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ARTICLE

Elastic infrastructure: A historical perspective on credit in global correspondent banking and the cross-border payments system

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Abstract

Tech innovations have the potential to disrupt traditional banking by unbundling banking, money, and payments; however, their impact on the cross-border payments system (CBPS) – which still relies on correspondent banking (CoBanking) networks – remains uncertain. This uncertainty is compounded by the literature's tendency to distinguish between cash clearing and credit and to focus on the latter. Challenging this distinction, the article offers a historical perspective on the role of credit in CoBanking and international payments. It reveals the deep-rooted importance of credit in the CBPS and highlights correspondent banks' role in providing it. But deep-rooted does not mean static. Indeed, changes in bank-intermediated trade finance practices during and after WWI reshaped the London-based CoBanking network. Furthermore, cash clearing and credit operations remained remarkably congruent until at least the 1980s, as reflected in banks' internal organisation, reporting, and contemporaries' descriptions of the payment system. The article argues that adopting a definition of payment systems that integrates both cash clearing and credit is essential to understanding the history of CoBanking and how it supports the CBPS. It suggests that relying on tech firms to provide the elastic payments infrastructure the economy requires could equate to jumping out of the frying pan and into the fire.

Keywords: banking history; correspondent banking; infrastructure; payment systems

Introduction

In recent years, interest in payment systems among Silicon Valley investors, journalists, economists, and central bankers has exploded. Some claim that new financial and monetary technologies will challenge the privileges traditional banks enjoy thanks to the 'bundling' of banking, money, and payments. Unbundling these theoretically distinct systems, they claim, will increase competition, innovation, financial inclusion, and banking and financial system stability while eliminating the too-big-to-fail problem that arises when the payment system is underpinned by systemically important banks (Awrey, 2021; Williamson, 2024).

Notwithstanding unbundling's ostensible benefits, specialised financial technology companies and Big Tech firms active in the payments space have been leveraging payment data troves to move into unsecured, cashflow-based short-term lending services targeted at underbanked consumers or the businesses that rely on their marketplace services

(Frost et al., 2019; Boissay et al., 2021; Parigi, Gambacorta, and Khalil, 2022; Liu, Lu, and Xiong, 2022; Gambacorta, Madio and Parigi, 2023). Although questions remain about whether these credit services replace or complement traditional lending (Cornelli et al., 2023), these developments are already creating challenges for macro-prudential regulation, monetary policy transmission, and consumer wellbeing, and will likely reinforce tech's monopolising tendencies (Clarke, 2019; de la Mano and Padilla, 2018; Stulz, 2022; He, Huang, and Zhou, 2023; Huang et al., 2023). They therefore cast doubt on the theoretical case for unbundling payments and credit in the first place.

Debates about payment system innovations largely focus on retail payments on the national level, but similar discussions about wholesale and cross-border payments are also underway. Regulators express frustration that cross-border bank transfers remain slow and costly despite the 'bewildering speed' and cost-savings of financial innovation (Cunliffe, 2020). Improvements in the plumbing of the cross-border payment system (CBPS), be it through private solutions or interoperable central bank digital currencies (CBDCs), could facilitate migrant remittances and cross-border retail trade and allow financial institutions to capitalise on the reduced settlement risks and liquidity costs resulting from enhanced payment system efficiency at the wholesale level (Humphrey, 2019; CPMI, 2021; Cleland, 2023). However, the fact is that cross-border payment services, including those currently provided by tech firms, still rely almost entirely on global correspondent banking – the private interbank networks that have facilitated cross-border payments for centuries.[1]

Talk of a CBPS innovations in recent years has drawn attention to correspondent banking. Regulators and policymakers have sought to understand the drop in cross-border banking relationships in recent years and its impact on the price of cross-border payments, financial inclusion and global financial system integrity (Grolleman and Jutrsa, 2017; Rice, von Peter, and Boar, 2020). IPE specialists, meanwhile, have drawn attention to how global correspondent banks – an 'oligopoly of private companies' – leverage the state to establish and preserve their central position in the CBPS and use their resulting network power 'to shape financial markets to their own advantage' (Brandl and Dieterich, 2021: 13, 3; Petry, 2021; Westermeier, 2020). Yet while it makes sense to explore the history of banking networks to appreciate their role in the CBPS – and the potential for tech to supplant them – historians have paid remarkably little attention to correspondent banking (Schenk, 2024).

The available business history and management studies literature on the theory of bank internationalisation focuses almost exclusively on cross-border branching (Baster, 1929; 1935; Jones, 1990; Casson, 1990; Cameron and Bovykin, 1991; Jones, 1993). The rare contributions in this category that have integrated correspondent banking into their analysis emphasise the co-existence of correspondent and multinational internationalisation models and explain choices between the two using a neo-institutionalist framework (Merrett, 1995; Panza and Merrett, 2019). Financial historians, meanwhile, note that correspondent banking supports macro-historical processes like globalisation and financialisation (Battilossi, 2006; Mollan, 2012; Mollan and Michie, 2012) and stress the role of interbank networks – both national and international – in banking crisis transmission (Richardson, 2006; 2007a; Schenk, 2014; Das, Mitchener, and Vossmeyer, 2018; Calomiris, Jaremski, and Wheelock, 2019; Mitchener and Richardson, 2019). The most recent contributions document how information and communications technology innovations since the 1960s have reduced the payment bottlenecks engendered by growing international trade (Schenk, 2021; 2023; 2024).

A reading of the historical and policy-oriented literature on modern correspondent banking and the CPBS leads to a striking observation: it is characterised by a sharp conceptual divide regarding how to define what a payment system is, which in turn has important implications for how we understand correspondent banks' role within it. On the

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one hand are scholars who focus exclusively on the clearing and settlement (or in contemporary industry parlance 'cash clearing') dimension of payments and the institutions that enable them.[2] On the other hand are those who recognise credit as an important aspect of correspondent banking and the payment services they provide. Puzzlingly, however, even scholars who adopt a broad conceptualisation of payment systems do not make credit their main focus.

At first sight, there are good reasons for historians of correspondent banking and the CBPS to focus exclusively on cash clearing. For one, it brings analytical clarity to their work (not least because it avoids prickly questions about what money is). For another, adopting a narrow, contemporary definition of payment systems[3] makes sense if the aim is to provide historical insights into current debates about CBPS reform. Nonetheless, there are good theoretical reasons to also consider credit. The occasional mainstream economist may criticise the absence of a 'unifying analysis' that would allow us 'to fully understand the payment system, including the evolution and structure of its constituent institutions', noting that to overcome this limitation 'it is necessary to appreciate both [the payment system's] monetary and financial aspects' (Goodfriend, 1990: 247–48). However, by taking the endogeneity of money as their starting point, heterodox economists offer the most sophisticated arguments about why credit is essential to our understanding of the payment system.

Indeed, monetary theories in the Minskyan tradition and Critical Macro-Finance conceptualise the economy as a set of interlocking balance sheets and economic actors as being cash-inflow and cash-outflow entities. These entities must constantly mediate the tension between the disciplining effect of the 'settlement (or survival) constraint' and the 'elasticity' provided by agents possessing either surplus means of payment or the ability to create them (Mehrling, 2013; 2015; 2017; 2018; 2022; Dutta et al., 2020). By converting assets into high-powered money, central banks constitute the ultimate source of elasticity in modern payment systems. However, most of the time elasticity is provided through 'the alchemy of banking'; in hybrid public-private monetary systems, it is this ability to create private credit money at par from which private financial actors derive their power (Mehrling, 2018). Payments and finance are intertwined at the domestic level – where heterodox economists' interest has traditionally lain (Bouguelli, 2025) – but they are also intertwined at the international level. This is an essential insight of the 'key currency' approach (Mehrling, 2022; 2023), which conceives of the international monetary system as 'a world-spanning payment system that is inherently hierarchical because it needs central nodes for clearing and settlement' (Murau, Pape, and Pforr, 2022: 1). Because most cross-border transactions rely on private credit money, connections to global banks able to provide international money are essential, and are especially important during a crisis when peripheral banks seek emergency liquidity from core banks that effectively act as 'lenders of first resort' (Murau et al., 2022: 7). This access is vital for the stability and coherence of the CBPS and the global financial system itself.

However compelling these theoretical insights may be, their foundation in history is unclear. This article seeks to reinforce that foundation by asking if paying attention to credit offers a fruitful strategy for enriching our historical understanding of correspondent banking and its role in the CBPS. This focus on credit[4] draws general inspiration from scholars' insistence that bank credit lines and guarantees be treated as deposits to fully appreciate how banks' payment services support economic activity and the financial system (Sissoko, 2025). More distinctively, the article aims to uncover how narrowly-defined payment infrastructures (e.g., nostro/vostro accounts) become endowed with 'structural power' and the ability to 'shape the choices available to participants' – without losing sight of how that infrastructure is 'integrated with the "real economy"' and subject to 'change, challenge, and contestation' (Bridges, 2023: 108; Muellerleile, 2018: 281; Westermeier, Campbell-Verduyn, and Brandl, 2025: 4). In this regard, it uses the concept of

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infrastructure as a 'heuristic device' to explore how 'background functions' like payments may hinder tech disruptors' capacity 'to fundamentally remake finance' (Bernards and Campbell-Verduyn, 2019: 777, 776).

The article's findings are organised as follows. Section "Payment system elasticity in historical perspective" reviews the development of the European cashless payment system since the Middle Ages, examining how, after considerable trial and error, innovations to payment and credit instruments and the institutions underpinning their circulation eventually came to form the modern payment system. Section "Correspondent banking networks and payment system elasticity" examines interbank networks in the United States in the nineteenth centuries, arguing that by extending credit to facilitate cash clearing and to correct seasonal imbalances, correspondent banking networks provided the 'elastic infrastructure' undergirding the domestic payment system. The rest of the article explores the relevance of this insight for the twentieth century CBPS. Section "Trade finance procedures and correspondent banking network dynamics" suggests that shifts in correspondent bank-mediated trade finance procedures around World War I (WWI) likely constituted a source of dynamism in the global payments infrastructure. Finally, Section "Credit in twentieth century correspondent banking" presents archival evidence of the central role credit played in building and sustaining correspondent banking relationships, and of the continued alignment of cash clearing and credit in both correspondent banking practices and bankers' conceptualisation of payment systems until at least the 1980s.

Together, these findings confirm the value of integrating credit into analyses of correspondent banking to better apprehend the evolving nature of the business in the past and, crucially, in the present. By helping to unbundle banking, money, and payments, the growing involvement of tech firms in the payments space today could curb the systemic power of global banks and interbank networks and provide material benefits to consumers and businesses alike. However, this auspicious future is hardly guaranteed. Indeed, whether or not claims about Big Tech's monopolistic, extractivist logic ushering in an era of techno-feudalism are valid (e.g., Durand, 2024; Garrod, 2025), we are already seeing digital payment providers using payment data troves to calculate loan risks and large platforms wielding credit to extract rents from dependent firms (e.g., Mersch, 2019; Gambacorta, Madio, and Parigi, 2023). Furthermore, stablecoins could give rise to interstate 'cryptomercantilism' or a 'systemic stablecoin' that redistributes monetary power in ways that nullify the equity-enhancing justification of distributed ledger technologies and reinforce dominant currencies (Klooster, Martino, and Monnet, 2025; Morgan, 2023). Rather than a 'radical alternative' to the existing correspondent banking-based payment infrastructure, the main promise of blockchain technologies may be little more than 'frictionless capitalism' (Rella, 2019).

This article's historical perspective reinforces such misgivings. Its findings illustrate how conceptualising payment systems as an elastic infrastructure can help us differentiate analytically between payment practices at the micro-level and payment system dynamics at the macro-level. This means that anyone involved in current discussions about practical and organisational payment innovations – by private firms and, in the case of CBDCs, public entities – should carefully reflect on the relationship between cash clearing and credit at the systemic level. Only then will they grasp the promise and peril of tech supplanting correspondent banks as the institutional foundation of the CBPS.

Payment system elasticity in historical perspective

In the High Middle Ages, trade expansion, the Crusades, and bullion famines drove demand for a reliable and convenient means of payment, leading merchants to develop new

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methods of cashless payments (Denzel, 2008: 156). Cashless payments had the advantage of reducing the net volume of settlement in specie by discharging payment obligations through the assignment of third-party debt.

In Medieval Europe, the assignment of third-party debt relied on two instruments: deposits and bills of exchange. In twelfth century Genoa, moneychangers began accepting coins for safekeeping which they converted into book entries that could then be assigned to other merchants in settlement in a practice known as 'assignment in bank' (Bogaert, 1966; Geva, 2011: 534; De Roover, 1974: 216). But this instrument had a limit: there was no mechanism for inter-city book transfers so benefits were limited to the local level (Geva, 2011). Bills of exchange – a type of commercial paper – were, however, well adapted to transferring purchasing power across space without the cost and risk of transporting specie (Boyer-Xambeu, Deleplace, and Gillard, 1994). A bill of exchange was a written order issued by a merchant in one city (the drawer) ordering his correspondent in another city (the acceptor, or payer) to make a payment on his behalf (Nogues-Marco, 2020). Drawers and payers kept accounts with one another so only periodically settled net balances (De Roover, 1953; Einzig, 1962; Neal, 1990; Jobst and Nogues-Marco, 2013).

In addition to facilitating cashless payments, deposits and bills of exchange were also instruments of credit. Deposits backed by coin and deposits created out of thin air were indistinguishable so a bank could provide merchants unable to settle debts on time with liquidity in the form of account overdrafts. As Kohn explains, overdraft lending of this ilk constituted the 'natural extension of the bank's function as a payments intermediary'. At the Champagne fairs, merchants with negative balances provided each other with overdrafts on their market books or borrowed deposits from another merchant. This market in inter-fair deposits provided a 'liquidity facility' allowing merchants to meet payment obligations while deferring final settlement to a later point in the annual trade cycle (Kohn, 2020: 229, 228). Bills of exchange, meanwhile, underlay early financial markets and merchants used them to raise the working capital needed to finance commodity trade (Nogues-Marco, 2020; De Roover, 1953). They almost always involved currency conversion so bankers could include a hidden interest rate, bypassing usury laws. Bills were traded in a network of money markets located in Europe's main commercial centres. Following the decline of the Champagne, Venice, Geneva and Lyons fairs, Genoese bankers established alternative exchange markets in Besançon and then Piacenza during the sixteenth century 'for the sole purpose of clearing bills of exchange' (Kohn, 2020: 234; Boyer-Xambeu et al., 1994). These 'inside markets' involved a close-knit group of merchant-bankers willing to accept each other's debts in payment. After netting all outstanding bills payable and receivable on their market books, a merchant settled the remaining balances by either assigning debts due from other merchants or drawing new bills, 'thereby acquiring the funds he needed to meet his obligation on time' (Kohn, 2020: 234, 232).

As instruments of payment and credit, bank deposits and bills of exchange provided a source of payment elasticity but the institutions underpinning them were unreliable. Due to banks' lending activities, their demand deposit liabilities often exceeded their coin reserves, exposing them to liquidity and insolvency risks. These risks were aggravated by banks' small size, political instability, and the lack of safe, liquid investment assets. In the second half of the fifteenth century, a bullion famine further worsened banks' liquidity position, triggering a wave of failures in Venice, Florence, and Bruges. As the value of bank money in relation to coins weakened and hostility to these institutions grew, deposit banking underwent a decline (Kohn, 2020: 232–33; Geva, 2011: 365). The 1489 decision by Antwerp authorities to ban banks entirely left merchants with little choice but to rely on commercial paper to make cashless payments (Kohn, 2020), but instruments such as bills of exchange were not collateralised so they relied on knowledge about the parties' creditworthiness and were of little use in impersonal transactions outside of closed

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networks (Trivellato, 2019). In De Roover's words: 'the lack of liquidity and elasticity constituted a serious defect of the medieval banking system' (1946: 116).

Three sixteenth century legal innovations introduced in the Low Countries were key to increasing the liquidity of bills of exchange and their capacity to provide payment system elasticity. The first reform was an Antwerp civil court decision in 1507 recognising the transferability principle, which enabled third party debtholders to assert their right to payment.[5] The second reform, introduced by Charles V in 1537, was the doctrine of endorsement. By endorsing bills (i.e., adding their signature to the back of the bill), merchant-bankers became jointly liable for their final settlement (Nogues-Marco, 2020). These two changes transformed bills of exchange into 'negotiable instruments' (De Roover, 1953; Geva, 2011; Accominotti and Ugolini, 2019; Kohn, 2020); by separating the issuers from subsequent users, negotiability allowed bills to circulate far beyond the personal networks on which exchange markets had previously relied (Santarosa, 2015; Nogues-Marco, 2020). As a result, they commonly changed hands twenty times and sometimes bore up to a hundred names (Kohn, 2020: 236; Van der Wee, 1963). Although bills still remained less liquid than bank deposits convertible into cash on demand (Geva, 2011: 409), this shortcoming was subsequently addressed when bill discounting[6] by Antwerp money-changers was formally permitted in 1540. Discounting provided a mechanism for transforming bills into currency, and in so doing 'increased the acceptability of commercial paper in settlement' (Kohn, 2020: 236). Together, these three innovations established bills of exchange as a form of private 'capitalist credit money' (Ingham, 2004).

The legal changes described above meant that commercial paper and the markets in which it traded enhanced payment system elasticity, but what of banks and bank deposits? The instability of banks in the late fifteenth century gave rise to a new type of public exchange bank in the late sixteenth century, exemplified by Venice's Rialto Bank and the Bank of Amsterdam (or 'Wisselbank'). Their purpose was 'to insulate their host cities' commercial payments systems from the vagaries of fractional reserve banking' and thereby guarantee deposit liquidity (Quinn and Roberds, 2005: 1). In Northern Europe, public exchange banks accepted demand deposits and conducted book transfers, but because they sought to unbundle cash clearing and credit activities, they paid no interest on deposits, issued no banknotes, and did not deal in bills of exchange or overdraft facilities (De Roover, 1974: 229). Yet, despite these experiments in narrow banking, demand for payment elasticity persisted. It was soon met by new institutions that combined cash clearing and credit services or by exchange banks themselves. Just a decade after seeing their activities outlawed in 1609, private bankers in Amsterdam were again satisfying merchant demand for payment services and international trade credit (van der Wee and Kurgan-Van Hentenryk, 2000). The Wisselbank's subsequent decision to disregard the ban on overdraft lending 'no doubt improved the efficiency of the payments system' (v Kohn, 2020: 237 van der Wee, 1977: 140). When, in 1683, the Wisselbank adopted a dual structure by introducing inconvertible account balances alongside full reserve deposits, this innovation produced 'a surge in deposits into the Bank and an increased turnover of bank money' (Quinn and Roberds, 2014: 1–2). The bank was so successful in facilitating multilateral wholesale payments that it emerged in the seventeenth century as a 'central clearing house of world stature', transforming the bank guilder into a 'convertible key currency' (van der Wee, 1977: 340). By authorising deposit lending in excess of metallic reserves, public exchange banks like the Wisselbank and the Bank of Sweden 'laid down foundations to what subsequently developed in England to herald the modern banking and payment system' (Geva, 2011: 369; based on Ferguson, 2009).

England's 'modern banking and payment system' improved on continental techniques for providing payment system elasticity in four ways. First, a new type of banking institution combined deposit banking, bill of exchange dealings, and banknote issuance. Second, a dense correspondent network linking private bankers enabled a common

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infrastructure for payments and finance: 'by extending credit to each other', bankers created a 'national banking and interbank cheque system' and 'facilitated specialisation in information-intensive, non-traded loans'. Third, the establishment of the London Clearing House in 1773 made interbank payment netting more efficient. Finally, the Bank of England acted as a facilitator of multilateral settlements (clearing house members settled their net positions 'in bank') (Geva, 2011: 467–68). As the Bank developed its lender of last resort (LOLR) practice and doctrine over the course of the nineteenth century (Sissoko, 2022a; Flandreau and Ugolini, 2013), it established itself as the ultimate guarantor of the payment system, providing both liquidity (through the monetisation of private credit instruments) and discipline (through the centralised management of the ultimate means of settlement, namely Bank of England notes and gold) (Desan, 2014).

The 'English model' of banking and payments proved highly beneficial to economic activity. By expanding the supply of private credit money on a stable basis, English bankers 'provide[d] a reliable source of liquidity to the economy' (Geva, 2011: 468). Economic historians have linked the system's ability to mobilise trade receivables in the form of inland bills through the discounting mechanism to early British industrialisation (Pressnell, 1956; Pollard, 1964; Hudson, 1986; Sissoko, 2022b). This model, further reinforced by the rise of the London discount market as the main channel of domestic interbank lending, attracted net inflows of foreign funds both for settling payments and for seeking profitable, liquid investments (Arrighi, 2010; Pollard, 1985). The City of London's dual status as the 'clearing house of the world' and the 'centre of world liquidity' (Baster, 1937; Michie, 2005; Flandreau and Ugolini, 2013) made it *primus inter pares* in both monetary and financial terms during the 'first globalisation'.

The dual cash clearing and credit dimensions of bank deposits and bills of exchange provided a crucial service given the long delays in communication and transport and the highly seasonal nature of trade in medieval and early modern economies. This synergy between payments and liquidity provision evident in cashless payment instruments and institutions has led some to argue that payment services, rather than intermediation between savers and borrowers, explain the origins of banking (McAndrews and Roberds, 1999; Kohn, 2001). By reducing reliance on coin and providing merchants with greater flexibility, piecemeal payment system innovations 'multiplied the velocity of circulation' and served as 'the great lubricant of the Commercial Revolution' (Lopez, 1971: 72) – even if the mechanisms used and their efficiency varied across time and space and their development was anything but linear. The modern payment system may have sustained industrialisation and globalisation, but let us now clarify what role correspondent banking networks played in making that system elastic.

Correspondent banking networks and payment system elasticity

For centuries if not millennia, cashless payments have relied on correspondent networks. In the Ptolemaic and Roman periods, mercantile correspondents were already settling mutual debts using drafts on bank deposits (Bogaert, 1968), and by 1200 the Genoese had established interbank arrangements to facilitate cashless payments between local institutions (Geva, 2011: 359–61). With the exception of some Venetian bankers, however, deposit-taking moneychangers generally lacked foreign correspondents (De Roover 1974: 214), hence the significance of a second type of institution: the merchant (or 'exchange') bank. By enabling remittances to distant cities, merchant banks' network of branches and correspondents extended the use of bills of exchange and presaged the multilateral, interbank clearing and settlement system that emerged in early modern Europe (Geva, 2011).

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During the 'Age of Commerce' and early modern 'merchant capitalism', mercantile transactions were 'systematically financed either wholly or in part through credit, and participants at the time essentially operated like small banks, opening current accounts that carried negative balances and issuing their own quasi-currencies in the form of commercial paper' (Gervais, 2012: 696). Some merchants later specialised in finance, and in the early nineteenth century a small but eminent group of London merchant bankers became pivotal actors in the financing of international trade (Chapman, 1984). These merchant banks (or 'accepting houses') provided overdrafts to their closest overseas partners and gave them access to the London discount market (Sigel, 2017). Only bills of exchange carrying their guarantee (or 'acceptance') secured the lowest rates.

In the nineteenth century, commercial banks became increasingly central nodes in the CBPS. The authorisation of joint stock banks in England in 1826 prompted steady growth in their number, but before the 1880s, when the amalgamation movement and the emergence of the big 'clearing banks' led to the first serious challenge to London merchant banks' dominance in international payments, commercial banks were primarily focused on domestic activities (Newton, 1998).[7] Nevertheless, London-based commercial banks established 'reciprocal agreements with foreign correspondent banks' from the 1830s (Jones, 1993: 18), and in the 1860s they began providing international trade finance services (Cottrell, 1991). So how did nineteenth century correspondent banks combine cash clearing and credit to provide elasticity to the CBPS?

Since historians of global correspondent banking networks have not explicitly addressed this question, it is useful to draw insights from studies of domestic correspondent banking networks. Nowhere has the history of correspondent banking's payment system elasticity provision received more attention than in the US. Due to hostility towards, and subsequent legal limitations on, bank branching since the early nineteenth century, the US banking system relied on unit banks linked to banks in regional centres, themselves dominated by the nation's main banking hub in New York City.[8] This hierarchical correspondent banking network emerged organically but over the course of the century became increasingly institutionalised (James and Weiman, 2010). In the 1840s and 1850s, many states allowed state-chartered banks to count New York balances as official reserves, and the National Banking Acts of the early 1860s entrenched a system of reserve 'pyramiding'. In addition to reserves held in lawful money, country banks were required to hold part of their reserves as deposits at banks in one of 18 designated reserve cities which in turn held part of their reserves as deposits at banks in central reserve cities (i.e., New York, Chicago, and St Louis) (James, 2015; Watkins, 1929).

Domestic cash clearing relied on correspondent networks. Before the Federal Reserve (Fed) established a public payments infrastructure and was given a note issuing monopoly, these networks were essential for redeeming private banknotes and operating regional domestic exchange markets. As James and Weiman explain, growing demand for New York bank balances as a means of payment meant the largest correspondents in the main money centres 'increasingly specialised in the clearing and settlement of draft payments'. But the networks also provided credit. Indeed, these banks often credited customer accounts as soon as cheques were deposited and certified cheques written for amounts greater than balances on hand. Wall Street banks also reportedly allowed respondents up to one month to settle their clearing accounts. The 'spatial concentration of reserves' held in New York therefore 'economised on the liquidity and information costs of making payments and underwrote backstop credit lines that greased the wheels of the cheque payments system' (James and Weiman, 2010: 241, 238n3, 248–9n20, 240).

In addition to credit facilities streamlining cash clearing, correspondent banks provided more generic forms of interbank lending. As one expert on postbellum US banking explains: 'One of the principal services of city correspondents was the provision of loans to their country correspondents . . . . [C]ountry banks knew their city correspondent would

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take care of them and that was one of the principal reasons why they kept deposits there' (James, 2015: 149–50). Interbank lending between US correspondent banks provide three noteworthy insights for understanding the potential role of global correspondent banking in providing CBPS elasticity.

First, nostro/vostro account relationships underpinned the interbank lending market. As an earlier observer noted: before the Federal Reserve's creation 'the absence of an established rediscount market [for standardised, liquid commercial paper] made a dependable connection of very great importance to the average bank, not so much because of actual amounts that had to be borrowed, as for the feeling of security that such a connection gave' (Watkins, 1929: 153). In practice, respondents typically accessed credit lines by rediscounting their customers' promissory notes; by issuing promissory notes collateralised by commercial paper, stock exchange securities, or deposits held with the correspondent; or by arranging (typically unsecured) overdrafts for periods of up to six months (Lockhart, 1921a). Credit lines were proportional to the average balance the latter held with them (loans never exceeded four-fifths of the balance) (Watkins, 1929). However, banks often either did not report interbank loans, or booked them under the generic heading 'other liabilities'. Such 'secret borrowings' – estimated at $100 million in 1913 – took the form of overdraft facilities, repurchase agreements, certificates of deposit, or personal loans from bank directors (Watkins, 1929: 162). While the true extent of interbank lending was concealed, call reports submitted to regulators attest to its high volatility (between 1907 and 1914 it oscillated between $24.7 million and $162 million) (Lockhart, 1921b).[9]

Interbank lending in the form of correspondent credit lines functioned much like demand deposits, 'effectively increasing borrowers' current account balances against which they could write cheques or purchase bank drafts on demand' (Redenius and Weiman, 2011: 5).[10] But such arrangements were mutually beneficial. Correspondent banking relationships offered city correspondents a distribution outlet for the commercial paper of their large, non-financial corporate customers; likewise, correspondents often bought excess paper from respondents, enabling country bankers 'to retain for themselves the business of home industries which would otherwise need to seek outside credit' (Demmery, 1924: 298). While interbank deposits provided smaller respondents with a means of investing excess funds in New York's call loan market on stock exchange collateral – the country's biggest and most liquid money market – they also augmented the resources that the city's biggest correspondents could lend to stockbrokers (James, 2015: 102–4).

The second, albeit related, noteworthy insight is that interbank lending between correspondents played an essential role in smoothing temporary imbalances in the annual production and trade cycle. As Redenius and Weiman explain, total US interbank lending resembled an inverted U-shape, peaking in July and August. As demand for liquidity from the country's vast agricultural sector surged in the months preceding harvest, small country banks had no choice but to '[turn] to correspondents in distant money centres, mainly New York, for accommodation'. Banks in monocultural regions like the Cotton South therefore 'functioned . . . like brokers, bundling their customers' loans and deposits for ultimate placement with or by their correspondents' (Redenius and Weiman, 2011: 7). The geographical distribution of farming meant that interbank lending was subject to strong regional variations. Between 1897 and 1914, banks in cotton-producing states borrowed almost as much from correspondents as banks in all other states combined. Notwithstanding the problem of concealment, the ratio of interbank borrowing to bank capital and surplus in the South was 15.5% during these years, compared to the national average of just over 3%. Banks in secondary banking centres served as intermediaries, on-lending funds borrowed from correspondents in reserve cities to smaller banks in their hinterlands. Specialists considered this desirable under the tiered reserve system of the

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pre-Fed decades 'since it served to increase the amount of loans which could be made on the basis of a given amount of lawful money and thus increased the elasticity of the credit system' (Lockhart, 1921b: 237).

The third insight is that banks occupying central nodes in the US correspondent network provided respondents with liquidity in times of need. Before the Fed's creation, interbank credit lines and liquidity provided by major correspondents through the New York Clearing House Association gave the payment system an elasticity backstop comparable to that offered by central banks during liquidity squeezes (Sylla, 2020; Tallman and Moen, 2012). As Watkins noted: 'Interior banks perforce came to rely on the larger banks of financial centres for services that would have been performed by the central bank in the centralised banking systems of Europe' and 'it was this dependence of country banks on city banks . . . that the importance of correspondent relations . . . grew' (Watkins, 1929: 6). The Federal Reserve Act of 1913 – passed after years of growing frustration with the US's inelastic currency (Garbade, 2012) – centralised reserves, created a public cheque-clearing infrastructure, and established a mechanism for monetising commercial paper. In the years that followed, Fed officials made considerable (albeit laborious and ultimately relatively short-lived) efforts to create a market for bills of exchange (or 'acceptances') which, it was hoped, would circulate as a form of 'auxiliary currency' (O'Sullivan, 2019; Ferderer, 2003; Myles, 2026: 11). Even then, however, the correspondent banking system remained an important source of payment system elasticity in the decades that followed.

Why? For one thing, thousands of US banks did not join the Federal Reserve System, so their city correspondent '[still served] as a kind of central bank' (Finney, 1958: 2).[11] During the Great Depression, a line of credit still constituted 'one of the most important services that correspondents offered [their respondents]' (Richardson, 2006: 9). For another, Fed rules governing what types of financial instruments were eligible at the discount window meant many of the assets banks held could not be used for that purpose (Beckhart, 1932). As Demmery (1924: 299) remarked: 'Even in times of stress when credit is tight and relief imperative, the correspondent banks can often take care of most of their country banks' needs', and when required they can even 'secure aid from the Federal Reserve banks' on their behalf. Finally, enduring limitations on bank branching meant that most US banks had to maintain correspondent relations in New York to access the country's main money markets, namely the call loan market, the commercial paper market, and the acceptance market. Regarding the latter, the biggest New York correspondents were leading holders of acceptances, the main providers of acceptance credits, and major shareholders in the discount houses created to act as market makers for these new instruments, so interior banks were largely reliant on them to participate in the market (Brown, 1931; Foulke, 1931; Eichengreen and Flandreau, 2012; Mitchener and Richardson, 2019; Myles, 2023).[12]

There were substantive differences between correspondent credit lines and the Fed's LOLR function. Despite being well positioned to lend to respondents thanks to their close monitoring of their financial health, correspondents could cancel credit lines or tighten collateral requirements during crises; and, if a large correspondent came under stress, the bankers' balances they held lost the liquid quality of central bank reserves (Richardson, 2007b). Furthermore, as research on banking panics during the Great Depression shows, respondent withdrawals from large correspondents affected the latters' ability to lend (Mitchener and Richardson, 2019), whereas the Fed's lending capacity was in theory limitless. Nevertheless, historical studies indicate that major US correspondent banks played an important role in providing the payment system elasticity ensuring the efficiency of cash clearing and reserve management, offsetting temporary payment imbalances arising from economic specialisation and seasonality, and providing LOLR-like services, both before and after the Fed's creation.

Cross-border correspondent banking relationships involve foreign exchange and political risks, multiple currencies, and diverse regulatory regimes, so are inherently more

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complex than domestic ones. Yet, like the US's highly fragmented domestic banking system, today's global banking system remains decentralised. Moreover, despite the institutionalisation of central bank swap lines in recent decades, no global central bank holds comprehensive regulatory or monetary authority. Finally, just as New York banks' relied on finance bills drawn on European – especially London – correspondents to manage seasonal trade-related liquidity volatility before the Fed's creation (e.g., Goodhart, 1969), the global banking system and the correspondent networks that underlie it must manage similar payment imbalances. Studying the form, purpose, and scope of cross-border interbank lending in specific historical and geographic contexts might therefore deepen our understanding of the changing ways in which global correspondent banking made the CBPS infrastructure elastic. To illustrate these dynamics, the next section examines how early twentieth century changes to international trade finance procedures reshaped the London-centred global payments structure and the nature of the interbank relationships that comprised it.

Trade finance procedures and correspondent banking network dynamics

In the early twentieth century, the London-based global correspondent banking network expanded dramatically. Between 1901 and 1913, the number of foreign banks with a correspondent connection in London increased from 1,324 to 2,194 (+65%) according to the *Bankers' Almanac* – a yearbook published since 1845 in which banks could report their correspondents.[13] By 1920, that figure stood at around 2,510, and five years later the number of connections peaked at 3,593 before falling to 3,347 in 1930. This dramatic growth of London's total cross-border connections was outstripped by that of banks like Midland Bank, one of Britain's main clearing banks. In 1900, Midland had 45 overseas respondents but by 1914 this number increased to 174. By 1920, this figure had ballooned to 861 before reaching 1,136 in 1925 (the number of cities and countries in which it had respondents increased by 55% and 34% respectively between 1920 and 1925).[14]

These changes in the London-based cross-border correspondent banking network in the early twentieth century signal major shifts in the global payments infrastructure and demand an explanation. Several factors – including trade and investment flows, new bank creation, and shifts in cross-border interbank deposits – could account for them. Yet, given the historic use of bills of exchange as instruments of both payment and credit, and the fact that international trade finance (ITF) 'has for a very long time been "bread and butter" business to the correspondent banker' (Wilkins, 1993: 19), it is reasonable to ask if ITF played a role in these network dynamics.

Because international trade takes time and often involves parties unknown to one another, it relies on bank intermediation. Exports often demand payment on dispatch to reduce risk and working capital needs, and importers avoid payment before receiving goods for the same reasons. Traders therefore depend on banks to provide liquidity during the transaction and ensure final settlement.[15] Two of the most important bank-intermediated ITF techniques are documentary collections and documentary credits (Niepmann and Schmidt-Eisenlohr, 2017). Contemporary handbooks define the documentary collection as 'a method of payment where the sellers' and buyers' banks assist by forwarding documents to the buyer against payment', and state that 'the basis for this form of payment is that the buyer should either pay or accept the draft before they gain control over the documents that represent the goods'. A documentary credit, meanwhile, involves the issuing bank providing a letter of credit – 'a combination of a bank guarantee issued by a bank upon the request of the buyer in favour of a seller (normally through an advising bank) and a payment at sight or at a later stage against presentation of documents which conform to specified terms and conditions' (Grath, 2016: 49–50, 56).

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Although these ITF arrangements resemble centuries-old payment and credit instruments, they have evolved considerably. Alongside the sixteenth-century legal changes affecting bills of exchange described above, the creation of acceptance credits by Dutch bankers in the late seventeenth century marked another milestone (van der Wee, 1977). Acceptance credits consisted in bankers formally undertaking to accept and honour bills of exchange up to a pre-defined amount on behalf of others, effectively lending their creditworthiness for the purpose of enhancing negotiability and lowering interest rates, thereby creating a contingent liability rather than expanding its balance sheet. By the late eighteenth century, they had largely fallen out of use in Amsterdam (Houtman-de Smedt, 1999), but in the early nineteenth century they re-emerged in Britain as a tool of inland – and subsequently international – payments, trade financing, and liquidity provision (Sissoko, 2022a). Indeed, no other instrument better embodies London's monetary and financial dominance during the 'first globalisation' than the bill of exchange accepted by a London merchant bank – the sterling 'banker's acceptance'. As the most liquid financial instrument in the world, the 'bill on London' became the international means of payment *par excellence*, the foremost means of financing global trade, and the main safe asset underpinning the City's main money market (Accominotti, Lucena-Piquero, and Ugolini, 2021). However, in the early twentieth century ITF procedures underwent important changes which, as we will now see, likely affected the shape of the London-centred correspondent banking network and the nature of relationships that comprised it.

In the 1890s, an estimated 90% of the bills circulating in London originated abroad (Clare, 1893). As Spicer explains, prime bankers' acceptances were typically drawn by a foreign entity on a London bank under confirmed or unconfirmed bankers' credits. In the first case, British import merchants obtained a letter of credit from a London accepting house promising to accept bills drawn by exporters under specific conditions. In the second case, importers instructed exporters to draw bills on their London banker without the latter giving a legal undertaking to accept them. British exporters, meanwhile, usually demanded immediate payment using sterling bills payable in London which the overseas importer bought in the local foreign exchange market and remitted. But they had two additional options: they could either draw documentary bills on customers and submit them to their London bank, which forwarded them to its overseas correspondent for collection; or they could present bills drawn on the overseas importer at the *importer*'s London bank for discount (or acceptance and discount) under a letter of credit issued by the *importer*'s local bank accrediting the exporter with its London correspondent (Spicer, 1922; 1926).

Despite enabling a surge in global trade during the 'first globalisation', London-based ITF remained highly concentrated, conservative, and relationship-based. Merchant bankers overwhelmingly extended acceptance credits to merchants and industrialists with whom they had long-term ties (Balogh, 1949). The London merchant banker represented 'a sort of ruler and his perfect knowledge of the market enabled him to guarantee deliberately transactions of whose healthy commercial nature he was perfectly aware, and whose parties he knew to be solvent' (Truptil, 1936: 133). This description is borne out in the accounts of Barings Bank, an eminent merchant banks and the fourth largest acceptor in London (Chapman, 1984: 121). Of the 44 British borrowers listed in its annual commercial credit account report for 1906, only one was an incorporated bank.[16] The vast majority of its 21 main foreign accounts were merchants, or merchant bankers who distributed Baring credit to local merchants (e.g., Berenberg & Co. in Hamburg, Hope & Co. in Amsterdam).[17] Joint stock banks – including commercial banks that filled central banking functions in their respective countries – and governments dominated the list of customers in the separate 'financial credits' statement.[18] Financial credits, which represented over 63% of the £23.3 million in credit lines Barings opened that year[19], were typically accessed using acceptances collateralised by securities, providing liquidity for general purposes such as stabilising the supply of sterling bills in overseas markets

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over the annual trade cycle (Myers, 1931). In contrast to its intimate collaboration with its closest merchant banking correspondents, Barings did not generally deal directly with foreign commercial bank correspondents to finance trade.

The dominance of ITF enjoyed by London's merchant bank oligopoly in the nineteenth century began to weaken when clearing banks began to develop this business. Initially, clearing banks had largely avoided ITF operations requiring intimate knowledge of merchants and '[refrained] from all transactions "the results of which were dependent upon the rise and fall of [commodity prices]"' (1875 Commmittee; quoted in King, 1936: 280–81). However, this began to change in the early 1900s with the adoption of an ITF mechanism British bankers referred to as the 'reimbursement (or reimbursed) credit', which was defined as follows:

> Instead of dealing direct with the foreign exporter or importer, the English bank gives a credit to a foreign bank . . . and the foreign banker uses this credit in favour of its clients. The foreign banker authorises its clients to draw on the London acceptor to whom he gives his guarantee. The foreign banker naturally charges his client a commission and the commission of the English banker is reduced accordingly (Truptil, 1936: 136).

Rather than accepting on behalf of 'private customers', London clearing banks 'ordinarily accepted only on behalf of other banks' (King, 1936: 281). As Balogh notes, they considered revolving reimbursement credit lines to be particularly safe insofar as 'the foreign banks provided the expert service of scrutinising names'. By using correspondent banks as intermediaries, clearing banks vastly expanded their ITF business after the turn of the century, posing a major challenge to London merchant banks' business model. While joint stock clearing banks could accumulate reserves from their other areas of business, merchant banks – whose acceptance liabilities often reached four to six times their capital and reserves – had fewer alternatives (Balogh, 1947: 155).

The potential for broader use of reimbursement credits in London became evident during WWI. Banking experts advising government commissions exploring the shortcomings of Britain's financial system urged banks to be more 'adventurous' by adopting the 'new conception of the functions of a banker', as exemplified by 'the German system of commercial banking' which many believed explained the growth of German foreign trade in the pre-war decades.[20] If British banks abandoned their 'fixed traditions and precedents' and embraced the reimbursement credit, already used in the 'continental school' of banking, they might capture business from German and Austrian banks.[21]

After the war, even the merchant banks increasingly adopted reimbursement credits. Three main factors drove this shift. First, the 'worldwide economic disorder' created by the conflict 'resulted in a rupture of the relationships which had existed [between merchant banks and] foreign merchants and industrialists', disrupting the 'close contact that had originally connected them with certain branches of commerce'. This 'general uncertainty [had] led acceptance houses in many cases to grant their credits only through the intermediary of foreign banks, and with their guarantee'. As a result, these banks became 'more and more like bankers and less and less like merchants' (Truptil, 1936: 136). Second, domestic competition left them little choice. Clearing banks saw ITF as 'a profitable and expanding one in the early part of the decade' and were 'prepared to operate on lower rates of commission' to grow their market share (Diaper 1986: 66).

A third driver behind the expanded use of reimbursement credits was the competitive challenge posed by the rise of US international banking and finance during and after WWI. Because reimbursement credits eliminated the 'particular need to have old-established family connections abroad in order to grant credits from one bank to another' (Truptil, 1936: 136), US banks could rapidly enter the ITF field – and enter the field they did. Before

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the Federal Reserve Act in 1913, nationally chartered banks were barred from foreign branching and from accepting bills of exchange for customers. A few trust companies and state-chartered private banks dealt in acceptances, but only to a limited extent because they could make 'adequate arrangements and tidy profits through their lines of credit with correspondent banks abroad' (Abrahams, 1967: 9). After 1913, both restrictions were lifted, and thanks to the Fed's active promotion of an acceptance market, and to surging demand for ITF during and after WWI, US dollar acceptances overtook sterling acceptances almost overnight (Eichengreen and Flandreau, 2012). Notwithstanding expectations that US banks' foreign branch networks would grow dramatically after the war, this did not transpire.[22] Instead, they 'depended on foreign correspondents willing to open (and guarantee) credits for importers on their behalf' (Myles, 2021: 175–76; based on Phelps, 1927), so it was these correspondent networks that 'enabled American banks to enter the acceptance market' (Eichengreen and Flandreau, 2012: 82). In 1927, a Federal Reserve Bank of New York official estimated that 90% of US banks' foreign acceptance credits were opened through correspondents.[23]

Competitive dynamics – both within the City and between the City and Wall Street – therefore drove the supply of correspondent bank-intermediated reimbursement credits in the 1920s. But demand was high, too – especially in Central Europe, where financial, monetary, commercial, and industrial reconstruction generated enormous working capital needs. So, what changes do we see in the number of correspondent bank connections between London and that region?

Data reported in the *Bankers' Almanac* for benchmark years show that correspondent bank connections between London and Central Europe rose by 208% between 1920 and 1925 before declining by 11% between 1925 and 1930 (GloCoBank, 2026). However, as Table 1 illustrates, leading London merchant banks reported much higher growth in their connections, both by number and geographic spread. Schroders is a striking example: its global correspondent bank connections increased by 431% between 1920 and 1925 and by 515% between 1920 and 1930, with corresponding city-connection increases of 271% and 371%. The figures are even more dramatic for Central Europe, where Schroders' unique correspondent connections rose by 1,211% and its city connections by 750% during the decade. Other banks also recorded above-average growth, and none – except Hambros – experienced the overall decline seen in London during the latter half of the decade. Merchant banks may have underreported connections in earlier years, but these data remain the best available indicator of London's global correspondent banking network dynamics. They confirm that highly specialised merchant banks, which were not known for providing cash clearing services to foreign commercial banks at scale, significantly expanded their declared correspondent connections during this period.

The rise of reimbursement credits marked a major rupture with dominant London ITF practices – a change whose significance was not lost on contemporaries, either in Britain or abroad. As German banking journal *Die Bank* noted in 1930:

> [. . . T]he English deposit banks entered into the acceptance business and their sharp concentration . . . undermined the leading monopoly of the acceptance houses . . . because . . . the technical side of the acceptance business . . . favoured the mightier capital power. Whereas formerly old-established personal connexions between the London acceptance houses formed the basis of a world-embracing re-imbursement business, the less experienced and traditionless large banks introduced a new form of credit, the revolving 'en bloc' credit, which they granted to their banking friends abroad, especially to the large Central European joint stock companies for distribution amongst the latter's industrial and export clientele. The choice to whom the credits should be granted has been transferred to the foreign banks, and only the status and respectability of these banks was of consequence to the accepting banks in London.[24]

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Table 1. Selected London accepting houses' Central European correspondents, 1920–30.

	Central Europe					Worldwide				
London correspondent	1920	1925	1930	Δ 1920/25	Δ 1920/30	1920	1925	1930	Δ 1920/25	Δ 1920/30
J. Henry Schroder & Co.										
Unique respondents	9	113	118	*1156%*	*1211%*	26	138	160	*431%*	*515%*
Unique cities	4	32	34	*700%*	*750%*	14	52	66	*271%*	*371%*
Baring Brothers & Co., Limited										
Unique respondents	14	16	27	*14%*	*93%*	41	35	50	*–15%*	*22%*
Unique cities	8	7	9	*–13%*	*13%*	34	29	33	*–15%*	*–3%*
Kleinwort, Sons & Co.										
Unique respondents	7	66	73	*843%*	*943%*	85	152	163	*79%*	*92%*
Unique cities	5	25	27	*400%*	*440%*	42	71	71	*69%*	*69%*
Seligman Brothers										
Unique respondents	6	24	25	*300%*	*317%*	20	49	52	*145%*	*160%*
Unique cities	5	11	12	*120%*	*140%*	19	29	25	*53%*	*32%*
N. M. Rothschild & Sons										
Unique respondents	4	14	23	*250%*	*475%*	22	36	50	*64%*	*127%*
Unique cities	4	5	9	*25%*	*125%*	22	19	27	*–14%*	*23%*
C. J. Hambro & Sons										
Unique respondents	0	37	26	—	—	83	348	249	*319%*	*200%*
Unique cities	0	17	13	—	—	46	194	137	*322%*	*198%*
Frederick Huth & Co.										
Unique respondents	2	16	17	*700%*	*750%*	43	66	59	*53%*	*37%*
Unique cities	2	13	11	*550%*	*450%*	37	49	42	*32%*	*14%*

Source: GloCoBank Database (Version 30 January 2026); based on *Bankers' Almanac.* Central Europe includes (ISO country codes) AUT, CHE, CZE, DEU, HUN, LIE, LTU, POL, and SVN.

Reimbursement credits provided a mechanism for banks to grow their acceptance business without relying on relationship-based correspondent connections or intimate knowledge of the non-financial firms that relied on them. This meant importers anywhere in the world could now initiate transactions globally through their local bank, which became responsible for information gathering, credit decisions, and collateral management while relying on correspondents in major money centres like London to guarantee final settlement. Reimbursement credits helped merchant banks pursue ITF operations with a much larger group of correspondents without a proportional rise in information-gathering costs, but the same advantage applied to clearing banks. By leveraging their superior organisational and credit-providing capacity and internalising both cash clearing and credit services to a much greater degree, these commercial banks reduced the role of specialised merchant banks in providing CBPS elasticity.

This section reminds us that while ITF may be the 'bread and butter' of correspondent banking, its practice and the types of institutions involved are not fixed. More granular research is needed to clarify the link between ITF procedures and correspondent bank network dynamics described here. Nevertheless, the analysis shows not only that *Bankers'*

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Almanac data capture more than just cash clearing patterns, but that credit practices can be a source of change in the global payment system infrastructure. Using qualitative bank-level archival data, the final section shows that credit constituted an important dimension of bilateral correspondent relationship management and highlights the congruence of cash clearing and credit in the minds of bankers and the business of global correspondent banking throughout much of the twentieth century.

Credit in twentieth-century correspondent banking

In the early twentieth century, negotiating credit lines was central to establishing and maintaining correspondent relations. Archival evidence abounds, but Midland Bank – which for decades expanded its international business through correspondents rather than branches (Holmes and Green, 1986) – offers a particularly telling case. In 1904, general manager, Edward Hopkinson Holden undertook a two-month visit of the US to 'learn more about Midland's existing partners and to establish new correspondents' (GloCoBank, 2023). He visited 24 banks in nine cities across the Northeast, Midwest, and South. Beyond New York, Holden targeted interior banks financing commodity exports that traditionally conducted foreign exchange through New York correspondents. His aim was to persuade them that 'it would be more dignified to keep their account direct with London'.[25]

For Midland's prospective US respondents, a favourable line of credit was essential to open an account. The Corn Exchange Bank of New York conditioned its custom on an unsecured £200,000 credit line, which Holden accepted to secure the business. Similarly, the National Bank of the Republic expressed interest in establishing relations with Midland, noting it could 'make very good safe use' of a £200,000 credit to manage harvest-related financial strain. The Oriental Bank of New York was also sensitive to Midland's overtures, offering to maintain an average balance of £15,000 in exchange for a £50,000 credit line for drawing 60-day bills or 90-day bills secured by commercial paper carrying three good names. It also requested a second £100,000 line 'in case of necessity', to be drawn against stock exchange securities with a 10% margin. Holden agreed, pending headquarters' confirmation.[26]

Adjusting credit line conditions was also a way to retain existing customers. For eample, when New York's Produce Bank requested a new £50,000 unsecured credit line, Holden thought Midland 'might reasonably' grant the request given 'the length of time [the Produce Bank] has done business with us'. In Chicago, he told Bankers National Bank that if it did 'an extended business' with Midland he would help it develop its foreign exchange operations by allowing the bank to accredit its country bank correspondents so they could draw bills directly on Midland rather than through a New York correspondent. In New Orleans, the Whitney National Bank was making less and less use of its Midland account due to the perceived high cost of payment commissions. To reverse this trend and capture all its London business, Midland would have to provide Whitney with a £100,000 generic credit line secured by securities, plus a £100,000 acceptance credit. To win the rest of Whitney's London cash clearing business from Parr's Bank and its letter of credit business from the Bank of Montreal, Holden waived commissions on the current account and provided the requested credits.[27]

The Whitney Bank example suggests that credit line conditions were a key dimension of the competitive dynamics among London correspondents, and further cases confirm this. In New Orleans, Holden learned that the Hibernia Bank had London accounts and credit lines with both Kleinworts and *Crédit Lyonnais*, and that it paid no commission for cash clearing services. Although Holden doubted this, Hibernia had previously 'worried about the commission and ... asked us for terms some time ago' and found that '[Midland's] quotation was not satisfactory'. Holden expressed confidence that Midland could secure 'a

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good share of this account if [it was] reasonable'. Similarly, a representative of Canal Bank – another New Orleans institution – expressed interest in 'throw[ing] the whole of their business through [Midland], keeping a sort of courtesy account with [its other London correspondent, the London Joint Stock Bank]'. As Holden reported, this would require that Midland executives 'extend their terms a little'. Finally, signalling his intent to capture London merchant banks' commercial credit business, Holden objected to Wells Fargo's intention to 'use our branches and at the same time keep their principal account with [merchant bank] Glyns' even though this equated to 'giving Glyns' customers the benefit of our branches' for payment collections. He told Wells Fargo that 'if they chose to reimburse their drafts by an account with Head Office we should be glad to meet them, but if not we could not see our way to place these Offices at their disposal'.[28]

Records from continental correspondent banks confirm that conditions on overdrafts and other credits were central to relationship management in Europe, too. In 1909, the Rostov-on-Don branch of the *Banque de commerce de Volga-Kama* wrote to the *Comptoir national d'escompte de Paris* (CNEP) in London, complaining about the 1/2‰ commission on temporary overdrafts. Because remittances sometimes arrived after its account was debited, the bank acknowledged the need for an overdraft facility but warned that the commission 'would hinder our business with you'.[29] CNEP replied that it could not waive the fee, which it charged 'all of its banking friends without exception' as such overdrafts 'forced [it] to rediscount bills in [its] portfolio'.[30] The following year, when CNEP asked why its account was underused, the *Banque de Commerce* replied that it had rerouted business to London houses that had waived overdraft commission; however, it hinted it would revisit that decision if CNEP eliminated fees on short-term overdrafts and processed documentary collections at 1/80%.[31] CNEP again refused, citing uniform rates for all correspondents[32], but in practice it sometimes departed from this rule. In 1907, its London branch informed the Taganrog branch of the *Banque d'escompte de Saint Petersbourg* that headquarters had authorised a waiver to 'provide additional proof of [its] goodwill' owing to the 'friendly and agreeable relations that [it] had the pleasure of sharing with [the bank]'.[33] Temporary overdrafts also supported foreign exchange operations. In the early twentieth century, the *Banque Sino-Belge* used a 48-hour FRF 500,000 overdraft facility from its Paris correspondent, *Banque Allard*, 'to facilitate currency hedges for its London branch'.[34]

More generic forms of credit also helped European banks maintain good correspondent relations. For instance, in 1912, the Yokohama Specie Bank asked French bank *Crédit Lyonnais* (CL) for a FRF 1 million credit line. Internal debates ensued over why the Specie Bank needed so much franc liquidity, with some speculating it planned to immobilise it in Chinese industrial investments.[35] Nevertheless, because competitors had granted similar requests and CL feared 'missing out on this operation', it agreed to provide a FRF 500,000 credit line collateralised by commercial paper and a FRF 500,000 unsecured overdraft facility.[36] Although CL refused a later request to increase the line, it maintained the existing facility, noting it was 'very much in [its] interest to maintain good relations with the Specie bank since [it] relied on it all year long to discount bills drawn on Lyon [silk] import houses'.[37]

Most of the examples presented so far are from the early twentieth century, but sources indicate that cash clearing and credit remained remarkably congruent in correspondent banking for decades thereafter. This congruence was evident in at least three ways. First, bankers considered correspondent credit lines as a crucial part of the payment mechanism. To encourage trade between France and Armenia after WWI, the *Banque de l'Union Parisienne* (BUP) helped the *Banque Russo-Asiatique* obtain a FRF 10 million credit line in Paris 'for the payment of merchandise imports'.[38] Around the same time, due to Canada's large trade deficit with the US and a ban on gold exports, National City Bank established credit lines for Canadian correspondents so that importers could pay US exporters.[39] In 1928, J.P. Morgan & Co. wrote to BUP that it was 'desirous of assisting you in

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so far as possible in extending your commercial business', and extended a $250,000 overdraft credit that BUP made available to another French bank, the *Crédit Havrais*, for payments to US cotton exporters under revocable sight credits.[40] After WWII, BNP proposed a payment treaty with Iran involving reciprocal credits to make cash payments to exporters in both countries, with trade expected to balance annually, eliminating the need for final settlement.[41] In 1958, the *Banque belge et internationale en Egypte* criticised Egyptian government plans to impose stamp duty on temporary overdrafts, arguing that 'they do not represent veritable advances and are merely the result of handling everyday transactions that [we] carry out with correspondents'.[42] In 1959, East Germany's central bank, the *Deutsche Notenbank* (DN) announced it was negotiating credit facilities with a group of Swiss banks to pay for imports.[43] In 1963, the *Banque commerciale pour l'Europe du Nord* (BCEN) described bills drawn by exporters under confirmed irrevocable letters of credit as being 'assimilable to cash settlement against shipping documents' insofar as exporters were relieved of any contingent liability and received 'definitive' payment upon shipment.[44] That same year, BCEN granted the DN three revolving credit lines – FRF 3.6 million, £2 million, and $7 million – to 'finance purchases of merchandise' from France, the Sterling Zone, and other countries in the Western Hemisphere.[45] In the early 1980s, Belgium's *Société Générale de Banque* (SGB) published guides for corporate clients describing documentary collections and credits as a 'payment technique' to help importers and exporters 'pay and get paid'.[46]

Second, the congruence between cash clearing and credit was evident in regulators' vision of payment system modernisation in the 1960s and 1970s. As international trade and financial flows grew, banks struggled to manage the growing volume of paper-based settlement and trade credit orders from correspondents (Schenk, 2023). Institutional reforms and the information and communication technology revolution ostensibly diminished credit's role in clearing and settlement – especially after the 1974 Herstatt crisis exposed the extent of counterparty risk in correspondent account clearing (Mourlon-Druol, 2015). Yet regulators continued to treat cash clearing and credit as two sides of the same coin. In the early 1970s, the Federal Reserve Bank of New York's vice-president eagerly awaited the advent of a 'computerised multilateral payments mechanism' (Schenk, 2023: 292), but he also saw a need to 'harmonise such other matters bearing upon international banking operations as may seem appropriate' including 'the format and terminology of negotiable instruments employed in international financial transactions'.[47] Efforts to address this challenge led to the founding of the Society for Worldwide Interbank Financial Telecommunications (Swift) in 1977. Previously, payment messaging relied on non-standardised 'free text' prone to misinterpretation, but Swift introduced a global standard for payment messaging that reduced operational risk and eliminated errors while improving efficiency and offering greater security and reliability than postal services or telex (Scott and Zachariadis, 2012). By enabling both the transmission of cash settlement orders and information related to letters of credit, securities clearing, FX arbitrage, and corporate treasury management (SWIFT, 2024), Swift's unified infrastructure for correspondent banks' cash clearing and credit operations made the Fed official's vision a reality.

Third, the congruence of cash clearing and credit was reflected in correspondent banks' organisational structures and internal reporting. Historically, activities directly involving respondents – such as nostro and vostro account operations and documentary and acceptance credits – were often managed within a single division. France's CNEP had its 'Foreign Relations' department in the 1910s.[48] The *Banca Commerciale Italiana* had its *Servizio Estero* from the early 1920s (Molteni and Myles, 2025). CL merged its *haute banque*, foreign agency, treasury management, and correspondent relations departments in 1935.[49] In the 1960s, Belgium's SGB had its 'foreign department'. In the 1980s, Deutsche Bank operated a 'Central Office for Planning, Management, Coordination and Control of International

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Commercial Business', overseeing 4,000 correspondents in 184 countries, assessing bank and country risk and monitoring 'money, foreign exchange and commercial credit liabilities'.[50] Bank of America promotional material from 1985 vaunted its comprehensive 'international payment services', which included 'trade finance and multicurrency payment transactions . . . covering all sides to any international transaction', and emphasised the 'added convenience . . . as well as the inherent efficiencies of having it all done under one roof'.[51]

Banks' internal financial reporting on foreign relationships often analysed cash clearing and credit together. For example, French bank BUP's correspondent files from the interwar years tracked its overall relationship with correspondents – and indeed specific correspondent branches – including metrics on account turnover, time deposits, temporary overdrafts, syndicated loans, and guarantees on credits provided to non-financial firms.[52] Decades later, in 1972, a SGB foreign department report reviewed its multi-year relations with foreign banks, examining the number of nostro and vostro accounts, bankers' balances, outstanding export credits, documentary and acceptance credits, and personal visits all together since cash clearing and credit were both pillars of the bank's international development strategy.[53] In the mid-1980s, Deutsche Bank included simple payments, documentary collections, and letter-of-credit transactions when calculating cross-border payment service revenues.[54] Reporting cash clearing and credit operations together suggests that bankers viewed them as distinct but complementary components of their international payment services.

It is tempting to assume credit was only vital for correspondent settlements in earlier eras, when slower communication made it essential for managing temporary treasury imbalances. However, the primary sources mobilised here show that credit remained integral to payment systems and the business of correspondent banking well into the late twentieth century. Large correspondent banks used credit line conditions to attract and retain business, illustrating the importance of cross-selling in reinforcing their core cash clearing operations. Credit also shaped how historical actors conceptualised payment systems and influenced correspondent banks' organisational and communication strategies. This supports the earlier claim that the elastic infrastructure provided by US correspondent banks domestically was mirrored in cross-border correspondent banking and the CBPS.

Conclusion

In recent years, few areas of technological innovation have drawn more attention than payments. While most developments have focused on domestic retail payment services, interest in overhauling wholesale and CBPS is also growing. As the correspondent bank-dominated CBPS infrastructure faces potential disruption by tech firms, a historical perspective offers valuable insights into the issues at stake.

This article began by noting that the limited literature on correspondent banking history distinguishes conceptually between the cash clearing and credit dimensions of payment systems and focuses mainly on the former. It asked whether emphasising credit could enrich our understanding of global correspondent banking and its role in CBPS. By adopting a long-term perspective and drawing on the secondary literature and primary sources from European commercial banks, the article shows the role of credit in turning payment systems into an elastic infrastructure. It also shows how correspondent banks supplied the elasticity needed to address liquidity shortages and support economic activity, both domestically and internationally. Shifts in trade finance practices in the early twentieth century drove qualitative and quantitative changes in the correspondent network underpinning the London-based sterling payment system. During this period,

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credit lines were key to establishing and maintaining correspondent bank relationships. Although technological advances reduced the need for credit in clearing and settlement, it remained vital to relationship management throughout much of the twentieth century. Internal bank organisation, reporting, and bankers' own descriptions of the payment system suggest that cash clearing and credit operations remained entangled until at least the 1980s.

The empirical basis of these insights is admittedly drawn from fragmentary primary sources and a non-representative sample of bank archives spanning a long period. Nonetheless, the historical evidence shows how networked correspondent banks provided elastic infrastructure for both retail and wholesale payments, supporting theoretical claims that banks and non-financial firms form a single, integrated payment system. These conclusions also carry methodological implications. Studies using a narrow definition of payments centred on cash clearing cannot fully capture the nature of correspondent banking or its evolving role in the CBPS. In contrast, integrating credit into the analysis enables a more historical and dynamic understanding of the global payments infrastructure and may help us answer key questions – such as how banking strategy and structure shape global correspondent networks, and how these relationships affect CBPS resilience as a conduit of international liquidity in increasingly market-based financial systems – both in normal times and in periods of crisis. Pursuing such questions might help scholars explain how payment practices and payment system dynamics relate to each other. Although the historical link between cash clearing and credit is not deterministic, the structural power that arises from joining them – however that connection is made – means it deserves our full attention.

This exploration of payment system elasticity offers a historical lens to evaluate the promise and peril of tech replacing global banks as the institutional foundation of the CBPS. The appeal of such a shift often rests on the assumption that payments, money, and banking can and should be unbundled – an assumption that seems to justify some policymakers' encouragement of stablecoins despite their being backed by an inelastic supply of assets. This article indicates that, while unbundling may indeed be feasible at the retail payment and bank level, cash clearing and credit remain intertwined at the wholesale payment system level. However appealing a reduction in global banks' dominance may seem, relying on tech to provide the elastic infrastructure economic activity relies on could amount to jumping out of the frying pan and into the fire.

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Archives.

The Baring Archive (BarArch)
Archives générales du Royaume 2 (AGR2)
BNP Paribas Archive (BNPPA)
Crédit Agricole Historical Archives (AHCA)
Deutsche Bank Historical Archives (HADB)
Federal Reserve Bank of New York Archives (FRBNYA)
Federal Reserve Bank of St. Louis – FRASER Online (FRASER)
German Federal Archives Berlin-Lichterfelde (BABL)
HSBC Group Archives (HSBCGA)
National Bank of Belgium Archives (NBBA)
Société Générale Historical Archives (SGA).

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Notes

1. The Bank of International Settlements defines correspondent banking as 'an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks' (BIS Glossary; quoted in CPMI, 2016: 9). Banks refer to their account with a correspondent as a 'nostro' account while the account they hold for that correspondent is a 'vostro' account.
2. Clearing is 'the process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement'. Settlement, meanwhile, is the 'act that discharges obligations in respect of funds or securities transfers between two or more parties' (Rambure and Nacamuli, 2008: 218, 226). In this literature, credit only really appears in the form of intraday credit, which wholesale payment system providers give counterparties to satisfy their temporary liquidity needs as payments are settled throughout the day (in gross settlement systems) or until they are cleared at day's end (in net settlement systems) (see Zhou, 2000).
3. Manning et al. (2009: 3) state that at its most basic level, a payment is 'a transfer of value between agents' while 'any *organised* arrangement for transferring value between parties is a payment *system*'. Rambure and Nacamuli (2008: 4), meanwhile, define a payment system as 'a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money'. It requires (a) a payment instrument (e.g., cash, cheque, electronic fund transfer, etc.); (b) a set of rules governing the 'procedures, practices and standards' shared by payment service providers; (c) a transfer mechanism; and (d) 'a legal framework to guarantee irrevocable and unconditional finality, that is the discharge of the obligation between debtor and creditor'.
4. Credit refers to all arrangements enabling the discharge of present payment obligations against a promise of future repayment.
5. Initially, if Merchant A received an IOU from Merchant B in exchange for commodities, he could theoretically assign it to Merchant C in payment; however, if Merchant B defaulted, Merchant C had no recourse to collect the debt (only Merchant A was formally recognised as a creditor). After the 1507 transferability reform, Merchant C could legally enforce Merchant B's settlement of the debt. But because Merchant C likely did not have direct dealings with Merchant B in the same way that Merchant A did, it was difficult for him to ascertain the risk involved in accepting Merchant B's debt in payment in the first place. See Kohn (2020: 235).
6. Discounting refers to the sale of an asset at a slight discount to face value, generating non-interest-based profit for the buyer at maturity.
7. Large joint stock banks proliferated earlier on the European continent (i.e., in the decades following 1850), mounting a challenge to private bankers' dominance in international operations (see Cameron, 1991).
8. In 1900, there were approximately 12,000 banks in the US (James, 2015: 89). Federal limitations on interstate branching were only fully eliminated by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Medley, 1994).
9. To put this in perspective, US national banks total cash reserves amounted to approximately $1.5 billion in late 1914. See Annual Report of the Secretary of the Treasury for Fiscal Year 1915, Washington: Government Printing Office, 1916, 544. FRASER Online.
10. This contention echoes both heterodox approaches (e.g., Sissoko, 2025) and more orthodox financial theories postulating that 'both demand deposits and loan commitments offer . . . a very similar service: the provision of liquidity on demand to accommodate unpredictable need' (Kashyap, Rajan, and Stein, 2002: 35).
11. Officials struggled to induce banks to join the Federal Reserve System throughout the 1920s. Of the 30,000 or so banks operating in the US in 1923, just one third (approximately 9,800 banks) were members (Myles, 2021: 185).
12. In 1918, the following commercial banks and trust companies founded the Discount Corporation of New York, the largest discount house in the 1920s: National City Bank, Chase National Bank, Guaranty Trust Company, Bankers Trust Company, J.P. Morgan & Co., Corn Exchange Bank Trust Company, Central Hanover Bank & Trust Company (see Brown, 1931: 82–84).
13. Data from *Banker' Almanac* (various years) collected, compiled, and generously shared by Marco Molteni.
14. Data provided by Dr. Giovanni Pala, ERC Project 'Global Correspondent Banking, 1870-2000', https://glocobank.web.ox.ac.uk/home. The project is ongoing at time of publication so these data are the best available on 28 January 2026. Midland figures for 1900 from GloCoBank (2023).
15. Around 80% of the $19 trillion of international trade in 2019 was made possible by various forms of ITF (Beck et al., 2023), and bank-intermediated trade finance services underpinned 47% of that (Niepmann and Schmidt-Eisenlohr, 2017).
16. 'Mr. Bowden Smith's Reports on Credits', 1906, The Baring Archive (BarArch) 202368.
17. These overseas merchants acted as credit intermediaries, managing secondary accounts for smaller local merchants. For example, Baring's Hamburg correspondent, merchant bank J. Berenberg, Gessler & Co.,

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oversaw accounts for at least 12 other German firms. Joint stock commercial banks that were exceptions to the rule included US banks Chase National and National Park.
18. Among them were Chase National Bank, Bank für Handel und Industrie (Darmstädter Bank), Banco de la Nación Argentina, Banco do Brasil, Banco Salvadoreño, and the Portuguese and Argentinian governments.
19. Excludes £2.2 million in credit lines provided on a joint account basis. Financial credits represented 54 per and 50% of credit lines in 1907 and 1908. See BarArch 202369 and 202370.
20. On German banks' impact on Germany's trade, see Kisling (2023).
21. H.V. Burrell, 'A critical estimation of the services of british banking to the trade of the country at home and abroad', *Journal of the Institute of Bankers*, vol. 38, November 1917: 316–335; H.E. Evitt, 'Foreign reimbursement credits – A plea for extended facilities', *Journal of the Institute of Bankers*, vol. 37, January 1916: 6–19; quoted in Myles (2021: 71).
22. The National City Bank of New York was a notable exception. See Bridges (2024).
23. Kenzel to Strong, 20 July 1928. Federal Reserve Bank of New York Archives (FRBNYA) 440.
24. Synthesis of E. Saxon Napier, 'London Acceptance Houses', *Die Bank* [1930]. BarArch 202918.
25. Edward H. Holden, 'Mr Holden's Report on His Visit to America', 10 September-5 November 1904, 97. HSBC Group Archive (HSBCGA) UK0150-0002.
26. Holden, 'Mr Holden's Report . . . ', 7, 60–1, 100–02.
27. Holden, 'Mr Holden's Report . . . ', 9–10, 45, 89–90.
28. Holden, 'Mr Holden's Report . . . ', 91–3, 97–8.
29. BCVK to CNEP, 16 April 1909. BNP Paribas Archive (BNPPA) 209AH/4.
30. CNEP to BCVK, 21 April 1909. BNPPA 209AH/4.
31. CNEP to BCVK, 6 June1910; BCVK to CNEP, 17.06.1910. BNPPA 209AH/4.
32. CNEP to BCVK, 22 June 1919. BNPPA 209AH/4.
33. CNEP to BESP, 17 August 1908. BNPPA 209AH/4.
34. G. Kurgan, 'L'internationalisation de la Société générale de Belgique', n.d. Archives générales du Royaume 2 (AGR2), Banque de la Société générale de Belgique (BSGB) 2067.
35. CL (Lyon) to administration, 1 February 1912. Archives historiques de Crédit Agricole (AHCA) 98/AH/16.
36. CL (Lyon) to general directorate, 6 February 1912. AHCA 98/AH/16.
37. CL (Lyon) to general directorate, 5 November 1912. AHCA 98/AH/16.
38. Minutes of the BUP Directorate, 3 June 1919; Organisation des importations et des exportations en Russie, Banque Russo-Asiatique, [1919]. Archives historiques de la Société Générale (SGA) 14803.
39. George E. Roberts, 'Un pays créancier', Investment Bankers Association of America, 10 December 1918. BNPA 17CABET1.
40. J.P. Morgan to BUP, 7 December 1928. SGA 1096-2.
41. Lettre de Téhéran, 31 May 1945. BNPPA 14AH522.
42. Meeting Minutes, Central Administration, no. 26, 8 May 1957, 2. AGR2, Banque belge pour l'étranger, 694.
43. BCEN to Státní bank československá, 6 March 1959. Bundesarchiv Berlin-Lichterfelde (BABL) DN 6 5185.
44. BCEN to Deutsche Notenbank, 8 January 1963. BABL DN6 5181.
45. BCEN to Deutsche Notenbank, 31 December 1963 and 31 October 1963. BABL DN 6 5181.
46. Société Générale de Banque, 'Importations-Exportations: comment payer et se faire payer?', 1980. AGR2 BSGB 2081.
47. John G. Clarke, 'Establishment of an International Payments Mechanism, and Related Matters', 26 February 1971. National Bank of Belgium Archives (NBBA) R639. Thanks to Thibaud Giddey for this quote.
48. Various correspondence. BNPPA 209AH/4.
49. Crédit Lyonnais, Rapport annuel de 1935. AHCA.
50. Zentrale Stelle für Planung, Steuerung, Koordination und Kontrolle des internationalen kommerziellen Geschäfts. Historisches Archiv der Deutschen Bank (HADB) ZA18-0002.
51. Bank of America, 'Proposal for International Payment Services', 1985. Swiss National Bank Archive (SNBA) 291.31.
52. See SGA BUP 1096/1 and /2, 1143/1, /2, and /3.
53. Direction de l'étranger/Objectifs 1972, Société générale de banque, February 1972. AGR2 BSGB 2077.
54. Internationales Geschäft – Konzernentwicklung und Koordination, April 1988. HADB ZA/18-0002.

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