The role of Correspondent Banking in International Banking,
by M.H.Bouldoukian

International Financial Institutions have always been adaptive & positively dominant players in world financial markets. In fact Correspondent Banking is the networking of the International banking system.
When banking laws change in various countries of the globe, such as in Eastern Europe, in the Republics of the former Soviet Union, in the MENA countries, or in the peoples Republic of China; when, due to a change in the direction of world trade flows, traditional commercial banking, international banking, and correspondent banking services become indispensable and a high requirement, or, as a result of the skyrocketing increase in the price of oil, generating new riches around the world, investment banking services are looked for, international banks and hence correspondent banks, undoubtedly are flexible to show their presence, where they should be.
This flexibility has existed since more than half a century, whenever banking laws have changed, new laws for mergers & acquisitions have been introduced or major economic policies have changed, dismantling all exchange controls and restrictions and, capital has moved freely across borders.
This evolution, along with the change in the information technology and communications network have created large US, European, Arab and other international banks.
In the United States, prior to the enactment of Riegle-Neal Interstate Banking and Branching Efficiency Act of 1996, world ranking indicated the following position:

TABLE 1

Rank	Bank Entity	12/31/1996
1	Bank of Tokyo-Mitsubishi Ltd., Tokyo, Japan	$648,1
2	Deutsche Bank AG, Frankfurt, Germany	575,0
3	Credit Agricole Mutual, Paris, France	479,9
4	Credit Suisse Group, Zurich, Switzerland	463,7
5	Dai-Ichi Kangyo Bank Ltd., Tokyo, Japan	434,1
6	Fuji Bank Ltd., Tokyo, Japan	432,9
7	Sanwa Bank Ltd., Osaka, Japan	427,6
8	Sumitomo Bank Ltd., Osaka, Japan	426,1
9	Sakura Bank Ltd., Tokyo, Japan	423,0
10	HSBC Holdings, Plc., London, United Kingdom	404,9
11	Norin Chunkin Bank, Tokyo, Japan	375,2
12	Dresdner Bank, Frankfurt, Germany	358,8
13	Banque Nationale de Paris, France	357,3
14	Industrial Bank of Japan Ltd., Tokyo, Japan	350,4
15	ABN-AMRO Bank N.V., Amsterdam, The Netherlands	341,9
16	Societe Generale, Paris, France	341,8
17	Chase Manhattan Corp., New York, United States	333,7
18	Union Bank of Switzerland, Zurich, Switzerland	326,1
19	NatWest Group, London, United Kingdom	317,2
20	Credit Lyonnais, Paris, France	311,7

Note: Assets in billions
Source: The American Banker: www.americanbanker.com
Due to changing strategies of US banks, their market share has greatly improved viz., they have become more aggressive outside the US, by extensive marketing efforts and by establishing their brand overseas.

The largest US Correspondent Banking Activity abroad in 2001 indicated:

TABLE 2

		Deposits Held In		
Bank Entity	Total Assets	Domestic Offices	Foreign Office	Number of branches
Citibank NA, New York, NY	$452	$98	$208.0	277
J.P.Morgan Chase Bk, New York, NY	537	160	120,3	612
Bank Of America NA, Charlotte, NC	551	334	56,6	4,350
Fleet NA Bk, Providence, RI	187	110	22,3	1,709
Bank of New York, New York, NY	78	28	27,0	362
Bank One NA, Chicago, IL	161	81	26,3	804
MBNA America Bk NA,Wilmington, DE	43	26	1,4	3
First Union NB, Charlotte, NC	232	135	12,4	2,143
State Street B & TC, Boston, MA	65	12	26,7	1
Wachovia Bk NA, Winston-Salem, NC	71	42	3,6	790

Figures in Millions
Source: Sheshunoff BankSearch, 2002 Sheshunoff Information Services, a division of
Thomson Financial Media

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In the case of the European Community banks, after harmonization of the banking & financial services rules & regulations in Brussels in 1997, the creation of the European Central Bank in 1998, the launching of the Euro - the Common European Currency in stages (1998-2002), the freeing of the capital movements across borders and the elimination of customs formalities, to improve their competitive power, many have merged & still are merging within the same country and across borders in other members countries of EU, although not with ease.

Within the European Community correspondent bank peers, present the following landscape:

TABLE 3

A valuation discount remains Stock Market Data on the 18th of November 2005					
Bank Name	PER 2006	Net Book Value	Dividend Yield	Year to year growth	Stock Exchange Performance in 2005
BNP Paribas	9,3x	1,86	3,7%	26%	+31%
Credit Agricole	9,8x	1,50	2,8%	27%	+16%
Societe Generale	10,3x	2,26	3,9%	31%	+40%
ABN Amro	10,7x	2,37	4,7%	13%	+14%
Dexia	10,6x	1,93	3,3%	3%	+12%
Credit Suisse	9,8x	1,92	2,7%	17%	+35%
Deutsche Bank	10,8x	1,63	3,1%	58%	+28%
UBS	12,4x	3,67	2,6%	18%	+32%
Banca Intesa	10,2x	1,99	5,4%	35%	+18%
UniCredit	11,8x	2,37	4,6%	6%	+31%
BBVA	12,6x	3,87	3,5%	21%	+18%
Santander	11,4x	1,96	3,8%	8%	+22%
Barclays	10,6x	2,49	4,4%	3%	+9%
RBS	9,6x	1,78	4,0%	6%	0%
HSBC	11,4x	2,13	4,4%	9%	+12%
European Average	11,2x	2.4x	3,7%	17%	+20%

Source: Fox-Pitt Kelton

Reproduced from an article published in the French financial magazine l'Agefi Hebdo of November 25 to Decembre 1 2005, issue No.13, pages 20,21 and 22 written by Alexandre Garabedian.

Regarding Arab banking, specially with mixed shareholding (the UBAF, BAII, BIA, GIB, ABC, SIB, UBK, BACB and others) they have played an important correspondent banking role, since the days of recycling the substantial capital, exported from the Gulf and other areas. With the LDC debt crisis in mid-80s, the few lucky ones that have survived, have focused their activities on niche markets from their Western Headquarters, mainly Paris, London and Frankfurt. Today, the following major Arab banking institutions with a focus to their niche markets are: BMCE with branches in Paris and Brussels, NBE in New York, MBI Gmbh in Frankfurt, the ABC Group in London, Paris, Frankfurt and Milan, BIAPA in Paris, GIB in Bahrain, BACB in London, UBAF, Banque SBA, Audi-Saradar, Fransabank, BLC Bank in Paris, UBAE in Rome and Milan, Byblos Bank in Brussels, UBK in London, Bank of Beirut (UK) Ltd., and JIB in London.

All these banks have embarked now on a strategy of Basics: focusing on Arab and neighboring markets such as Turkey, Iran and Malta and traditional banking practices, such as trade finance, Aid Fund assisted and Credit Agency* supported transactions, guarantees and project finance in the Arab Niche Markets, extending from Morocco to Oman and from Iraq to Sudan including the GCC and shortly, Somalia and Ethiopia.

Competition is taken very seriously by all these players. Niche markets are monitored from their Head Quarters; Representative Offices have been established in most Arab capitals, principally in Beirut, Dubai, Cairo, Amman, Algiers, Casablanca and Istanbul. Besides, this competition from Arab counter parties, international bank competition mainly European, has reappeared in these markets for six reasons:

a-The gradual removal of foreign sanctions on a few Arab countries as a result of political developments.

b-The adoption of more liberal economic principles in these Niche markets. The role of the WB/IMF is commendable.

c-The decrease of political and economic risk in many Arab countries, hence more appetite for risk taking in these Niche markets.

d-The yields generated from trade finance transactions, which are becoming very competitive.

e-The increase in the oil/gas prices has replenished the FC reserves of these countries, hence no exposures to default is expected at least in the short run, in spite of outstanding foreign debts.

f- The historic and geographic proximity to these Niche markets.

* A multitude of Arab Funds assist in infrastructure projects. Also, Credit Agency supported transactions such as SACE, COFACE and ECGD.

Today, in 2006, Arab Banks, in addition to servicing their Niche Markets from Europe, do operate as correspondent banks across the MENA region, although trade flows and investment opportunities are still at their beginning. The following is a list of 25 Arab Banks by Market Capitalization involved in correspondent banking;

TABLE 4

ARAB BANKS by MARKET CAPITALIZATION

Name of the Institution	Country	2004/12/31 Ch (%)	Mkt. Cap. ($) 30/6/2005	Rank 2004	Rank 2005
Al Rajhi Banking & Investment Corp.	KSA	172.79	39615.89	1	1
Samba Financial Group	KSA	182.17	29118.45	2	2
Riyad Bank	KSA	139.96	21512.19	3	3
Saudi British Bank	KSA	149.05	17465.74	4	4
Banque Saudi Fransi	KSA	153.12	14723.21	6	5
National Bank of Abu Dhabi	UAE	240.6	13100.92	10	6
Bank Albilad	KSA	na	12303.34	NL	7
Arab Bank	Jordan	214.75	11563.59	12	8
Arab National Bank	KSA	125.38	11532.72	7	9
Emirates Bank International	UAE	165.20	10754.68	9	10
Abu Dhabi Commercial Bank	UAE	223.56	9728.54	14	11
Dubai Islamic Bank	UAE	326.77	9103.66	21	12
Qatar National Bank	Qatar	109.70	8972.34	8	13
National Bank of Kuwait	Kuwait	19.99	7908.25	5	14
Saudi Investment Bank	KSA	221.76	7644.59	18	15
First Gulf Bank	UAE	500.10	6806.98	32	16
National Bank of Dubai	UAE	72.95	6495.31	11	17
Qatar Islamic Bank	Qatar	339.96	6390.87	28	18
MashreqBank	UAE	124.25	6249.94	16	19
Saudi Hollandi Bank	KSA	105.86	6141.75	15	20
Commercial Bank of Qatar	Qatar	113.15	4815.29	19	21
Union National Bank	UAE	154.36	4424.54	22	22
Doha Bank	Qatar	155.08	4207.86	24	23
Kuwait Finance House	Kuwait	20.40	4169.80	13	24
Bank Al-Jazira	KSA	262.24	3407.82	37	25

Source: Al Iktissad wal Aamal, Sept. 2005

With respect to the ranking of Asian Banks since the Asian Financial crisis in 1997, the following list indicates the top 35 Asian Banks.

TABLE 5

Rank	Bank Entity	Country	Net Income
1	Hongkong and Shanghai Banking Corp	Hong Kong	$4314
2	Woori Bank	Korea	1934
3	Bank of China (Hong Kong)	Hong Kong	1541
4	DBS Bank	S'pore	1486
5	Hang Seng Bank	Hong Kong	1465
6	Hana Bank	Korea	1301
7	Malayan Banking	Malaysia	1002
8	United Overseas Bank	S'pore	994
9	State Bank of India	India	991
10	Oversea Chinese Banking Corp.	S'pore	825
11	Shinhan Bank	Korea	818
12	Bank of China	China	555
13	Kookmin Bank	Korea	538
14	Bank Mandiri	Indonesia	526
15	Korea Exchange Bank	Korea	510
16	ICICI Bank	India	462
17	Siam Commercial Bank Public	Thailand	450
18	Chinatrust Bank	Taiwan	442
19	Cathay United Bank	Taiwan	438
20	Bank of Taiwan	Taiwan	437
21	Bankok Bank Public	Thailand	428
22	China Merchants Bank	China	392
23	Kasikornbank Public	Thailand	372

24	Bank Rakyat Indonesia	Indonesia	363
25	Public Bank	Malaysia	334
26	Taishin International Bank	Taiwan	331
27	Punjab National Bank	India	325
28	International & Commercial Bank of China	Taiwan	321
29	Bank Central Asia	Indonesia	320
30	First Commercial Bank	Taiwan	314
31	Hua Nan Commercial Bank	Taiwan	314
32	Bank Negara Indonesia	Indonesia	314
33	Bank of East Asia	Hong Kong	312
34	Industrial & Commercial Bank of China	China	299
35	Krung Thai Bank	Thailand	268

Note: Financial figures in millions
Source: Finance Asia, Vol. 9, Issue 11, Aug 2005 p.32
The lists will not be complete, if we did not indicate, emerging markets' banking institutions such as Africa's top 25 banks, as published by African business:

TABLE 6

	Last Year's position	Bank Entity	Date of result	Country	Capital	Assets	Profits
1	1	Standard Bank Group	12/04	S.Africa	$5,688	$109,339	$1,815
2	2	ABSA Group	03/05	S.Africa	3,783	56,543	1,242
3	3	FirstRand Bank Group	06/04	S.Africa	3,361	52,895	1,137
4	4	Nedcor Group	12/04	S.Africa	3,068	57,856	333
5	5	Investec	03/05	S.Africa	1,821	28,429	299
6	N.E.	National Bank of Egypt	06/04	Egypt	1,076	22,707	36
7	N.E.	Credit Populaire du Maroc	12/04	Morocco	862	12,555	215
8	N.E.	Banque Marocaine du Commerce Exterieur	12/04	Morocco	688	7,852	90
9	N.E.	Attijariwafabank Morocco	12/03	Morocco	646	6,570,	67
10	N.E.	Banque Misr	06/04	Egypt	535	14,719	31
11	N.E.	Arab International Bank	06/04	Egypt	478	3,696	24
12	N.E.	Banque du Caire SAE	06/04	Egypt	472	7277	8.8
13	7	African Bank	09/04	S.Africa	407	1,137	203

14	N.E.	Banque Nationale d'Algerie	12/03	Algeria	345	7,440	10.8
15	N.E.	Societe Tunisienne de Banque	12/04	Tunisia	321	3,573	4
16	N.E.	Commercial International Bank	12/04	Egypt	310	4,534	91
17	11	First Bank of Nigeria	03/04	Nigeria	286	2,314	82
18	17	Intercontinental Bank	02/05	Nigeria	273	1,539	62
19	N.E.	Sahara Bank Libya	03/02	Libya	269	1,483	18
20	8	Union Bank of Nigeria	03/04	Nigeria	265	3,002	95
21	N.E.	Banque Nationale Agricole	12/02	Tunisia	263	2,440	14
22	6	Mauritius Commercial Bank	06/04	Mauritius	260	2,897	68
23	N.E.	Guaranty Trust Bank	02/05	Nigeria	253	1,399	55
24	9	Barclays Bank of Zimbabwe	12/02	Zimbabwe	242	2,216	43
25	N.E.	Bank of Alexandria	06/04	Egypt	241	6,035	13

Note: Financial figures in millions
Source: African Business October 2005, issue No 313, pp. 18& 19 – cover story
IC Publications, publishers of African Business magazine, www.africasia.com

Services rendered by correspondent banks to the international community:
All banks do perform correspondent banking services. In fact, Correspondent Banking is the vehicle of International Banking and the relationship manager is its driving force.
The services rendered by these correspondent banks can be summarized as follows:

A- International banking transactions
B- Financial market operations
C- Syndications or loan sharing
D- Banking transactions services
E- Market information and other miscellaneous services

International Banking Transactions include three principal services to be rendered: 1) Documentary Letters of Credit; 2) Documentary Collections; 3) Letters of Guarantee, all three subject to Uniform Customs and Practice rules, reviewed and amended almost every decade by the International Chamber of Commerce. All banks worldwide adhere to these rules in their relationships with other banks. Exporters and Importers must have a knowledge of these rules or should be advised by their bankers, to minimize errors, misunderstandings, problems or delays in collecting their funds.
Financial Markets Operations assist counterparties to trade in government and other type of private sector securities. Trading include execution and custodianship. It also includes Securities Management, Treasury management – Global Payment Services, Foreign Exchange & Derivative Services,

Multicurrency Payment Systems, Investment Banking Services. Loan Syndications and Banking Transaction Services that include Nostro / Vostro accounts, check collection, clean bill collection. Finally, Market Information and ancillary services.

The Future of Correspondent Banking

The future of correspondent banking is directly linked to the future of commercial banking and financial services industry in general, and, to a certain extent, to the future of international banking, in particular.

The fundamental forces of change affect commercial banking activities viz., Regulations or New Regulations, Financial Innovation, Market Integration and Information Technology. These forces influence also correspondent banking: services rendered by correspondent banks are areas to reconsider in the future. Market extension, Cross Border Activities, Profitability and Risk factors, as well as, Competition, not only from within the industry, but also from other financial intermediaries are areas to review.

How much a correspondent bank can expand globally? Are there limitations or constraints in the worldwide coverage of services to be rendered? Can a global player continuously spread its international network of relationships?

There are no limitations to international expansion for a global player. If it intends and can do so. Expansion is next to infinity. Strategic alliances and joint ventures can play a big role to global expansion of services. In recent years, the Bank of New York's strategy has been to create linkages with banks in Germany, in the Nordic & Baltic regions, in Australia and New Zealand, in France, Japan, in India and the Netherlands. This strategy can serve to maximize the value of technology, information and innovation in enhancing services to client banks and building up and expanding the network of relationship[1]. Says Guy Hamilton: HSBC has all the necessary building blocks to provide a high quality international capability. Hence, correspondent bank networking can create infinite relationships.

In a recent roundtable on "The future of trade finance", organized by the Electronic Business School of Ireland, Kiltimagh, Ireland, the host, and 3 major international banks' officers from Lloyds TSB Bank plc, London, Ciudad Grupo Santander, Madrid and UBS AG, New York concluded that, this particular market, contrary to what a few banking circles think (limited in the knowledge of banking and international culture) is still growing, particularly in the emerging countries. Scale is important, as is local presence, in getting closer to the customers. Banks must have the ability to customize and structure their trade finance product offerings. Technology is important, not for its own sake; but for the added value it can bring in terms of risk management, cost control and enhanced customer service. Customer relationship is fundamental for success. In the following page,

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[1] Thomas A. Renyi, Chairman and CEO, www.bankofny.com in Global Finance, October 2005, p. 22

the details of this roundtable is presented, with the respectful authorization of the panelist:

In the future, banks should be alert in stopping what I would call " Kiting in trade finance", whereby the L/C instrument is used for capital flight purposes in countries where there are still vestiges of exchange restrictions of various kinds.
With improved corporate governance, with a better knowledge of customers involved in import / export business operations, by limiting corruption appetite at the customs' offices and the utilization of Identification Beam System for container scanning controls etc..., "Fraud" resulting from the connivance of "Importers/customs officer", duo or trio, as well as phony beneficiaries of L/C, can be eradicated. "Fraud" affects negatively on banking relations in general and correspondent banking in particular.
Port authorities must perceive and be aware that such behavior & actions harm the reputation of a country, its financial institutions, its banking system in general, resulting in the loss of confidence in the country, hence capital flight. Authorities should not allow few cronies commit such financial crime for the benefit of a few crooks.
In general, such incidences happen, in state-owned banks, where "control" is loose. The perpetrators must be strongly penalized.

In the future, will there be jumbo loan syndications with jumbo risks as in the 80s, when the increase of the price of the crude oil created instant wealth – deposits – loans and the ensuing international debt crisis, leading to new Basels V and VI?

What about the effect of technological improvements on correspondent banking operations and relationships? Payment systems, such as the SEPA (the Single Euro Payments System) and clearing systems? Will there be exciting new developments in the use of SWIFT Net, the CLS, Checks or Supply Chain Management?

In the future, what will be the effect of the disappearance of commodity houses and traders on correspondent banking? Wool traders? Metal traders? Sugar traders? The Hanseatic League at one time counted 200 members. How many are they now?

In the future, how will the introduction of Basel II affect correspondent banking relations between banks and which banks will be shaken and will exit from the markets.

In the future, how will UCP 600 affect the flow of goods and how will it affect the confidence barometer between the players in the market-traders, shipping and insurance industries?

What will be the effect of the Chinese economy's predominance on international banking relationship and correspondent banking?

Finally, what about the investigations by the minority staff of the U.S. Senate Permanent Subcommittee on Investigations into correspondent banking and its use as a tool for money laundering since November 1999.

Change, in the future, is an imperative and not an option. Competition is dynamic and competitors are equipped with vast resources and state-of-the-art systems and procedures. Expert knowledge of the markets served by correspondent banking requires professional management, not amateurs.

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