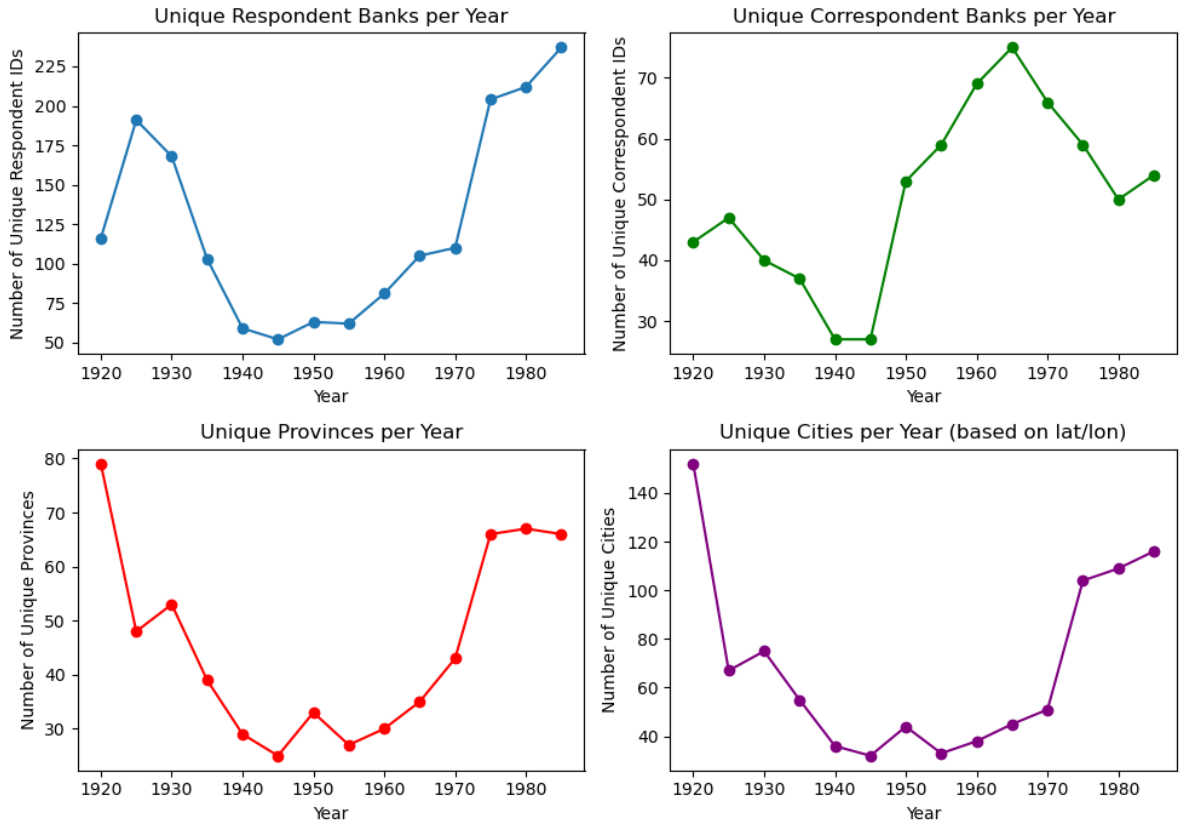
With these qualifications in mind, we can proceed with a preliminary analysis of the correspondent banking patterns that emerge from the *Almanac*'s data. In observing the Italian data, we focus on three types of relationship between banks in London and their respondents in Italy. Firstly, we identify the number of Italian banks that are reported as supporting a connection to London. Counting them at a given point in time can show regional variation in the level of these direct institutional connections to services in London, bearing

[7] ASISP, Archivi periferici della BCI / Rete estera / New York / Filiale di New York /, 28-30

in mind that branches of foreign banks are not included in our data. Secondly, we can look at the other end of the relationship, observing how many banks in London were offering direct payments services to a given Italian bank, or to a given province, town or city. This can provide a sense of the level of outreach across the peninsula for a given London bank, as well as specific partnerships and regional patterns of importance from a business history point of view. Thirdly, we can identify at the intensity of these connections as a measure of network activity: Italian banks usually reported links to more than one London bank and, conversely, banks in London reported multiple respondents in individual cities and regions across Italy. This pattern can signal the intensity of connectivity of a specific portion of the peninsula to the payments system in London. These connections were not costless: they required the operation and monitoring of distinct accounts on both sides, and for most of the period these deposits did not attract interest at market rates so there was an opportunity cost to maintain the accounts. These fixed costs were in addition to the specific fees due when the payments instructions were activated.

Figure 3 presents the general trends in terms of aggregate number of banks in Italy with at least one correspondent link in London, as well as the cities and provinces of Italy with at least one connection. We can observe a general contraction beginning with the interwar period, followed by a slow growth in territorial penetration until 1975–85, when only a few cities were added to the network, but no extensive provincial expansion. This is reflected in the mean linked cities per province, which pass from about 1.2 (std 0.4) to 1.5 (std 0.8) cities. This regional trend is not fully matched by the number of London banks reporting at least one link to Italy, which grew during the period 1950–65, only to contract subsequently, from 1965 to 1980. Given the growth in the number of Italian banks reporting direct links to London, this is a phase of concentration of the connections on the London side, from a mean of 6–8 (std 10–12) banks in Italy per London bank until 1960, and then more than a doubling in both variance and mean values after. It was also a time of consolidation in London with the merger of Martins Bank and Barclays and the creation of National Westminster Bank from its three constituents. These effects are discussed in more detail below.

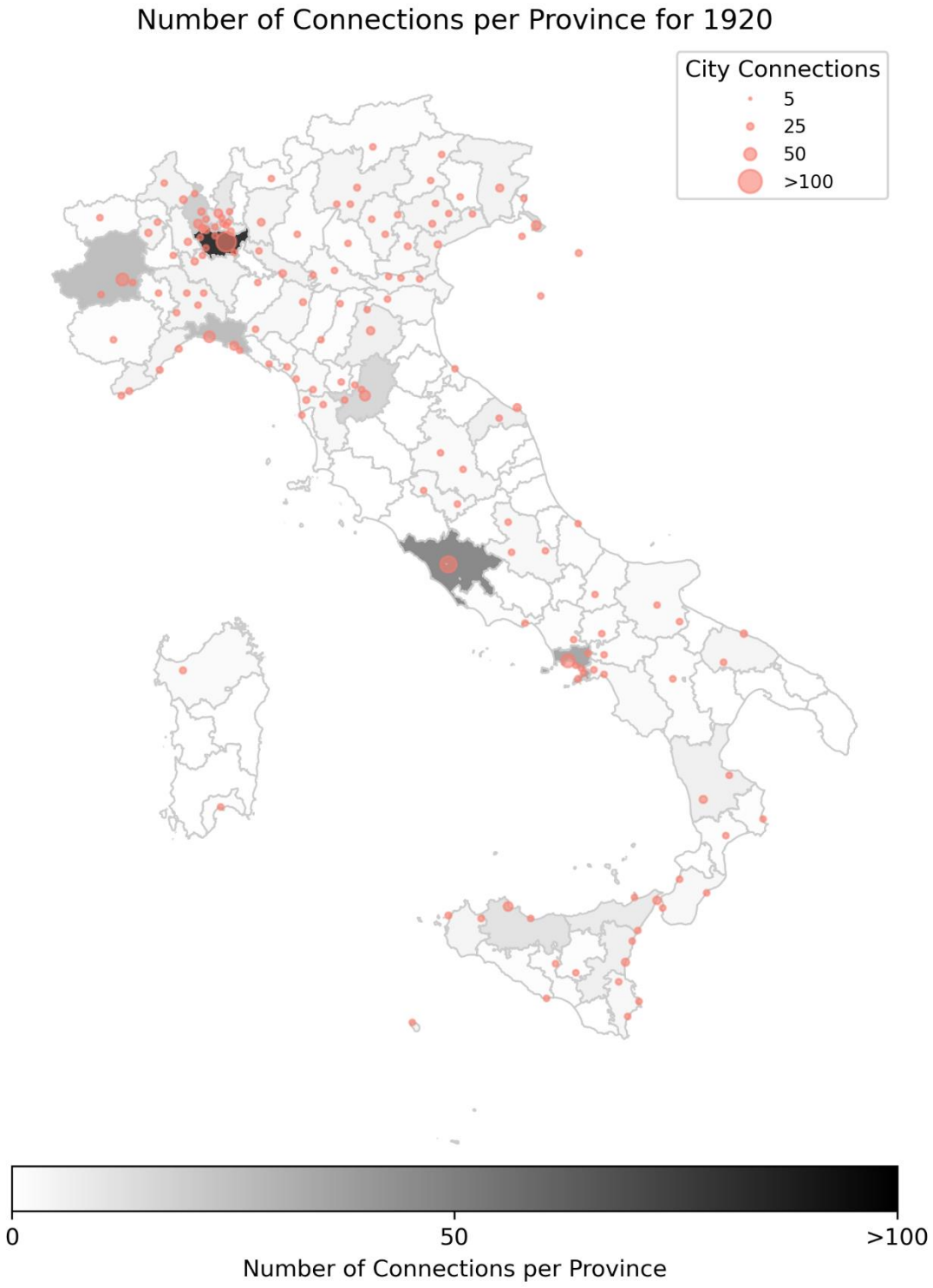
Figure 3: Italian Banks' Connections to London: number of banks, number of locations



Source: see text. Note. 'Respondent Banks' refers to banks in Italy, 'Correspondent Banks' refers to banks in London

This varying pattern of integration can be seen geographically: in Figure 4 for the year 1920 and then in Figure 5 for the year 1985. These show the total number of connections per province, where a connection is a relationship between a London bank and an Italian bank in a given city.

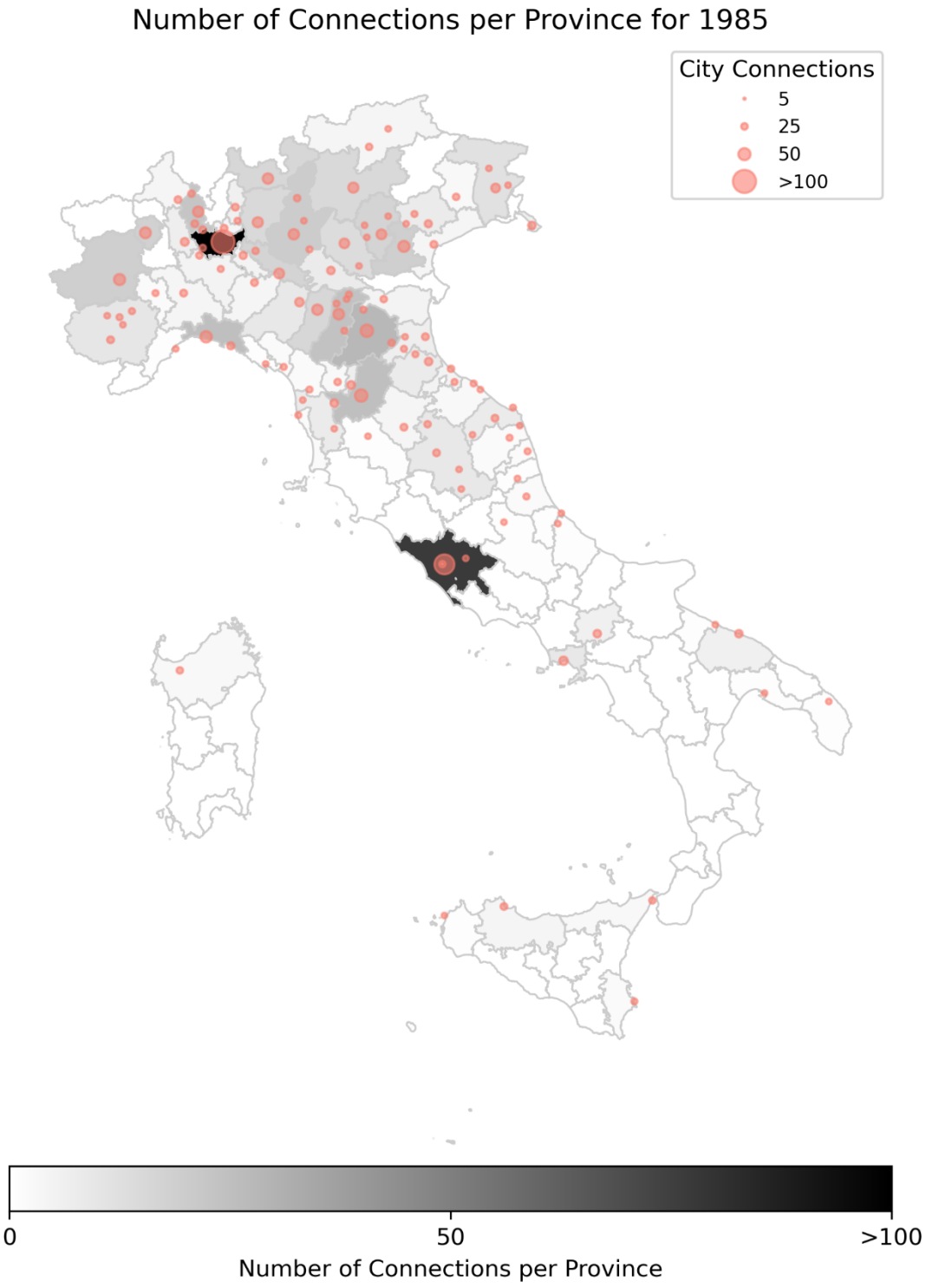
Figure 4



Source: see text.

In aggregate, the Italy of 1920 and that of 1985, appear very similar in terms of the number of Italian banks with London correspondents (191 and 200 respectively) but the intensity of the connections was much greater in 1985 (800) compared with 1920 (c.450). Important structural differences emerge once we observe the city and provincial distributions and intensities. In 1920 Italian banks' links to London were regionally diffused, with dominant provinces in Milan, Turin, Genoa, and Florence in the Centre-North, and Naples and Rome in the Centre and South. Importantly, the Northeast was relatively thinly represented during this period. The same region half a century later is, in many ways, a different reality. Rome and Milan dominate the space of correspondent links, and a clear series of paths emanate from Milan, reaching out to the northern cities that prospered during this period. The geography shows how the banks were located along the main arteries of commerce and industrial exchange of the post-war period. The South, in contrast, has fewer direct connections, with a much-diminished presence in Naples.

Figure 5


Number of Connections per Province for 1985
City Connections
5
25
50
>100
0
50
>100
Number of Connections per Province

This does not imply that the southern provinces and cities have no correspondent connection to London (or other international centres). The branching of banks headquartered in Naples, Palermo, or Messina could maintain greater regional coverage than is shown here because our source does not capture branches that accessed the correspondent links of their head offices on behalf of their local customers. But it provides an indication of the number of direct links between banks in these territories and London. As noted above, indirect links to correspondent banks for payments settlement could prolong and complicate the process of settlement for customers. Nonetheless, there was a much denser pattern of individual banks headquartered in the North by 1985 than there were in 1920, and this is reflected in the architecture of cross-border payments.

Figure 6: Changes in connections between reference years by province, 1920-85

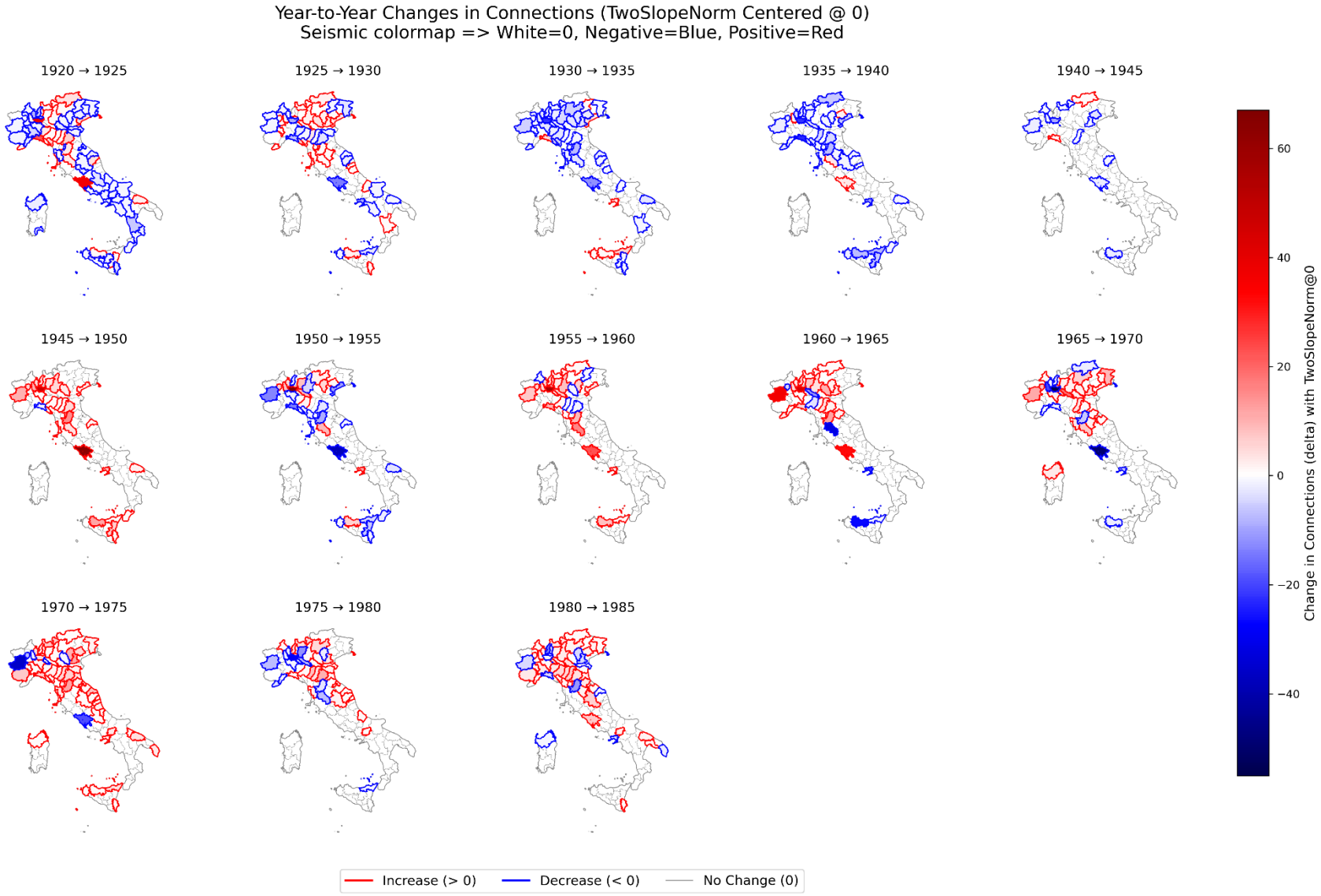


Figure 6 allows us to appreciate the regional trends in the intensity of connections between each province and London. The shrinking of southern connections is an interwar and Second World War phenomenon, with the exception of Palermo, which grew in intensity until 1935, only to fade in that decade. Increasing waves of concentration and growth in the North complete the picture, with an interesting trajectory for the province of Turin, growing until 1970, then reducing its reported connections. In this form, it is hard to judge whether this change is happening on the back of a concentration in either Italian respondents or London correspondents. Either side of the change would determine a contraction in the total links. An interesting oscillation in reporting for some provinces can be seen throughout the period. For example, stark differences in the province of Rome are evident cyclically, with increases and decreases in the number of reported connections alternating every decade or so.

To further understand the behaviour of Italian and London banks, we can focus on two complementary aspects to those touched on in Figure 6. Figure 7 shows the average number of connections of Italian banks to London in any given province. Here we can distinguish a pre-war light concentration of banks and connections, which intensified from 1950, especially in a few regions where some Italian banks seem to maintain a relationship with a plurality of banks in London. Between 1955 and 1965, for example, the province of Florence shows an above average number of connections. Individual banks are often responsible for these idiosyncrasies and warrant further study from a business history perspective.

Figure 7: Average number of London Connections per Italian bank (province level), quinquennial, 1920-85

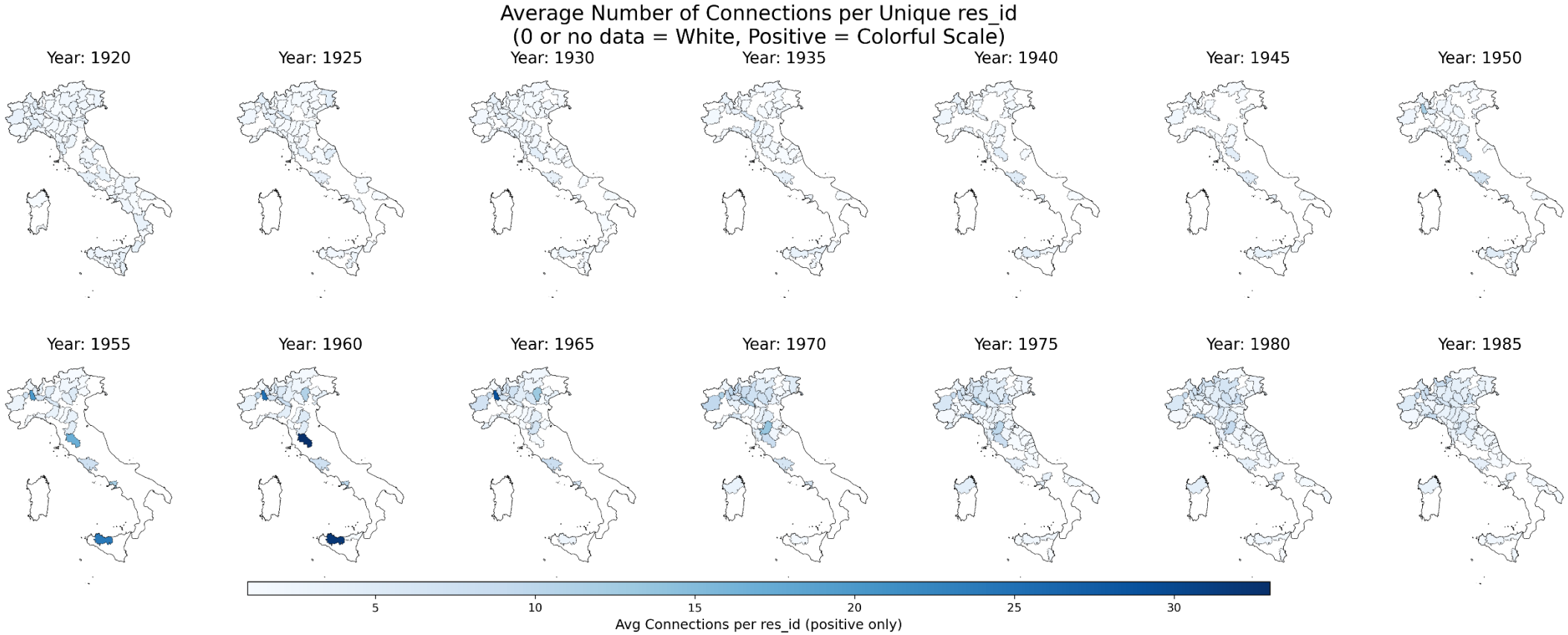


Table 2 below shows the top 10 London correspondent banks across all years, with the number of their Italian partners, city reach, and total number of connections. Table 3 reports the country-level values for these dimensions, allowing for a comparison with the aggregate levels.

Table 2: Leading London Correspondent Banks, 1920-1985 (with number of Italian cities reached, Italian bank partners, and total connections)

London Correspondent Bank	1920	1925	1930	1935	1940	1945	1950	1955	1960	1965	1970	1975	1980	1985
	Number of Italian cities where a connection exists													
Banca Commerciale Italiana	21	18	15	11	7	**London Office Closed in 1940**						1	1	1
Barclays Bank	145	21	30	19	15	15	31	18	19	25	35	59	67	90
Midland Bank	23	37	41	32	21	21	24	26	27	35	39	91	94	106
Martins Bank			11	15	11	11	6	9	10	12	**Acquired by Barclays**			
Swiss Bank	9	8	11	4	6	6	6	15	18	19	17	16	13	7
National Provincial Bank	3	7	14	8	6	5	12	14	16	12	**Merged with Westminster**			
National Westminster Bank	**Pre-merger: National Provincial and Westminster Banks**										34	45	50	71
Hambros Bank	5	21	11	9	8	8	11	11	22	28	35	40	37	38
Westminster Bank	19	21	26	16	12	12	18	17	20	25	**Merged with Nat. Prov.**			
Lloyds Bank	5	27	30	26	9	9	17	10	13	16	20	24	23	26
	Number of distinct Italian banks with a correspondent connection													
Banca Commerciale Italiana	34	36	28	16	13	**London Office Closed in 1940**						1	1	1
Barclays Bank	8	34	26	19	15	15	26	35	38	51	65	99	117	145
Midland Bank	50	73	63	41	28	27	43	43	47	63	73	156	162	191
Martins Bank			15	16	15	15	13	19	22	28	**Acquired by Barclays**			
Swiss Bank	14	14	13	6	8	8	12	25	31	34	31	25	19	10
National Provincial Bank	5	7	14	8	5	5	15	20	23	24	**Merged with Westminster**			
National Westminster Bank	**Pre-merger: National Provincial and Westminster Banks**										55	72	88	113
Hambros Bank	5	29	17	10	10	10	15	22	38	52	60	64	61	62
Westminster Bank	17	22	24	22	12	12	21	29	38	46	**Merged with Nat. Prov.**			
Lloyds Bank	7	35	30	21	11	11	16	22	28	30	33	38	39	48

	Number of total connections between London and Italian banks by year													
Banca Commerciale Italiana	36	36	28	16	13	**London Office Closed in 1940**						1	1	1
Barclays Bank	151	56	56	40	35	35	109	38	43	55	68	103	120	147
Midland Bank	61	89	88	90	55	54	49	48	53	67	78	163	168	196
Martins Bank			33	41	36	36	14	24	26	30	**Acquired by Barclays**			
Swiss Bank	15	14	13	6	8	8	12	25	31	34	31	25	19	10
National Provincial Bank	5	13	16	10	6	6	21	24	28	25	**Merged with Westminster**			
National Westminster Bank	**Pre-merger: National Provincial and Westminster Banks**										58	76	91	116
Hambros Bank	5	63	17	10	10	10	15	22	38	52	60	64	61	62
Westminster Bank	33	48	60	50	27	27	51	36	48	49	**Merged with Nat. Prov.**			
Lloyds Bank	7	70	74	55	21	21	53	25	32	31	35	41	41	49

Table 3: Country-level aggregate values for key dimensions: number of connections, unique Italian and London banks, and city coverage

Year	Number of Connections	Number of Italian Banks with at least one London correspondent	Number of London Banks with at least one Italian correspondent	Number of Cities with a correspondent link to London
1920	452	116	43	131
1925	529	191	47	63
1930	514	168	40	69
1935	405	103	37	52
1940	258	59	27	34
1945	236	52	27	31
1950	455	63	53	43
1955	465	62	59	30
1960	646	81	69	35
1965	738	105	75	40
1970	692	110	66	47
1975	782	204	59	91
1980	763	212	50	96
1985	803	237	54	101

Table 3 shows the growth in the major London correspondents as a share of the total connections driven by increased respondents joining their network and the consolidation of major institutions from 1970. In this regard, Italy's banks converged to a narrower range of

correspondents in London over time. An interesting early phase shown in the data is the role of the London branch of BCI, which accounted for 5% to 7% of the correspondent links between Italy and London, dealing with a diminishing number of respondents. Although BCI had a branch in London, BCI offices in Italy also used the correspondent banking services of Barclays Bank, Lloyds Bank, Martins Bank, Midland Bank, National Provincial Bank, Samuel Montagu and Westminster Bank. Branches were clearly not a substitute for correspondent banking relationships. The London office of BCI had to close in 1940 due to Italy's role in the Second World War, although the number of banks using BCI as their London correspondent had fallen by about half between 1930 and 1935, which was faster than the retreat of other London banks. BCI's London branch was re-opened only in 1971 but did not restore its role as a reported London correspondent for Italian banks.

Although an analysis of unweighted counts of correspondents by province is interesting per se, it is important to assess whether the overall picture changes when these figures are weighted by economic activity. Indeed, the relative importance of Italian regions in international trade and commerce varied over time. We would expect correspondent links to expand with cross-border economic activity like trade, remittances and capital flows. Unfortunately, reliable estimates of regional trade are not available, butwe are able to use the estimates of GDP at regional level compiled by Roses and Wolf (2018).[8] We therefore calculate the number of connections by region and then weight them by regional GDP, as displayed in Figure 8. Three remarkable trends emerge. First, this exercise reveals a process of consolidation; while the number of correspondent banking links increased from the 1960s onwards, this increase was slower than economic growth. The only exception to this long-term trend is Lombardy in the post WWII period (province of Milan), where the number of connections surged ahead of regional growth between 1945 and 1960. The post WWII expansion was not only a Lombardy phenomenon; most regions experienced a spike in 1950, right after the war, but subsequently the trend reversed, while for Lombardy it was sustained for the following decade. This leads to the second important trend emerging. While Lombardy has always been among the most connected regions according to this indicator, in the

[8] Roses and Wolf (2018)'s GDP estimates are not available for all years. We therefore interpolate linearly their data when data is missing. Despite the shortcoming of this approach, as GDP did not grow linearly in the period in question, this rough measure represents the best possible approach. This is especially true since we are simply using these figures in a descriptive way, not in regression analysis.

interwar period it was overtaken by Liguria and Lazio, and still in the 1950s, Lazio (province of Rome) appeared as the region with the highest number of connections relative to its economic activity. It is only from the 1960s that Lombardy firmly assumes the top spot in this ranking.

Figure 8: GDP weighted bank connections by region, quinquennial, 1920-85

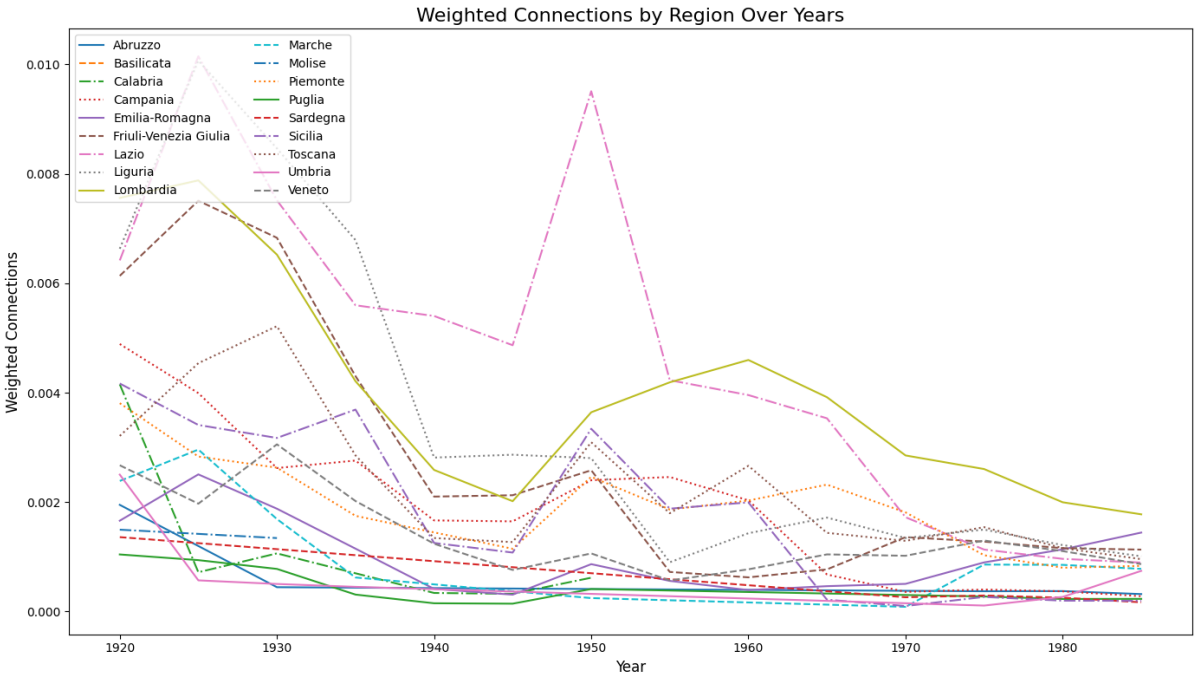


Table 4 presents the top 5 regions in the benchmark years 1925, 1935, 1955, 1970, and 1985[9]. The above-mentioned trend is even more evident in this league table. In relative terms, Lazio, Liguria, and Friuli Venezia Guilia were among the most connected regions in the interwar period – with Lombardy only in third or fourth place. This is despite the persistent lead that Lombardy had in economic activity. In 1955, Lazio still retained the top spot, followed by Lombardy but they were joined by Campania and Sicily - the latter already in fifth place in 1935. However, by 1970 Lombardy firmly took the top spot while Lazio was overtaken by Piedmont (which was already in fifth place by 1955). Friuli Venezia Giulia and Liguria re-entered the top ranking, which they maintained, at least until 1985. In our last observable point, Emilia Romagna takes second place, while Lazio for the first time is left out. This variation suggests avenues for further research on the foreign commercial activities of these provinces, including remittances traffic, which would attract correspondent banking business.

[9] 1925 and 1935 are taken as pre- and post-Great Depression years. 1955 is chosen as post-WWII year. 1970 is chosen to represent the final year of Bretton Woods. 1985 is the last point available.

Whether the creation of a correspondent banking link promoted international business, either by salesmanship of the London bank or by lowering the barriers to foreign payments services for local business, requires more firm-level and location-specific data.

Table 4: Top-5 regions by number of connections weighted by GDP for selected benchmark years

Region	Rank	Year	Number of connections	GDP (2011 International Dollars millions)	Weighted connections
Lazio	1	1925	83	8178.24	10.14888
Liguria	2	1925	57	5660.36	10.07003
Lombardia	3	1925	150	19033.37	7.880894
Friuli-Venezia Giulia	4	1925	24	3196.25	7.508794
Toscana	5	1925	39	8591.21	4.539521
Liguria	1	1935	53	7806.42	6.789278
Lazio	2	1935	57	10181.70	5.598279
Friuli-Venezia Giulia	3	1935	19	4415.76	4.302773
Lombardia	4	1935	107	25417.97	4.20962
Sicilia	5	1935	35	9481.68	3.69133
Lazio	1	1955	83	19629.19	4.228396
Lombardia	2	1955	207	49402.00	4.190114
Campania	3	1955	37	15046.01	2.459123
Sicilia	4	1955	24	12759.56	1.880942
Piemonte	5	1955	46	24662.47	1.865182
Lombardia	1	1970	323	113198.09	2.853405
Piemonte	2	1970	100	55159.69	1.812918
Lazio	3	1970	87	50466.13	1.723928
Friuli-Venezia Giulia	4	1970	16	11765.17	1.359946
Liguria	5	1970	26	19337.44	1.344542
Lombardia	1	1985	306	172191.10	1.777095
Emilia-Romagna	2	1985	106	73425.30	1.443644
Friuli-Venezia Giulia	3	1985	21	18547.50	1.132228
Liguria	4	1985	27	26736.52	1.009855
Toscana	5	1985	54	56386.14	0.957682

Source: authors' elaboration based on GloCoBank dataset and Roses and Wolf (2015). The ratio of connections to regional GDP (Weighted connections) are multiplied by 1,000 to improve readability

Analysis of unweighted connection counts and their share of total connections (Figure A.1 and Table A.1) complements weighted results by highlighting the distribution of connectivity. Lombardy consistently leads in unweighted counts, reflecting its core banking role, followed by Lazio, likely due to its political status hosting the capital. Liguria's interwar prominence as a trade hub diminishes after 1945, possibly due to the Northwestern industrial triangle's relative decline. The post-WWII rise of Veneto and Emilia Romagna, now among Italy's richest regions, aligns with this pattern. While Lombardy's dominance is more pronounced when weighted by regional GDP, its unweighted share also increases, notably after WWII. Unweighted results show greater regional diversity in earlier periods, with southern regions like Campania and Sicily ranking highly in the 1950s. This diversity declines as Lombardy's position consolidated after WWII, mirroring economic centralization trends seen in weighted metrics. Traditional financial centres like Piedmont and Lazio declined in importance later in the period.

Overall, these metrics show a shift from broader regional participation to the dominance of economically stronger regions like Lombardy. This is particularly interesting as it suggests that though Lombardy was already the Italian capital of international finance at the beginning of our period, its position for cross-border payments infrastructure was not as dominant as it became after WWII, and in particular from the 1960s onwards.

Finally, the new data allows us to shed light on the issue of macro-area divergence from an international finance perspective. Dividing Italy into four macro-areas—Northwest, Northeast, Centre, and South and Islands —reveals significant trends in financial integration over time. The Northwest, driven by Lombardy, leads in both weighted and unweighted measures, reflecting its dominance in global financial connectivity. The Northeast steadily improves its unweighted counts and share, consistent with the rise of Veneto and Emilia-Romagna as industrial and economic centres in the post-WWII period. The Centre, led by Lazio, maintains relevance in the interwar period but experienced a relative decline in financial connectivity after the 1950s.

A striking result is the persistent lag of the South and Islands across all metrics. Despite substantial increases in GDP during the latter part of the period, the South fails to show growth in direct financial connectivity. Both unweighted and weighted measures reveal a flat or declining trend for the South, with its share of total connections steadily decreasing. This

divergence is puzzling—while the South's economic output grew significantly after the 1960s, this did not translate into greater integration into the cross-border payments architecture, as the number of connections stagnated throughout the period. Remittances and other payments through London relied on a relatively narrow range of correspondent connections in the South.

Interestingly, the weighted metrics show a convergence among the northern macro-areas (Northwest, Northeast, and Centre) as their relative economic activity and connections aligned more closely over time. However, the South remains an outlier, with a clear and widening gap compared to the northern regions. This suggests that despite the South's economic progress, structural barriers or institutional factors may have limited its ability to leverage this growth into increased direct participation in global financial networks. The findings underscore the deepening North-South divide and highlight the need for further research into the factors hindering the South's international financial integration despite its economic advances.

Figure 9: Macro regional trends in number of connections (weighted and unweighted), 1920-85

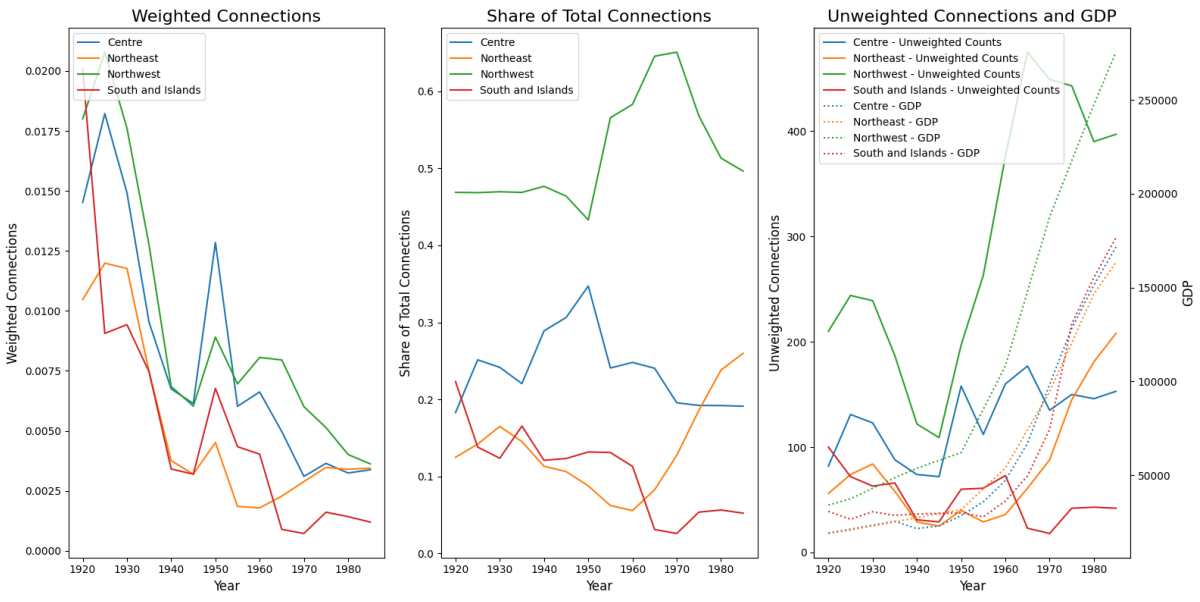


Figure 9 shows the convergence in the number of connections when weighted by output after 1950. This contrasts with the unweighted number of connections and emphasises the importance of assessing the 'connectedness' of a region in relation to its economic activity. The high level of connections from the Northeast becomes less distinctive when viewed in

relation to the economic activity in this region. Of course, the causation is not shown in these ratios; it may be that a less intense direct link to the cross-border payments system impeded economic development as well as vice versa.

Conclusions

Mapping out the inter-bank connections that facilitated the flow of trade and payments between countries can offer a fresh perspective on the process of globalisation and de-globalisation across the 20th century. Revealing the architecture of the cross-border payments system at a local level across towns and cities allows a more detailed understanding of how firms and individuals accessed cross-border payments services. Correspondent banking contracts included arrangements to process payments and settlement on behalf of each other's customers, and they were also often linked to commercial finance, custodial services and commercial intelligence. Maintaining these relationships was not costless on either side; the agreements usually required banks to hold current accounts in banks in London that did not attract interest, and the London banks needed to monitor their banking customers, so the variation in individual bank strategies offers a further avenue of future research. So far, the information on the structure of historic correspondent banking has been scarce. Even for more recent years, the data available to policy makers are not at bank level, do not show the bilateral links between countries, nor provide evidence below the level of nation-state. Nor do these data cover all countries. To get a more complete sense of the structure of global payments over time, we have collected data from the *Bankers Almanac* and provided a descriptive analysis of the patterns for Italy.

New data about bilateral correspondent links in Italy for the period 1920-1985, presented here for the first time, shows interesting turning points and directions for further exploration. Characterised by a relatively large number of banks, and seen from the point of view of correspondent relationships, the Italian ecosystem interacted with the changing global environment in roughly three major phases. A pre-war period, with diffused regional connections towards London, which disappeared from 1925 onwards. The rapid drop in respondents from 1925 to the end of the Second World War, already sowing the seed of a regional shift that creates two separate banking landscapes, is visible. By the end of the 1920s, our data reflects a relatively shrinking South, and a growing North, with small and medium-

sized banks supporting more direct cross-border accounts with banks in London. The initial interwar contraction could be linked to the extraordinary expansion of Italian bank branches across the Italy in this period (Molteni 2024): customers may have been able to access correspondent banking services through these expanded regional branch networks, creating connections not visible in our data, which are biased toward headquarter locations. Although this insight requires further exploration, it is very unlikely to be the exclusive driver of the regional trends we observe.[10] Southern Italy and the Islands had a considerably higher share of headquarters relative to total banking offices, thus the resulting bias would be over-representation in our dataset rather than explaining the retreat of southern observations in our data.[11]

The first interwar-to-war phase was followed by a steady expansion during the postwar recovery and era of exchange controls from 1950 to 1970; this twenty-year span shows a rapid extension of London correspondents towards various Italian centres, with a resurgence in the number of Italian banks active in cross-border payments, especially in the Centre-North. While the period 1920–50 is characterised by relatively even relationships between individual respondents and their London correspondents, the middle decades of the 20th century show a proliferation of London correspondent relationships established by Italian banks at the city and provincial level. These changes occurred in the third phase, from 1970 to 1985, when smaller cities in the provinces began reporting direct links to London. This is a period of consolidation, and while at the aggregate level the number of links shows similarities with the

[10] Molteni (2024)'s data on bank office distribution in 1928 and 1936 allow us to distinguish between HQs and branches in each province. In 1928, the average share of HQs on total offices in the Islands/South was 44.5%, while in the Centre/North it was 28.8%, and this difference is statistically significant at the 1% level ($p = 0.0007$). By 1936, the gap widened, with the HQ share decreasing to 38.6% in the Islands/South and 19.0% in the Centre/North, again statistically significant at the 1% level ($p < 0.00001$). A robustness check excluding cooperative banks (BCCs) confirms this pattern, with HQ shares in 1928 of 24.8% for the Islands/South and 16.4% for the Centre/North ($p = 0.0023$), and in 1936, 21.4% for the Islands/South and 9.7% for the Centre/North ($p = 0.0001$).
This evidence consistently shows that HQs were relatively more prevalent in the Islands/South compared to the Centre/North, highlighting that branching was significantly more developed in the latter region. Consequently, our data on international financial connections, which focus exclusively on HQs, are unlikely to be biased against the Islands/South; if anything, they would tend to underrepresent the Centre/North.

[11] In 1928, the Islands had the highest HQ share (63.2%), followed by the Northeast (38.4%), South (32.4%), Centre (31.1%), and Northwest (22.4%). By 1936, HQ shares declined across regions, with the Islands (43.5%) and Northeast (36.8%) remaining highest, followed by the South (28.8 %) and Centre (17.5 %), while the Northwest (14.9%) had the lowest. Excluding BCCs, the Islands and South consistently showed the highest HQ shares, while the Northwest and Centre had the lowest in both years. These differences are all statistically significant using ANOVA tests.

1920s, it is a much different Italy, with diffused northern banks and a much more centralised southern system. On the one hand, our findings reassuringly mirror the regional economic development patterns of Italy across the 20th century. Increases in regional output were associated with a greater number of direct links into the cross-border payments system in London, with its associated expertise in commercial credit and settlement services. On the other hand, using this new dataset allows us to appreciate this transformation with greater geographical specificity across an average of 62 towns and cities and across Italy each year. This identifies foreign commercial links beyond the main financial centres that have already been recognised by historians. An example of this phenomenon is the way that the location of Italian banks with direct contractual links to London spread along the main highways and tributaries of Italy. These links provided their local customers with faster and more easily accessed facilities in the world's most important commercial centre. This paper offers a new dataset and suggests fresh directions for investigating the way that the Italian banking system engaged in the international payments system headquartered in London. It opens up rather more questions than answers, but we hope to inspire future research through the lens of the changing architecture of cross-border payments as the fundamental plumbing of international commerce.

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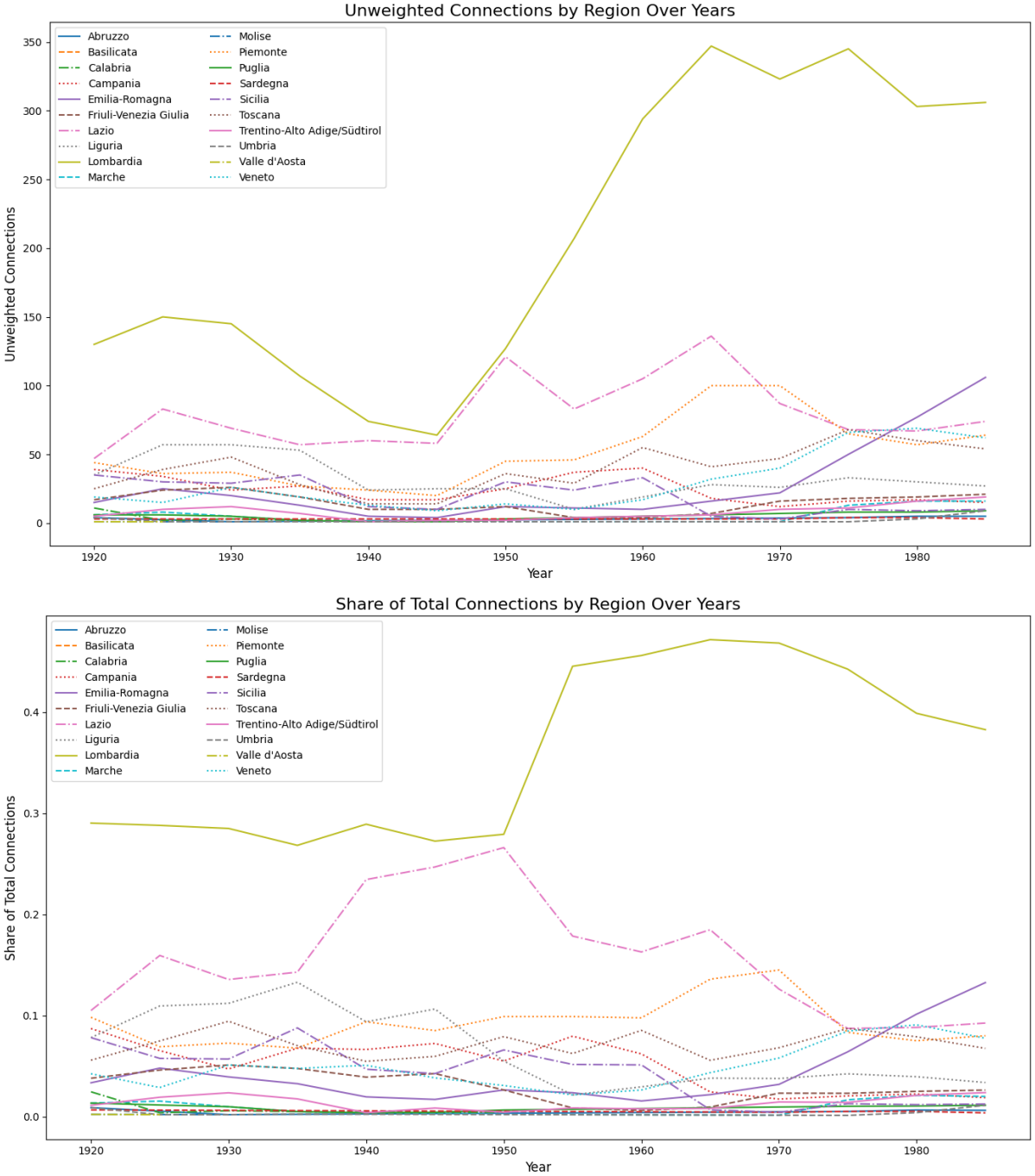
Appendix

Table A.1. – Top-5 regions by unweighted connections for selected benchmark years

Region	Rank	Year	Unweighted Counts	Share of_total
Lombardia	1	1925	150	0.29
Lazio	2	1925	83	0.16
Liguria	3	1925	57	0.11
Toscana	4	1925	39	0.07
Piemonte	5	1925	36	0.07
Lombardia	1	1935	107	0.27
Lazio	2	1935	57	0.14
Liguria	3	1935	53	0.13
Sicilia	4	1935	35	0.09
Toscana	5	1935	28	0.07
Lombardia	1	1955	207	0.44
Lazio	2	1955	83	0.18
Piemonte	3	1955	46	0.10
Campania	4	1955	37	0.08
Toscana	5	1955	29	0.06
Lombardia	1	1970	323	0.47
Piemonte	2	1970	100	0.14
Lazio	3	1970	87	0.13
Toscana	4	1970	47	0.07
Veneto	5	1970	40	0.06
Lombardia	1	1985	306	0.38
Emilia-Romagna	2	1985	106	0.13
Lazio	3	1985	74	0.09
Piemonte	4	1985	64	0.08
Veneto	5	1985	62	0.08

Note: may not sum to 1.00 due to rounding.

Figure A.1 -


Unweighted Connections by Region Over Years
Unweighted Connections
Year
Share of Total Connections by Region Over Years
Share of Total Connections
Year
Abruzzo
Basilicata
Calabria
Campania
Emilia-Romagna
Friuli-Venezia Giulia
Lazio
Liguria
Lombardia
Marche
Molise
Piemonte
Puglia
Sardegna
Sicilia
Toscana
Trentino-Alto Adige/Südtirol
Umbria
Valle d'Aosta
Veneto

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