An empirical study of international correspondent banking in Australia

Soon-Lim Chan
University of Wollongong


This paper is posted at Research Online.
NOTE

This online version of the thesis may have different page formatting and pagination from the paper copy held in the University of Wollongong Library.

UNIVERSITY OF WOLLONGONG

COPYRIGHT WARNING

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site. You are reminded of the following:

Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material. Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.
CHAPTER SEVEN: INTERNATIONAL CORRESPONDENT BANKING SURVEYS IN AUSTRALIA

7.0 INTRODUCTION

This chapter is the second of three core research chapters. This survey chapter provides a direct and simple statistical analysis on the profiles, operation and management of international corbanking in Australia context. This survey was conducted with all banks in Australia licensed as at October 31 1996 during the period November 1996 to April 1997. The banks were on the list of "Individual Authorised Banks in Australia" provided by the Information Department of Reserve Bank of Australia. Senior Executives involved in international correspondent banking were consulted and interviewed individually or in groups consisting of two or three people according to the structured questions in the questionnaire in Appendix 3. International correspondent banking is handled by the international and national head office(s) of Australian bank groups and the head office of some foreign banks at branch level in Australia. Therefore, interviews and surveys were conducted with corbankers based in head offices of banks. The survey via the questionnaire set out to discover ways that banks in Australia could run corbanking businesses in order to serve the needs and market niches of the respective banks. The analysis of data is mainly by descriptive statistics. It refers to the transformation of raw data into a form that will make them easy to understand and interpret; that is summarizing, categorizing, rearranging and manipulating data to generate descriptive information (Zikmund, 1994). Certain simple interpretation has been carried out - pertinent inferences such as one-sample t test in order to draw conclusions concerning the meaning and implications of the survey and research investigation.
The sequence of this chapter is to present empirical survey results in section 7.1 comprising six sub-sections: 7.1.1 background information of banks, 7.1.2 corbanking services provider (correspondents), 7.1.3 corbanking services users (respondents), 7.1.4 relationships management, 7.1.5 risk management and 7.1.6 their vision on the future of correspondent banking. Main findings will be summarised in section 7.2 and the conclusion will be in section 7.3.

7.1 EMPIRICAL SURVEY RESULTS

The statistical results of the empirical survey in Appendix 4 will be discussed and interpreted in six sub-sections: 7.1.1 to 7.1.6 as follows: (All referring tables are listed in Appendix 4 except with 7 as its first digit are tables in this chapter)

7.1.1 Background Information of Banks Relating to Corbanking

The total population of banks at the date of the survey was 43. The cases were divided for purposes of the survey according to a centralized function or unit of handling international correspondent banking business within banking groups or related banks. The following banking groups or cases are considered data of international correspondent banking: Advance Bank Australia and Bank of South Australia under the Advance Bank case; ANZ Banking Group and ANZ Grindlays Bank under the ANZ Bank case; Citibank national trust and savings associations, and Citibank under the Citibank case; Co-operative Central Raiffeisen-Boerenleenbank B.A. and Primary Industry Bank under Rabo Bank case; Commonwealth Bank and Commonwealth Development Bank under Commonwealth Bank; National Australia Bank and Bank of New Zealand under National Australia Bank; Overseas-Chinese Banking Corporation and Bank of Singapore (Australia) under Overseas-Chinese Banking Corporation case; St George Bank and
St. George Partnership Banking under St George Bank case; Westpac Banking Corporation and Challenge Bank under Westpac Banking Corporation case; Hongkong Bank and Midland Bank under Hongkong Bank case.

In Figure 7.1, the population of banks in Australia was forty-three (43) banks, which consisted of fifteen (15) Australian banks and twenty-eight (28) foreign banks. Foreign banks are further categorized as seven (7) American banks, seven (7) British banks, four (4) Japanese banks, five (5) European banks and five (5) Asian banks.

**Figure 7.1 Classification of Banks**

<table>
<thead>
<tr>
<th>Number of Banks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: RBA Individual Authorised Banks in Australia 31/10/1996</td>
<td></td>
</tr>
</tbody>
</table>
7.1.1.1 Corbanking user and provider (Table 1.3.1).

Banks are categorized into three classes: user, provider, and user and provider (user-provider). Generally, corbanking users are banks, which purchase and use services or products of corbanking. Corbanking providers are banks, which provide and sell their services and products of corbanking. However, users sometimes need to provide limited corbanking services but not actively promote and market their corbanking services, similarly, providers also occasionally need to purchase limited corbanking services although they rely on their worldwide branch networks to provide cross-border services. In practice, all banks are providers as well as users in a different mix of both use and supply characteristics. In this research, users do not actively promote their corbanking services and their role as providers is very limited, whereas, providers only purchase limited or no corbanking services. Users and providers (user-provider) are banks both using and providing corbanking services actively. Furthermore, cross-border activities among global branches of bank groups such as branches of the Standard Chartered bank are not considered as corbanking activities, which should be activities among branch networks.
Figure 7.2 Classification of Correspondents

In Table 1.3.1 in Appendix 4 and Figure 7.2, for all banks in Australia, there were 1 provider (2.3%), 21 users (48%) and 21 provider-users (48%). Australian banks were 8 users (53.3%) and 7 provider-users (46.7%) which consisted of all majors who were providers as well as users, and Non-majors were 8 users (72.7%) and 3 provider-users (27.3%). Approximately 50% of Australian banks were users. Those consisted mainly of regional banks; most regional banks concentrated on regional businesses or domestic markets rather than international businesses. Hence regional banks used limited corbanking services. All majors were interested in developing their corbanking businesses nationally as well as internationally. Westpac Banking Corporation is interested in providing its services to non-majors or regional banks. Regional banks such as Colonial State Bank, St George Bank and Trust Bank of Tasmania are also expanding their businesses overseas, using corbanking as an avenue. The Trust Bank is active in corbanking business comparing with other regional banks since it is the largest bank.
trading business in Australian dollars in Tasmania and the Trust Bank's head of International Services is also an ex-Bank of America corbanker.

Foreign banks were 1 provider (3.6%), 13 users (46.4%) and 14 provider-users (50%) which consisted of: American banks (Table 1.3.6) were 1 provider (14.3%): Citibank, 2 users (28.6%) and 4 provider-users (57.1%), British banks were 3 users (42.9%) and 4 provider-users (57.1%), Japanese banks were 1 user (25%) and 3 provider-users (75%), European banks were 3 users (60%) and 2 provider-user (40%), Asian banks were 4 users (80%) and 1 user and provider (20%). The result was similar to Australian banks which had approximately 50% provider-user and 50% users. American banks like Citibank, Chase bank, and bank of America and British banks such as StandChart and Hongkong bank had 57% provider-users which were rather active in providing corbanking services compared with Japanese, European and Asian banks in Australia. Citibank has a very large worldwide branch network, which does not reduce the bank to relying on its corbanks, but it can also provide a full range of corbanking services. Bank of America and Chase Manhattan Bank were leaders of corbanking services internationally and nationally for regional banks in Australia. The First Chicago NBD Bank's parent is an international leader in corbanking but First Chicago NDB Australia was not active in Australia in terms of corbanking services; thus First Chicago NDB signed a corbanking agreement for StandChart's corbanking services. Japanese banks mainly provided corbanking services to Japanese banks overseas and in Australia if there are no Japanese banks in some locations. Looking at the grouping of foreign subsidiary and branch banks, foreign subsidiary banks are licensed to run retail banking but foreign branch banks are not allowed to accept deposits for less than $250,000 and hence they cannot run retail banking. Therefore, the former is more active in corbanking than the latter in terms of the
number of transactions. In conclusion, almost all banks considered themselves as users but they provided limited corbanking services for certain reasons such as needs and obligations as a member of the international banking community.

7.1.1.2 Number of International Correspondent Banks (Table 1.4.1).

A bank is a corbank if it supplies corbanking services to another bank via a formal corbanking agreement with at least Nostro and/or Vostro accounts between the two banks. Other arrangements such as foreign exchange cover agreements are also considered as establishing corbanking relationships. Banks that may merely exchange test keys, or SWIFT keys for authentication are not considered as having corbanking relationships and therefore correspondent relationships can not be counted.

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>Mean</th>
<th>SD</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>558</td>
<td>1102</td>
<td>1</td>
<td>5246</td>
</tr>
<tr>
<td>Australian</td>
<td>667</td>
<td>1393</td>
<td>1</td>
<td>5246</td>
</tr>
<tr>
<td>Foreign</td>
<td>495</td>
<td>933</td>
<td>1</td>
<td>3500</td>
</tr>
<tr>
<td>Majors</td>
<td>2399</td>
<td>1904</td>
<td>1250</td>
<td>5246</td>
</tr>
<tr>
<td>Non-Majors</td>
<td>51</td>
<td>103</td>
<td>1</td>
<td>350</td>
</tr>
<tr>
<td>American</td>
<td>51</td>
<td>103</td>
<td>1</td>
<td>350</td>
</tr>
<tr>
<td>British</td>
<td>584</td>
<td>1298</td>
<td>1</td>
<td>3500</td>
</tr>
<tr>
<td>Japanese</td>
<td>120</td>
<td>156</td>
<td>3</td>
<td>350</td>
</tr>
<tr>
<td>European</td>
<td>114</td>
<td>196</td>
<td>4</td>
<td>462</td>
</tr>
<tr>
<td>Asian</td>
<td>15</td>
<td>8</td>
<td>6</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Table 1.4.1 in Appendix 4

In Table 1.4.1 in Appendix 4 and Table 7.1, Number of corbanks by using Means of the ten bank groups was: All banks in Australia: 558, Australian banks: 677, majors: 2399, non-majors: 51, foreign banks: 495, American banks: 51, British banks: 584, Japanese banks: 120, European banks: 114 and Asian banks: 15. Australian banks had more corbanks than foreign banks in Australia since Australian banks were at Head Office level, but foreign banks were in their branch level. Australian majors were international
banks, which should usually have larger corbanking networks in order to supplement their branch networks. Many Non-majors or regional banks such as bank of Queensland, Bendigo bank, Metway bank and bank of Melbourne outsourced their international transaction businesses such as foreign exchange and documentary credits to another foreign bank such as bank of America. Asian banks had fewer corbanks since they relied on their overseas branches. All banks in Australia had at least one correspondent and branch or related bank of their correspondents in supranational financial centres. These centres were New York, London, Amsterdam, Frankfurt, Paris, Tokyo, Zurich, Chicago, Hong Kong, Singapore, Bahrain, Luxembourg, and Taipei which were contemporarily characterized as centers whose principal operating currency(ies) in the banking system such as United States Dollar is widely used for international trade and capital transactions; and whose financial infrastructures (primarily the large commercial banks) are developed to the extent that they are entrusted with the management of the world's foreign financial liabilities and assets. Furthermore, All banks in Australia had key accounts with their corbanks or branches in these financial centres within countries having major international transaction currencies for clearings, negotiating and settlements purposes: New York for United States dollars, London for Sterling Pounds, Frankfurt for Deutschmark, Paris for French Franc and Tokyo for Japanese Yen. In conclusion, all banks in Australia held on average 558 correspondents, which was between the numbers of the foreign bank group and the Australian bank group. In general, the Australian banks at Head Office level had more correspondents than the foreign banks at branch levels. Furthermore, all banks had at least one correspondent connection in supranational financial centres, which held accounts for international currency settlements.
7.1.1.3 Number of staff is working in Corbanking Functions/Units (Table 1.5.1).

Job specifications of Corbankers commonly are buying, selling, risk management and relationships management where most operations such as processing works - opening letters of credit - are not usually considered as functions of corbanking, however, limited operation/processing work may be a part of corbanker’s Job specification. Staffs working within these job specifications are then counted as corbankers. Corbanks involved in operations have more corbanking staff than those corbanks that are not involved in operations. Corbanks involved in operation works are summarised in Table 2.5.1.

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>Mean</th>
<th>SD</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>10</td>
<td>31.62</td>
<td>0.25</td>
<td>200</td>
</tr>
<tr>
<td>Australian</td>
<td>6</td>
<td>6.95</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>Foreign</td>
<td>12</td>
<td>38.98</td>
<td>0.25</td>
<td>200</td>
</tr>
<tr>
<td>Majors</td>
<td>17</td>
<td>3.59</td>
<td>14</td>
<td>22</td>
</tr>
<tr>
<td>Non-Majors</td>
<td>2</td>
<td>1.73</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>American</td>
<td>14</td>
<td>23.96</td>
<td>1</td>
<td>68</td>
</tr>
<tr>
<td>British</td>
<td>30</td>
<td>75.06</td>
<td>0.25</td>
<td>200</td>
</tr>
<tr>
<td>Japanese</td>
<td>1</td>
<td>0.5</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>European</td>
<td>2</td>
<td>1.85</td>
<td>0.25</td>
<td>5</td>
</tr>
<tr>
<td>Asian</td>
<td>1</td>
<td>0.89</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Table 1.5.1 in appendix 4

The means of corbankers are summarized in Table 1.5.1 in Appendix 4 and Table 7.2 according to ten bank groups: all banks in Australia: 10 staff, Australian banks: 6 staff which consisted of Majors: 17 staff and Non-Majors: 2 staff, foreign banks: 12 staff averaging from American banks: 14 staff, British banks: 30 staff, Japanese banks: 1 staff, European banks: 2 staff and Asian banks: 1 staff. The number of staff probably is a good indication of the level of activities of corbanking in particular bank groups. Banks in Australia had number of staff between Australian banks and foreign banks. Foreign banks had apparently double the number of staff in Australian banks where it was due to the
international and national nature of businesses of foreign banks and Australian banks respectively. The rationale for different staff numbers between Majors and Non-Majors corresponded to the larger global corbanking network of majors and the small global corbanking network of non-majors. British and American banks on average had a higher number of corbanking staff than other foreign banks because of higher activity level. American banks: Citibank, bank of America, Chase Manhattan bank and British banks: Standard Chartered bank and Hongkong bank were obvious leaders of corbanking in Australia and worldwide. British banks had staff numbers almost double that of American banks. British banks are involved in more operation works than American banks. Japanese, European and Asian banks had about 1-2 corbanking staff because of most staff were charged with corbanking duties as secondary duties. In conclusion, all banks, Australian banks and foreign bank groups had an average of 10, 6 and 12 corbanking staff. British, Majors and American bank groups had 30, 17 and 14 staff respectively where these three bank groups were active in corbanking compared with other bank groups. Moreover, all bank groups had on average 10 corbanking staff. Activists in corbanking were Majors with 17 staff, American bank group with 14 staff but British bank group with 30 staff since British banks involved more operation works.
7.1.2 Service Providers

A general understanding of provision of corbanking services may be arrived at discovered by looking at findings in twelve areas: core business, status of corbanking units and periods of establishing corbanking units, reasons to provide corbanking services, cost or profit centres, appropriation of revenue, classification of banker clients, targeting and number of key banker clients, trends of Vostro account balance, preferential fees and fees for services, reasons for concession fees as discussed as follows:

7.1.2.1 Corbanking as a Bank Core Business (Table 2.1.1).

Thirty-three (33) banks (76.7%) of all banks in Australia did not consider corbanking as one of their core businesses but 10 banks (23.3%) treated corbanking as one of their core businesses. For more detailed results of bank groupings, 12 Australian banks (80%) did not consider corbanking as their core business but 3 (20%) did. 3 majors (75%) graded corbanking as their core business, nevertheless, 1 major -Commonwealth bank (25%) considered otherwise, no non-majors placed corbanking as their core business. 21 foreign banks (75%) did not want corbanking as their core business but 7 foreign banks (25%) did, where 4 American banks (57.1%) considered corbanking as their core business but 3 banks (42.9%) considered otherwise, 3 British banks (42.9%) consider corbanking as their core business, no Japanese, European and Asian banks placed corbanking as one of their core business strategies. In summary, percentages of the Australian bank groups and foreign bank groups in regard to considering corbanking as core business (75-80%) or non-core business (20-25%) was similar. The American bank group and the British bank group in respect of treating corbanking as a core business (43-57%) and not (43-57%) were also approximately the same. In conclusion, 10 banks considered corbanking as a
core business: 3 majors, 4 American banks and 3 British banks shared a similar strategy for developing their businesses beyond the border of Australia.

7.1.2.2 Status of Correspondent Banking Units (Table 2.2.1) and Periods of Establishing Corbanking Units (Table 2.2.2).

The status of corbanking unit within banks is classified into three categories: No specific corbanking unit, a corbanking unit within a department of a bank, and an independent department. Corbanking organisations in the second and third categories, in particular the third mode corbanking unit, had better organisation and infrastructure including a full-time head and staff for corbanking business where bank management saw corbanking at least as an important business if not as a core business. Banks at one of the three statuses may involved in operations depending on the structures of the bank organisation and top management of banks towards developing corbanking and work capacities and work loads of those corbanking banking units.

Figure 7.3 Organisational Status of Corbanking Unit

Source: Table 2.2.1 in Appendix 4
Table 2.2.1 in appendix 4 and Figure 7.3 indicates 5 banks (11.6%) in Australia had independent corbanking departments, 18 banks (41.9%) had corbanking units or functions within the department, and 20 banks (46.5%) had no specific corbanking unit. 13 Australian banks (86.6%) had organised corbanking unit(s), nevertheless, 2 Australian banks (13.3%) had no specific corbanking unit. 11 Australian banks (73.3%) had units within another department and 2 Australian banks (13.3%) had independent departments. Majors had much larger international businesses which created demand for corbanking businesses, therefore, 2 majors (50%) had specific corbanking unit another 2 majors (50%) had units within the institutions department. 9 non-majors or regional banks (81.8%) had units within another department but 2 banks (18.2%) had no specific units.

A majority of foreign banks, 18 foreign banks (64.3%) was without a specific unit since most foreign banks considered corbanking just as a supporting function. 10 foreign banks (35.7%) had specific units. 7 banks (25%) had corbanking units within another department and 3 banks (10.7%) had independent departments. 5 American banks (71.4%) considered corbanking to be one of their important businesses. Bank of America and Chase bank had specific corbanking units within a department, and 2 American banks (28.6%) had no specific units. 3 British banks (42.9%) had independent corbanking units such as Hongkong bank and Standard Chartered bank which were leaders of corbanking in Australia, but 4 British banks (57.1%) had no specific corbanking unit. No Japanese and Asian banks had a specific corbanking unit. Both bank groups apparently treated corbanking as a part of operations such as international clearing and opening letter of credits. 3 European banks (60%) had specific corbanking units within another department, however, 2 European banks (40%) had no specific corbanking units. In conclusion, those banks had units for corbanking, which appreciated the importance of
corbanking. Most Australian banks had corbanking units within another department since all Australian banks at Head Office level had to control their worldwide corbanks. Two third of foreign banks had no specific corbanking units but one third had specific corbanking units. Two third American banks had specific corbanking units.

In Table 2.2.2, the period of recognised corbanking functions or units by bank management is the reflection of the development of corbanking in Australia. All banks in Australia had an average of 9.5 years establishment history, the minimal period was 0, [that is just established] and the maximal period was 60 years. The standard deviation was 11.74 years. Corbanking units of Australian banks and foreign banks had been established for an average 14.57 years and 6.79 years respectively, that is Head offices of Australian banks had double the period of establishment of corbanking units of foreign banks. Majors had the longest period on an average 30.5 years, the minimal period was 12 years and the maximal period was 60 years. Westpac Banking Corporation had the oldest corbanking unit. Reasons for the findings of Majors in Australia were due to majors' involvement in international businesses compared with non-majors, which were mainly concentrated on domestic businesses. American banks had the oldest corbanking units, on average 11.71 years with the minimum just established, and the maximum the 30 years of the bank of America. The bank of America always treats corbanking as one of its core businesses. Corbanking units' average age of British banks was 2.5 years (SD 3.36), Japanese banks were 9.25 years (SD 0.96), European banks were 1.2 years (SD 2.17) and Asian banks were 9.4 years (SD 0.9). In conclusion, the mean age of corbanking units of banks in Australia was about 10 years ranging from just established to 60 years of the oldest Westpac banking corporation. The oldest corbanking unit of the foreign bank group was Bank of America.
7.1.2.3 Reasons for Banks to Provide Corbanking Services of All Banks in Australia (Table 2.3.1).

Providers are those banks proactive in marketing their corbanking businesses. There are few banks such as America, Chase, StandChart, Hongkong, and New York bank and Corestates bank which have representative offices in Australia and are considered as providers under this definition. Most banks named themselves as users and providers but are actually users but not providers, where corbanking services may occasionally be provided because of operational requirements.

A number of banks considered that providing corbanking services was just a process of banking business development and as a part of operations requirements. There were 24 valid cases and 19 missing cases in answer to this question. Some opinion was the personal opinions of interviewees due to their banks not being proactive providers, that is they were users.

Fifteen (15) reasons for provide corbanking services: growing of bank assets, completing banking services, growing business, reducing competition, customer driven, economies of scale, international strategy, using advantages of the bank’s location, needs and necessity, integrating the bank’s operation, increasing profit, liquidity, reciprocity, risk diversification and selling excess capacity. In Table 2.3.1 in appendix 4, under 0.05 significant rule, the priority of significant reasons were using advantages of the bank’s location (Mean = 2.58, t = 3.42), customer driven (Mean = 2.17, t = -3.29) and completing banking services (Mean = 2.42, t = -2.36). Banks use their location advantages for their overseas banker clients, which are not physically present in Australia. Australian banks have larger local networks such as ATM, branches and payment arrangement that constitute delivery efficiency in Australia for banker clients overseas. Customers
including overseas and local banks expand their business internationally, which push banks to provide corbanking services. The third result of completing banking services is due to providers wanting to supply full services to their clients.

(a) Corbanking Services Provided (Table 2.3a). In Table 2.3a of Appendix 4, Services provided by banks were mainly advisory, clearing, custodian, international syndication loans, trade-related treasury and other special arrangements. Statistical significance services provide by providers for mean below 3 were clearing (Mean = 2.17, t = -3.33), trade-related (Mean = 2.31, t = -2.73) and treasury (Mean = 2.42, t = -2.66). Clearing services were large in number of transactions, which always related foreign exchange-treasury. The amount of trade-related services tend to larger than clearing since these services were usually by commercial firms.

(b) Reciprocal Exchange (Table 2.3b). In Table 2.3b of Appendix 4, Reciprocal exchanges of all banks were mainly maintaining compensating balances, concession fees, providing reciprocal credit, share information, exchange test/Swift key and share technology and information. With seven missing cases, all items of reciprocal exchanges were significant, whereas, exchange test/SWIFT (mean = 1.44 and t value = -8.85) key was the most important and significant item. Others items had the mean greater than 3, that is less important. In conclusion, significant and important reasons for providing corbanking services were the bank's location, customer demands and competing banking services. Clearing, trade-related and treasury services were main sources of income. Exchange test/Swift key was the most usual reciprocal arrangements.
7.1.2.4 Operational Functions Included in Corbanking Units (Table 2.5.1).

Operational functions include functions of bills departments such as processing LC and trade settlements functions of treasury and banking departments such as foreign exchange, issuing bank drafts and transferring funds which are usually rather labour intensive. Each bank group had frequency counts on operational works not included and included. The survey results are summarised as follows:

Figure 7.4 Operational Functions Included/Not included within Corbanking Units

In Table 2.5.1 in Appendix 4 and Figure 7.4, 12 banks (27.9%) of all banks did not, but 31 banks (72.1%) involve operations which were further segmented as follows: 5 Australian banks (33.3%) did not involve operations but 10 Australian banks (66.70%) did participate in operational works. Four majors did not include operational works.
Each major had a distinguished corbanking unit, which apparently had sufficient workload for the unit. This was probably a main reason for those units not including other operational works. Only one (1) non-major: Macquarie bank did not include operation works since it had a correspondent banking department under its Prudential Control in which corbanking staff were merely involved in internal audit and supervision works. Corbanking functions of other non-majors still included operations although many non-majors outsourced their corbanking to foreign banks such as New York, Corestates, America, Chase and Citibank. 7 foreign banks (25%) did not but 21 (75%) did involve in operations. All Japanese and Asian banks participated in operations. All European banks include operations as their corbanking functions except one (1) bank: BNP. 4 American banks (57.1%) did not but 3 American banks (42.9%) did include operations. Most American banks considered corbanking services as a marketing strategy, which generated sufficient workloads for corbankers within American banks. 2 (28.6%): StandChart bank and Midland bank did not but 5 (71.4%) did include operational functions. StandChart was very active in marketing its corbanking services and supported its London head office and worldwide corbanking functions. Corbanking functions and operations of Midland bank were also dealt with by Hongkong bank in Sydney. In conclusion, almost all Australian banks involved operational works except majors. Three quarter foreign banks involved operational works but more than half American banks did not involve in operational works.

7.1.2.5 Corbanking Unit/Function as a Cost or Profit Centre (Table 2.7.1).

Corbanking units could be identified as cost, profit and mix of cost and profit centres. Traditional corbanks classified themselves as cost centres, however, certain banks were not even costed for providing corbanking services. With a greater emphasis on
profitability, contemporary corbanks considered themselves as profit centres in particular making profit via fee incomes. The mixture of profit and cost centres results from the fact that certain corbanking services incurred cost but others may not. Frequency counts on cost, profit or mixture centres of banks in each bank group are summarised as follows:

**Figure 7.5 Corbanking Units As Cost, Profit Or Cost/Profit Centre**

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>0</th>
<th>10</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Majors</td>
<td></td>
<td></td>
<td>10</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Majors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Table 2.7.1 in Appendix 4

In Table 2.7.1 in Appendix 4 and Table 7.5, for all banks in Australia, 24 (55.8%) were cost centres, 10 (23.3%) were profit centres and 9 (20.9%) were a mix of cost and profit centres. For Australian banks, 7 (46.7%), 6 (40%) and 2 (13.3%) were cost, profit and mix of cost and profit centres respectively. 3 major banks (75%) were profit centres, nevertheless, Westpac was a mix of cost and profit centre. For non-majors, 7 (63.6%), 3 (27.3%) and 1 (9.1%) were cost, profit and mixture of cost and profit centres respectively. For foreign banks 17 (60.7%), 4 (14.3%) and 7 (25%) were cost, profit and mixture of cost and profit centres respectively. Citibank and BT considered their corbanking services
were profit centres, whereas 5 American banks (71.4%) had their corbanking services as mix of cost and profit centres. StandChart used its corbanking services as a profit centre, however, 5 British banks (85.7%) treated their corbanking services as cost centres. 2 Japanese banks (50%) considered their corbanking services as cost the other 2 Japanese banks treated corbanking as profit centres. All, 5 European banks (100%) were operated as cost centres. 4 Asian banks (80%) organised their corbanking services as cost centres but 1 Asian bank: Arab bank (20%) was a profit centre. In conclusion, almost 50% of Australian banks were cost centres but 40% of Australian banks were profit centres, others were cost-profit centres. Approximately 60% of foreign banks were cost centres, 25% of foreign banks were cost-profit centres but approximately 14% of foreign banks were profit centres. More than 70% of American banks were cost-profit centres and more than 85% of British banks were cost centres.

7.1.2.6 Appropriation of Revenue among Corbanking and Operation Units (Table 2.8.1).

Appropriation of revenue is classified into three types: split between corbanking and operating units, stayed with operating units only and kept with corbanking units only as shown in Table 2.8.1.

The functions of corbanking units are similar to credit or banking relationships departments whose duties are mainly to establish and monitor corbanking relationships. Corbanking revenue is revenue incurred due to corbanking relationships. Corbanking units do not involve operation works whereas, corbanking services such as advising LC are therefore carried out by operating units. Revenue could be in one of the three ways as discussed above.

For all banks in Australia, 36 banks (83.7%) kept their revenue of corbanking services with their operating units, however, 5 banks (11.6%) split revenue of corbanking services
between its corbanking units and operating units, 2 banks (4.7%) kept their revenues of corbanking services with their corbanking units. For Australian banks, 12 (80%) kept their corbanking services revenue, 2 (13.3%) split revenue between corbanking units and operating units and 1 (6.7%) kept its revenue of its corbanking services. For detail breakdown, 2 majors (50%) split between corbanking and operating unit, other majors included 1 (25%) stayed with operating unit and 1 (25%) stayed with its corbanking unit.

In foreign banking groups, 3 (10.7%) split revenue between corbanking and operation unit, other 24 (85.7%) stayed with operating unit and 1(3.6%) bank: Citibank stayed with corbanking unit. For American banks, Corbanking revenue of 5 (71.4%) kept with operation unit, 1 (14.3%) split revenue between corbanking and operation units, and another one (14.3%): Citibank kept its corbanking revenue with its corbanking unit. 6(85.7%) British banks kept their revenue with operation units but 1 British bank (14.3%) split its revenue between corbanking and operation unit. All (4) Japanese banks and all (5) European banks kept their corbanking revenue with operation units. For Asian banks, 4 (80%) kept their revenue with their operation units whereas 1(20%) split its revenue between corbanking and operation units. In conclusion, most Australian and foreign banks kept their corbanking revenue with their operation units with no appropriation of revenue to corbanking units.

7.1.2.7 Activities of Different Banker Clients (Table 2.9.1).

Business activities or volume with four types of banker clients: foreign banks in Australia, international banks in foreign countries, Australian majors, non-bank financial institutions and regional banks/non-majors are classified as non-active, normal and active. With 13 missing banks and 30 respondents, 18 (41.9%) banks considered foreign banks in Australia as normal bank clients, 21(48.8%) considered international banks in foreign
countries as their active bank clients, 19 (44.2%) considered majors as their non-active bank clients, 17 (39.5%) also considered non-bank financial institutions as their non-active bank clients, and 15 (34.9%) considered regional banks as their non-active bank clients. In conclusion, most international banks in foreign countries were considered as active banker clients, foreign banks in Australia were normal and others were non-active bank clients.

7.1.2.8 Products and Services Generating Income for Providers (Table 2.10.1).
Advisory services, clearing services, custodian services, international syndicated loans, tailor made services, trade-related services, treasury services and others are corbanking services.

For all banks in Australia, 18 (41.9%), 18 (41.9%), 12 (27.9%), 8 (18.7%), 2 (4.6%), 1 (2.3%) bank(s) with 21 missing values considered according to priority clearing, trade-related services, treasury services, custodian services, Tailor-made services, advisory services were their sources of revenue respectively. In conclusion, clearing and trade-related services were the main sources of income of corbanking units.

7.1.2.9 Targeting and Number of Key Banker Clients (Table 2.11.1 and 2.11.2).
29 banks (67.4%) did not but 14 (32.6%) did target key banker clients for all banks in Australia. For detailed breakdown, 10 Australian banks (66.7%) did not but 5 (33.3%) did target banker clients. All majors target key clients because corbanking services are treated as important services not just to support interbanks but also intrabanks. No non-majors targeted key banker clients except one. 19 foreign banks (67.9%) did not but 9 (32.1%) did target key banker clients. 5 American banks (71.4%) did target key banker clients except 2 (28.6%) did not. 3 British banks (42.9%) did target key banker clients and other British banks did not target. No European and Japanese bank targeted key
banker clients since most banks were users or users and suppliers of corbanking services. 4 Asian banks (80%) did target to key clients. In conclusion, most banks did not target banker clients besides all majors and the majority of American and British banks. Average number of key banker clients was 15 banks with standard deviation: 7 banks.

7.1.2.10 Trends of Vostro Account Balance for the Past Ten Years (Table 2.12)

Vostro Accounts also known as due to accounts, that is accounts serviced by a bank-account servicing bank on behalf of another bank-account owner bank that represents funds due to the other bank on demand. Vostro accounts being 'yours' refer to the accounts held in its domestic currency by a bank on behalf of correspondent banks overseas. A Nostro account to one bank may at the same time be a Vostro account to another. Generally, increasing balances were due to increased corbanking activities in which banks had banker clients from underdeveloped countries, nevertheless, decreasing balances might be due to better fund management and technology such as Swift.

Figure 7.6 Trends of Vostro Account for the Past Ten Years

Bank Groups

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>Increase</th>
<th>Decrease</th>
<th>Remain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Majors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Majors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Table 2.12.1 in Appendix 4
In Table 2.12.1 in Appendix 4 and Figure 7.6, for all banks in Australia, Vostro account balances of 16 banks (37.2%) increased, 16 banks (37.2%) remained but 11 banks (25.6%) decreased for the past ten years. For detailed analysis, in Australian banking groups, Vostro account balances of 8 (53.3%) increased, 4 (26.7%) remained and 3 (20%) decreased. Vostro account balances of 3 majors (75%) increased but 1 (25%) decreased. 50% of non-majors with increasing Vostro account balances but other non-majors with decreasing Vostro account balances. 4 American banks (57%) had decreasing balances because their banker clients were effective in managing their funds via communication technology. 3 British banks (42.9%) had increasing balances because of their active banker clients from under-developing countries such as Vietnam. Banks from underdeveloped countries need to retain large balances for settlement purposes because those banks had lower credit rating and would not be able to obtain large credit lines. Most Japanese and European banks' balances remain unchanged. Approximately 50% of Asian banks had increasing balances while 50% also had decreasing balances; the former was due to more business activities but the latter was due to better fund management. In conclusion, balances were closely linked to corbanking activities: increasing balances were caused by more activities and/or less creditworthy banker clients from less developed countries. Decreasing balances were caused more efficient management of funds. The mix of the causes - increasing and decreasing balances - may help maintain the balance. More than 50% of Australian banks had increased balances, more than 40% of foreign banks had maintained the same balances.
7.1.2.11 Opinion of Types of Preferential Fees (Table 2.13.1) and Fees for Corbanking Services (Table 2.14.1).

Four methods used to charge fees were listed as follows: charge full fees, charge lower fees, charge no fee with reciprocal business commitment and charge no fee but with minimal compensating balances without interest payment. The opinion of all banks in Australia was to charge full fee (the significant result was the mean=2.16, and SD=1.48). Most banks in the ten bank groups charged fees, but more than 50% of European and Japanese banks did not charge fees. 4 majors charged fees and 8 non-majors (72.7%) also charged fees. 6 American banks (85.7%), 6 British banks (85.7%) and 3 Asian banks (60%) charged fees. In conclusion, most banks charged fees.

7.1.2.12 Reasons for Concession Fees (Table 2.14a).

Business volume, good relationships, historical relationships, lower risk rating, reciprocal arrangement and other reasons such as package deals are main reasons for charging concessional (lower) fees. In conclusion, the opinion with 24 missing cases is that the business volume is the single most important reason for banks to charge their banker clients at concession fees.

7.1.3 Service Users

Users or buyers of corbanking services are also known as respondents. Most banks are users since a few banks place corbanking as their core business. A general understanding of using corbanking services is gained by findings in eight areas: determinant factors for international correspondent banking relationships, selection criteria of correspondents, reasons for selection locations of correspondents, buying services from key correspondents, corbanking services used by respondents, procedures of selection right
suppliers, one or more correspondents in a foreign country or city and at least one correspondent in major financial centres, reasons of rationalisation of correspondents. The first two areas - determinant factors and criteria - will form the basis for our further modelling in Chapter Eight.

7.1.3.1 Determinant Factors for International Correspondent Banking Relationships (Table 3.1.1).

Eighteen determinant factors in the survey Questionnaire Question 3.1 were identified by literature reviews and exploratory surveys of seven banks. The results as follows which also shown in Table 3.1.1 of Appendix 4 were tested according to ten bank groups, the conditions for significant factors and test value=3 by one sample t test with strong reliability 0.87 Cronbach’s alpha. Conclusive findings will be discussed in chapter 8 regression modelling, whereas one-sample t test results are as follows:

(a) Significant factors for all banks in Australia were: bank size, customer driven, competitiveness, improving efficiency, completing international network, location not physically present, and necessity/needs.

(b) Significant factors for Australian banks were: bank size, customer driven, competitiveness, improving efficiency, location not physically present and necessity/needs. The most significant and important factor was location not physically present.

(c) Significant factors for foreign banks were: bank size, customer driven, improving efficiency, completing international network, location not physically present, and necessity/needs.

(d) Significant factors of majors were: bank size, customer driven, competitiveness, cost saving, improving efficiency, and location not physically presents.
(e) Significant factors of non-majors were: bank size, customer driven, location not physically present and providing one stop banking.

(f) Significant factors of American banks were: bank size, customer driven, competing international network, location not physically present and necessity/needs.

(g) Significant factors of British banks were: bank size, customer driven, location not physically present and necessity/needs.

(h) Significant factors of Japanese banks were: bank size and location not physically present.

(i) Significant factors of European banks were: bank size improving efficiency, and necessity/needs.

(j) Significant factors of Asian banks were: bank size, location not physically present, and necessity/needs. The most significant and important factor was location not physically present.

7.1.3.2 Selection Criteria of Correspondents (Table 3.2.1).

Nineteen selection criteria of correspondents in the Questionnaire were in Appendix 3 were identified by literature reviews and exploratory surveys of seven banks. The results that follow are also shown in Table 3.2.1 of appendix 4. They were tested according to ten bank groups, the conditions for significant criteria and test value=3 by one sample t test with strong reliability 0.8697 Cronbach’s alpha. Conclusive findings will be discussed in chapter eight: regression modelling, whereas one sample t test results are as follows:

(a) Significant selection criteria of banks in Australia were: broad domestic and global branch network, effective account officer, financial strength, formal bank presence, effective and efficient product delivery, linkage to Swift and netting, location, market
Chapter Seven

reputation, operational capabilities, consistent business policy, pricing, range of services, risk rating, compatibility of services, reliability of supply, and technological level.

(b) Significant selection criteria of Australian banks were: broad domestic and global branch network, effective account officer, financial strength, formal bank presence, effective and efficient product delivery, linkage to Swift and netting, location, market reputation, operational capabilities, consistent business policy, pricing, range of services, compatibility of services, reliability of supply, and technological level.

(c) Significant selection criteria of foreign banks were: effective account officer, financial strength, formal bank presence, effective and efficient product delivery, historical relationships, linkage to Swift and netting, location, market reputation, operational capabilities, pricing, range of services, risk rating, compatibility of services, reliability of supply, and technological level.

(d) Significant selection criteria of majors were: effective and efficient product delivery), linkage to Swift and Netting, operating capabilities, range of services, and technological level. The most significant and important criteria were linkage to Swift and netting and operating capabilities both were related to operation works both had the same mean.

(e) Significant selection criteria of non-majors were: effective account officer, formal bank presence, effective and efficient product delivery, linkage to Swift and netting, market reputation, operational capabilities, consistent business policy, pricing, range of services, compatibility of services, reliability of supply, and technological level.

(f) Significant selection criteria of American banks were: effective account officer, effective and efficient product delivery, market reputation, risk rating and reliability of supply.
(g) Significant selection criteria of British banks were: financial strength, formal bank presence, effective and efficient product delivery, linkage to Swift and netting, location, market reputation, pricing, range of services, risk rating, and reliability of supply. The most significant and important criterion was financial strength.

(h) Significant selection criteria of Japanese banks were: formal bank presence, historical relationships, linkage to Swift and netting, location, operational capabilities, reciprocity. The most important criterion was reciprocity.

(i) Significant selection criteria of European banks were: formal bank presence, effective and efficient product delivery, linkage to SWIFT and netting, operational capabilities, range of services, and compatibility of services.

(i) Significant selection criteria of Asian banks were: range of services and compatibility of services both had the same mean.

7.1.3.3 Reasons for Selecting Locations of Correspondents (Table 3.2a).

Having borrowed selection reasons of selection locations of financial centres (Tan and Vertinsky, 1987), eighteen factors were identified as reasons of selected locations of correspondents. These were access to customers, access to a region, costs of banking services, convenient time zone, developing communication link, develop transportation link, established reputation, favourable tax for non-resident, inexpensive support services, low cost of funds, mature and sound legal system, political/financial system stability, pool of expertise in banking and supporting, proximity to banking/financial/commercial/industrial centres, existence a significant number of banks, strategic location, strategic interactions (fund movement) and unambiguous regulation framework.

In Table 3.2a of appendix 4, for all banks in Australia, the most important factor was a location with developed communication link. All Australian banks looked at costs of
banking services, which was consistent with majors. Non-majors considered costs of banking services and access to a region was most important. Developed communication link was considered the most significant and important for foreign bank group and American bank group. Costs of banking services were the most important factor for the British banks. Strategic location was considered the most significant and important factor by the Japanese banks. European banks used developed communication links (mean = 2.00) as the most important factor. Asian banks concluded that the most significant and important factors were strategic location, and developed communication link. In conclusion, all banks in Australia, foreign banks, European banks, and Asian banks considered that a developed communication link was the most important and or significant factor. Nevertheless, other bank groups had diverse views in which cost of services, strategic location, and access to a region were important.

7.1.3.4 Buying Corbanking Services from Key Correspondents (Table 3.3.1).

In Table 3.3.1 of Appendix 4, 34 banks in Australia (79.1%) -13 Australian banks (86.7%) and 21 foreign banks (75%) brought corbanking services from key correspondents. Approximately 85.7% British and 80% European banks purchased corbanking services from key correspondents. Approximately 50% of American banks, majors, Japanese banks, all non-majors and Asian banks purchased from key correspondents. The mean of number of key correspondents was 14 financial institutions with SD = 42 and minimum = 1 and maximum = 250 banks of all banks in Australia with 8 missing cases (Table 3.3.2).

In conclusion, all banks concentrated on purchasing corbanking services from key suppliers. Key correspondents were usually larger international banks with broad domestic and global branch networks and complete range of corbanking services which
were able to provide effective and efficient products and services delivery. Concentration on few correspondents implied good rapports and understanding between correspondents and respondents. Moreover, more than five regional banks outsourced their corbanking businesses to merely one bank.

7.1.3.5 Corbanking Services Used by Respondents (Table 3.4.1).

Six types - advisory, clearing, custodian, international syndication loan, trade-related and treasury services - of corbanking services were used by respondents. The most significant and important one was clearing services (mean = 1.37, t = -12.62) which was consistent with services supplied by correspondents in Table 2.3a.

7.1.3.6 Procedures of Selection Right Suppliers (Table 3.5.1 and 3.5.2).

Figure 7.7 Banks with/without Procedures to Select Corbanks

![Bar Chart]

Source: Table 3.5.1 in Appendix 4
In Table 3.5.1 of appendix 4 and Figure 7.7, 30 banks in Australia (70%) had procedures to select suppliers in which most bank groups - Australian banks (12 banks, 80%), foreign banks (18 banks, 64.3%), majors (4 banks, 100%), non-majors (8 banks, 72.7%), American banks (6 banks, 85.7%), Japanese banks (3 banks, 75%), and Asian banks (4 banks, 80%) had procedures for choosing their corbanking suppliers. Proper procedures to select right suppliers are the systematic and more effective ways to select correspondents. Nevertheless, many banks select their suppliers by their head offices overseas by certain procedures. In conclusion, most banks in Australia had selection procedures for correspondents.

In Table 3.5.2 of appendix 4, for 30 banks in Australia with supplier selection procedures, important items within their procedures are: established policy and procedures, using prices and quality of the products, making objective assessment, reviewing and measuring previous transaction records, fit into corbank culture and looking for any conflicting objectives. 23 banks (76.7%) considered established policy and procedure were important. Other items were such as prices and quality of products (19 banks, 63.3%), and making objective assessment (16 banks, 53.3%) were also considered important. In conclusion, important elements in the selection procedure were: established policy, prices and quality of products, and making objective assessment.
7.1.3.7 One Correspondent or more in a Foreign Country or City (Table 3.6.1) and At Least One Correspondent in Major Financial Centres (Table 3.7.1).

Figure 7.8 One Corbank or more in a Foreign Country or City

In Table 3.6.1 and Figure 7.8, 25 banks (58.1%) out of all banks in Australia in which 10 Australian banks (66.7%) and 15 foreign banks (53.6%) had more than one correspondent in a foreign country or city. 4 major banks (100%) and 6 non-majors (54.4%), more than 50% British, Japanese and European banks, and approximately 43% American and Asian banks had more than one correspondent in a foreign country or city (Table 3.6.1). American banks and Asian banks in Australia are large international banks, which reduce the needs for having correspondents by their large branch network. In conclusion, more than 50% of all banks had more than one correspondent in a foreign country or city except American and Asian banks which had only 43%. 

Source: Table 3.6.1 in Appendix 4
In Table 3.7.1 and Figure 7.9, 38 banks in Australia (88.4%) in which 15 Australian banks (100%) and 23 foreign banks (82.1%) foreign banks had at least one correspondent in major financial centres. All majors, non-majors, European and Asian banks, 6 American (85.7%), 4 British (57.1%), and 3 Japanese banks (75%) had at least one correspondent in major financial centres. Where banks were without correspondents in financial centres this was probably due to their having branches in major financial centres. In conclusion, more than 50% of all bank groups had at least one correspondent in major financial centres.

7.1.3.8 Reasons of Rationalization of Correspondent Banks (Table 3.8.1).

The ultimate aim for rationalization is to improve the efficiency and profitability position of respondents. Many respondents kept large number of correspondents without
economic consideration under traditional corbanking rationale that is expecting to have reciprocal businesses. In regard to modern correspondent banking businesses, respondents need to justify their corbanking position in order to remain competitive and profitable. Reasons cited were: easier communication, reducing costs, simpler currency funding, improving customer services, less documentation, improving efficiency, lower price, rebates and better use of technology. In conclusion, the priority of reasons were lower price (mean = 2.65, t = -5.69), improving customer services (mean = 2.05, t = -5.36), reducing costs (mean = 2.44, t = -2.76) and simpler currency funding (mean = 2.49, t = -2.74).

7.1.4 Relationship Management

The essence of relationship banking as distinct from transaction banking is that it is based on a tripod of client knowledge, shared values and mutual understanding, built up over time. In a sense, transaction finance with its one-off deals is a one-night-stand, which is commonly used in corbanking, whereas relationship finance is a partnership for life. Correspondent relationships between bankers and banker customers are usually long term and therefore it is essential to manage relationships (Buttle, 1996). A general understanding of relationships management is gained by findings in eight areas of this survey: frequency of review corbanks, grading corbanking relationships, advantages of long-term corbanking relationships, establishment of relationships by contracts, credit approval limit, country limit, authority to establish corbanking relationships, and disadvantages of corbanking.
Chapter Seven

7.1.4.1 Frequencies to Review Corbanks (Table 4.1.1).

In Table 4.1.1 and Figure 7.10, frequency to review corbanks is an indication of the monitoring of corbanking relationships by respondents, which can be classified into yearly, semiannual, quarterly and others. Yearly review was the most commonly used frequency for normal healthy relationships not just for correspondents but also for corporate clients. Semiannual and quarterly reviews were usual for active correspondents. Other indicators for frequencies of reviews are credit limits, performance and amounts of transactions in addition to corbanking activities. However, Bank of Melbourne and Bendigo Bank reviewed their correspondents and used biannual reviews. 21 banks (48.8%) of which 7 Australian banks (46.7%) and 14 foreign banks (50%) reviewed their correspondents annually. 3 majors (75%), 4 non-majors (36.4%), 6 American banks (85.7%), 4 British banks (57.1%), and 2 Asian banks (40%) reviewed their
correspondents yearly. Less than 25% Japanese (1 bank) and European (1 bank) banks reviewed their correspondents yearly. In conclusion, most banks reviewed their correspondents yearly, a few banks reviewed their correspondents semiannual and quarterly. Banks reviewed their correspondents under the others category in Figure 7.10 because of some reasons like transactions involving credit risk, amounts of transactions are large, levels of activities and/or performance of correspondents. Two regional banks reviewed their correspondents biannually. Corbanking reviews might be more than once a year.

7.1.4.2 Grading Corbanking Relationships (Table 4.2.1), Number of Grades (Table 4.2.2) and Factors for Grading (Table 4.2.3).

Two main ways to grade corbanking relationships are formal and informal. Formal grading is more effective and precise than informal grading in terms of grading quality of corbanks. Formal grading is organised in a written and systematic form, therefore, the style of the formal grading continues and is preserved with no effect on changes of corbanking staff. However, informal grading is not in written form but verbal, this form of grading will change and not continue while changes of corbanking staff occur. Furthermore, informal grading usually has briefly two grades - favourable and unfavourable. Most banks using informal grading are not active in corbanking. Grading corbanking relationships are useful for discriminating between correspondents and respondents. It also can expedite processes to select banks for providing corbanking services or can accept certain transactions.
Figure 7.11 No Formal Grade or Formal Grade of Corbanking Relationships

In Table 4.2.1 and Figure 7.11, all majors had formal grading system since they had to manage their global correspondent banking system. No Japanese banks had formal grading but they had instructions from their overseas Head Offices regarding credit grading of particular banks. Less than 50% Australian (5, 33.3%), foreign (10, 35.7%), non-majors (1, 9.1%), American (3, 42.9%), British (3, 42.9%), and European (1, 20%) banks had formal grading for corbanking relationships. Non-majors were not active in international banking which caused regional banks not to grade corbanks. Foreign, American, British and European banks tend to grade the corbanking relationships provided by their overseas Head Offices. 3 Asian banks (60%) had their formal grading system. In Table 4.2a in appendix 7, for number of grades, 26 banks (60.5%) had not graded their corbanking relationships. 9 banks (20.9%) graded those relationships into 2 grades. 8 banks (18.6%) graded 3-10 grades (Table 4.2.2).
In terms of factors for grading correspondents from the exploratory survey in Table 4.2.3, fifteen factors for grading correspondents were mainly commitment to do business, competitiveness, service customisation, providing low price products, pricing, range of services, profit, potential business, quality of services, reciprocity, reliability, responsiveness, revenue generating, risk rating and number of transactions. Reliability of supply (mean = 1.41, t = -12.75) was the most important and significant factor followed by responsiveness (mean = 1.68, t = -8.04) and pricing (mean = 1.86, t = -6.93) (Table 4.2.3). Speedy services are always the basic nature of corbanking services, which in fact, require effective and efficient services. In conclusion, less than 50% of all bank groups had formal grading for corbanking relationships except for Japanese banks which had no formal grading at all. All majors had formal grading. Reliability is therefore proved to be an important element in supplying effective and efficient services.

7.1.4.3 Advantages of Long-term Correspondent Banking Relationships (Table 4.3.1).

Major advantages of long term corbanking relationships are: optimised capacity, enhanced marketing efficiency, customer orientation, price stability, and sharing information. In Table 4.3.1, good customer rapport and services (mean = 1.81, t = -8.84) and price stability (mean = 2.40, t = -2.94) were the most important and significant factors. The concept of long-term correspondent banking relationships involves better understanding ways of doing things between correspondents and their clients and therefore cutting down unnecessary delay and wastage. Prices can therefore be quoted and maintained at a lower level with confidence. In conclusion, "good customer rapport and services" was the most important advantage of long-term corbanking relationships.
7.1.4.4 Establishment of Relationships by Contract (Table 4.4.1).

Establishing corporate finance relationships usually requires contracts according to corporate law since those relationships involve risk and granting credit to corporate clients. Most corbanking services do not involve granting credit such as transferring funds and advising letter of credit. Therefore, not all-correspondent relationships require contracts in order to cover credit risk. Relationships established by contracts imply the strength of the relationships, detailed obligations and rights of both parties. Simply exchanging test keys or SWIFT keys for authentication does not constitute corbanking relationship. Whereas, having Nostro and Vostro accounts are the minimal requirements of banker and customer relationships under contract law constituting the definition of customers. Establishing relationships is reasonably categorised by: all by contract, some by contract or/and without contract.

Figure 7.12 Establishment of Relationships with/without Contract

Source: Table 4.4.1 in Appendix 4
In Table 4.4.1 in appendix 4 and Figure 7.12, 30 banks (69.8%) established all corbanking relationships by contracts, 12 banks (27.9%) some by contracts, and 1 banks (2.3%) without contract at all. 12 Australian banks (80%) used contracts to set up all corbanking relationships, but 3 Australian banks (20%) set up some relationships by contracts. 18 foreign banks (64.3%) established all corbanking relationships by contracts, 9 foreign banks (32.1%) established some relationships by contract. Only 1 foreign bank set up all relationships without contracts but may sign a blanket contract with the foreign bank's overseas Head Office. 3 majors (75%), 9 non-majors (81.8%), 5 American (71.4%), 4 British (57.1%), 2 Japanese (59%), 4 European (80%) and 3 Asian (60%) banks set up all their corbanking relationships by contracts. In conclusion, more than 55% of individual bank group used contracts to establish all relationships, and less than 30% of all individual bank group used contracts to establish some relationships, except for Japanese banks (50%) and Asian banks (40%). In short, most banks preferred to use contracts to establish all corbanking relationships besides alternative arrangements.

7.1.4.5 Credit Approval Limit of Corbanking Unit (Table 4.5.1).

Effective controls over credit approval limits - a procedure for approving credit limits - can cut loss and prevent default. The basic forms of credit approval authority are centralised or decentralised. Main advantages for having centralised credit approval are that credit risk can be independently assessed by credit specialist and there is centralised control over all credit approval. The decentralised approval structure has no such advantage.
Figure 7.13 Credit Approval Authority of Corbanks

In Table 4.5.1 in Appendix 4 and Figure 7.13, corbanking units of 25 banks (58.1%) did not have authority to approve credit limits at all but 2 banks (4.7%) had full authority and 16 (37.2%) had restricted authority. 7 Australian banks' corbanking units (46.7%) and 18 foreign bank's corbanking units (64.3%) did not have authority to approve credit limit. The approvals were granted by their credit control and policy units. Corbanking units of 7 Australian banks (46.7%) and 9 foreign banks (32.1%) had restricted authority. More than 50% corbanking units of 6 non-major (54.55%), 4 American (57.1%), 6 British (85.7%), 3 Japanese (75%), and 3 Asian banks (60%) had no authority to for approval except 1 major (25%) and 2 European banks (40%). 40% or more Corbanking units of 3 majors (75%), 4 non-majors (36.4%), 3 American (42.9%), 2 European (40%), and 2 Asian banks (40%) except 1 British (14.3%) and 1 Japanese banks (25%) had restricted authority to approve credit lines. Almost no corbanking units had full authority. In short,
most banks made use of their credit department for credit limits approval but granted only restricted authority for corbanking units to approve limit for efficient and urgent needs of services.

7.1.4.6 Country Limit (Table 4.6.1).

A country limit equals the aggregate credit limits of banks in a country. This is an effective method to reduce over exposure to country risk.

Figure 7.14 A Country Limit and the Aggregate Credit Limit

In Table 4.6.1 in Appendix 4 and Figure 7.14, 30 banks (70%) did not maintain equal but 13 banks (30%) kept the equal. A similar pattern was also shown in Australian and foreign bank groups. 10 Australian banks (66.67%) kept but other 5 (33.33%) did not keep a country limit equal the aggregate credit limits of a country. More than and equal to 50% of majors, non-majors, American, and Japanese banks did not maintain the aggregate limits policy except 0 British (0%), 2 European (40%), and 2 Asian banks (40%). In conclusion, 50% or less of most banks kept an position - country limit equals to aggregate
credit limit except all British, 60% European and 60% Asian banks which maintained equality. That is, most banks preferred to sacrifice country risk for more business except the British banks.

7.1.4.7 Authority to Establish Corbanking Relationships (Table 4.7.1).

Banks may only allow their parent international Head Offices to approve their corbanking relationships at Head Office level as well as a branch level worldwide such as CBA. This centralises their corbanking functions. Others like the bank of China may allow their Head Offices at a branch level to appoint their correspondents.

Figure 7.15 Head Office/Branch Authority To Establishment Of Corbanking Relationships

In Table 4.7.1 and Figure 7.15, 28 banks (65.1%) only allowed their parent head offices to approve correspondent relationships. 15 banks (35%) could appoint their correspondents at branch level. 15 Australian banks (100%) could only approve their correspondents at Head Office level; no branch could appoint correspondents. 13 foreign banks (46.4%) could only have their correspondents appointed by their Head Offices but 15 foreign
branches (53.6%) could appoint correspondents. 4 American (57.1%), 1 British (14.3%), 3 Japanese (75%), 5 European (100%) and 2 Asian banks (40%) could have their correspondents appointed by their foreign branches in Australia. However, 3 American (42.9%), 6 British (85.7%), 1 Japanese (25%) and 3 Asian (60%) could only approve their correspondents via their Head Offices overseas. All European banks could appoint their correspondents via their Australian branches. In conclusion, all Australian banks could establish corbanking relationships by their international Head Office. 50% of the foreign bank group allowed its head offices or branches to approve corbanking relationships. 85.7% British banks could only appoint their correspondents by their international Head Offices. 100% of the Australian branches of European banks could appoint their own correspondents; other banks had limited authority to approve corbanking relationships.

Regarding appointment of correspondents, British banks were the most centralised and European banks were the least centralised. For European banks, Head Offices did not interfere Branches' setting up their corbanking networks.

7.1.4.8 Disadvantages of Corbanking (Table 4.8.1).

Major disadvantages of corbanking are: counterparty risk, reluctance granting credit facilities without prior arrangement, lack of flexibility, and different ownership caused correspondents not well motivated to do business, according to exploratory surveys. In Table 4.8.1 of Appendix 4, counterparty risk was the most important and significant disadvantage for all bank groups except there were no significant results of British, Japanese and Asian banks.

7.1.5 Risk Management

Appropriate risk management maintains performance and the profitability level of banks. A general understanding of risk management of corbanking can be gained by findings of
the survey which is classified into three areas: sources and support for corbanking relationships risk assessment, factors of countryparty risk and risk rating and threshold risk rating for corbanking relationships decisions.

7.1.5.1 Sources of Support for Corbanking Risk Assessment (Table 5.1.1&5.1.2).

Appropriate sources used to assess risk are vital to discovering the actual risk in corbanking relationships and transactions. These sources are: rating agencies - Moodys, and S&P, in-house credit teams, other banks (market rumours/gossips), regulators, banker clients management, other clients - corporate clients, external advisers lawyers and accountants and periodicals/publications (excluding report from credit agencies). Overseas Branches understand their local banking scene better than their Head Offices, whereas, combining efforts between branches and Head Offices virtually provides good assessment results on transaction and relationships of corbanking.

In Table 5.1.1 of Appendix 4, all banks rated as important and significant sources: rating agencies (mean = 1.91, t = -6.34) and in-house credit teams (mean = 1.84, t = -6.28) as important and significant sources. Australian banks rated in-house credit teams and then rating agencies but foreign banks rated rating agencies and then in-house credit team. Non-majors rated the same results but majors rated in-house credit team as the most significant and important source. American and British banks rated in-house credit teams as the most significant and important sources, followed by rating agencies. European and Asian banks rated rating agencies as the most significant and important source followed by in-house credit teams. The most important but not significant source for Japanese bank were regulators.
In Table 5.1.2, in-house credit teams to assess corbanking risk were classified as branch level, head office level, and branch and head office. 24 banks (55.8%) had in-house credit teams at Head Offices, 11 banks (25.6%) at branches and Head Offices but 8 banks (18.6%) at branch level only. All Australian banks had in-house credit teams at Head Offices and two Australian banks had in-house credit teams at branch level. 11 foreign banks (39.3%) had in-house credit teams at Head Offices, 9 foreign banks (32.1%) at both levels but 8 other foreign banks (28.6%) at the branch level only. All majors had in-house credit teams in their Head Offices and one major had in-house credit teams at both levels. Similarly for non-majors, 10 banks (90.9%) had in-house credit teams at Head Offices and one non-major had credit teams at both levels. 4 American banks (57.1%) had teams at branches and Head Offices but 1 bank (14.3%) at Head Office and 2 banks (28.6%) at branch level only. 4 British banks (57.1%) had in-house credit teams at Head Office level.
but 2 banks (28.6%) at both levels. 2 Japanese banks (50%) had in-house teams at both levels. 3 European banks (60%) had in-house credit teams at branch level but the credit teams were mainly for corporate clients rather than corbanking. 4 Asian banks (80%) had credit teams at head offices only.

In conclusion, in-house credit teams and rating agencies were held to be two significant and important sources. In-house credits teams always follow rating agency advice and reports as their major references. Rating agency reports for banks in developed countries or countries with reasonable disclosure requirement are considered to be reliable. All banks put a lot of weight on rating agencies. All Australian banks were at Head Office level which had better structured and resource credit departments compared with foreign banks at the branch or subsidiary level in Australia. Therefore, Australian banks considered in-house credit teams more important than rating agencies since in-house credit reports were provided from the banks their own perspective. Foreign banks at a level below their Head Offices had less organised credit teams for risk analyses and therefore relied more on rating agency reports. American and British banks that are proactive in corbanking, for example the bank of America, Chase and StandChart place corbanking as one of their core businesses. Therefore they had resources to set up in-house credit teams like the bank of America’s Sydney office where there is a group of risk management staff to assess risk rating of Australian banks, Asian banks and New Zealand banks under financial institutions for Asia. They still use rating agency reports as valuable references. European and Asian banks placed their corbanking businesses in a supporting role and very little works is done on risk analysis of corbanking risk. Therefore, they rely heavily on rating agency reports.
7.1.5.2 Factors of Counterparty Risk (Table 5.2.1).

Counterparty risk is the single most important disadvantage in corbanking relationships as concluded in paragraph 7.2.4(8). Eleven factors used to identify counterparty risk are: supervision of regulators, status of banks in the banking system, political support, asset quality, performance, funding, liquidity, capitalisation, market risk, confidence and external support.

In Table 5.2.1, Asset quality (mean = 1.74, t = -11.88) and performance (mean = 1.93, t = -9.97) were the two most significant and important factors for assessing counterparty risk for all banks in Australia. However, majors looked at market risk (mean = 2.00, t = -399) as the most significant and important factor. Non-majors considered supervision (mean = 1.57, t = -4.8) and status of banks (mean = 1.57, t = -4.8) to be significant and important factors. American and British banks treated asset quality and liquidity as most significant and important factors. Japanese banks stress on liquidity and confidence. European banks took a single performance (mean = 2.00, t = -499) factor as the most important factor. Asian banks stressed asset quality and supervision as important and significant factors. In conclusion, asset quality factor was the overall most significant and important factor to determine counterparty risk. There was a close linkage between good quality asset and good performance. Majors looked at market risk to safeguard themselves. Non-majors went to fundamental requirements - supervision and status equivalent to reputation - as their determinant factors for counterparty risk. American and British banks were in line with all banks treating asset quality as the most important factor but worrying about liquidity. Japanese banks shared the same view. European banks looked at performance, which had implications for asset quality generating high profit. Asian banks agreed with
the overall determinant - asset quality - but put more weight on supervision like the lender of the last resort.

7.1.5.3 Risk Rating and Threshold Risk Rating for Corbanking Relationships Decisions (Table 5.3.1 and 5.3.2).

Risk rating of financial institutions has a crucial impact on establishing corbanking relationships. Risk rating classification indicates the extent of risk which financial institutions were willing to bear while making any long-term relationships decisions and short-term transactional decisions. Risk grading definitely facilitates making corbanking relationship decisions. The threshold risk limit or grade of a bank is the permissible risk grade for banks to have business deals [either relationships or transactions] with another bank. Not all banks have such limits.

In Table 5.3.1, 25 banks (58.1%): 7 Australian (46.7%) and 18 foreign banks (64.3%) classified risks of financial institutions but 18 banks (41.9%): 8 Australian (53.3%) and 10 foreign banks (35.7%) did not. 60% and more of Majors, American, British, European, and Asian banks did classify bank risks. Less than 36% of non-majors and Japanese banks allocated grades of risk to banks. In conclusion, more banks preferred to classify the risk of their counterparty banks in order to standardise the process for making decisions.

In Table 5.3.2, 31 banks in all banking groups (72.1%): 9 Australian (60%) and 22 foreign banks (78.6%) had a threshold limit or grade for establishing relationships. All Japanese and Asian banks, 3 majors (75%), 5 American (71.4%) and 5 British banks (71.4%), 3 European banks (60%), and 6 non-majors (54.6%) required the other banks - counterparts - to reach their threshold limit or grade. In conclusion, most banks required other banks to achieve their threshold or permissible limit or grade prior to
establishing relationships and transactions. Banks classified by other banks into an appropriate grade, which have a threshold limit of risk.

7.1.6 Future of Corbanking

These days, correspondent banking is not restricted to clearing and trade-related services, which captures all facets of banking activities corresponding to the financial needs and implications of commercial activities. Thus, understanding the future evolution of commercial activities would be the best basis for exploring the future framework and strategies for correspondent banking. Correspondent banking may therefore be the starting point to search for better co-operation among banks in the form of strategic alliances or joint ventures.

7.1.6.1 Corbanking as an Emerging Strategy (Table 6.1.1).

Traditional corbanking was mainly operational by nature and used to support other banking services inter and intra banks. Modern corbanking is emerging as a strategy in addition to the traditional perspective of corbanking, in order to achieve target profitability in the changing international banking scene.
In Table 6.1.1 of Appendix 4 and Figure 7.17, 26 banks (60.5%) in all bank groups: 8 Australian banks (53.3%) and 18 foreign banks (64.3%) position corbanking as an emerging strategy but 17 banks (39.5%) did not. All majors and 7(63.6%) non-majors considered corbanking as an emerging strategy. More than 70% of American banks (5 banks, 71.4%), British banks (5 banks, 71.4%) and Asian (4 banks, 80%) considered corbanking to be an emerging strategy. 2 Japanese banks (50%) and 2 European banks (40%) advocated corbanking as an potential strategy. In conclusion, most banks considered corbanking as an emerging strategy which could enhance performance and profitability of banks via fee income, lower credit risk, customer orientation and so on.
7.1.6.2 Factors of Corbanking as a Strategy (Table 6.2.1).

Developments of micro and macro banking practices in the factors - technology advance (for examples: internet and imaging technology), regulation, risk reduction (by derivatives), specialisation (for examples: centralised bills services and global payments), globalisation, concentration of services and products, falling compensating balance interest income, outsourcing, full services, strategic alliances, and less people intensive products - are vital to strategic future of corbanking.

In Table 6.2.1 of Appendix 4, technology advance (mean = 1.37, t = -16.29) and globalisation (mean = 1.58, t = -13.33) were the two most significant and important of corbanking as a strategy in the all bank group. Australian, foreign, majors, non-majors, British, European and Asian bank groups were also indicated the same results. American banks urged that Globalisation (mean = 1.14, t = -13) was more important than technology advance (mean = 1.29, t = -9.3). Japanese banks took Globalisation as its single factor for strategy. In conclusion, technology advance was treated as the most important factor by most banks.

7.1.6.3 Hurdles for Development of International Corbanking (Table 6.3.1).

Obstacles to further development of corbanking were: developing services and products; nurturing customer service, satisfying customer needs; motivating human resources; need for training of corbanking staff; better measure performance; developing marketing; improving quality of services and products.

In Table 6.3.1 of Appendix 4, the most important and significant obstacle for Australian bank group, majors, non-majors, American, British, and Japanese banks was quality of services and products improvements. Nurturing customer needs was the most important
hurdle for foreign banks and Asian bank groups. However, European banks considered developing services and products were the most significant and important obstacle. In conclusion, improving quality of services and products were still the most important and basic obstacle for banks in Australia for contemporary as well as traditional corbanking. This was going back to the basics.

7.1.6.4 Long-term Strategies of Corbanking (Table 6.4.1).

Four emerging long-term strategies of corbanking were: cost leadership for at least one product, ‘system focus-high value products’, ‘system focus-high volume’ and long-term customer relationships (Mainelli, 1994).

As in any market, cost leadership is a position worth occupying for at least one player. High-value products in corbanking are also high-service products which contrasted with four short-term strategies - heavy promotion, control of payment systems, use of network and risk differential. This strategy depends on innovative, flexible information systems and rapid systems developments, qualities for which only a few banks are known. High-volume strategies also depend upon effective systems, but are increasingly geared to small payment clearing where transaction costs are a more significant percentage of the payment. Long-term customer relationships are potentially the most rewarding and integrated strategy of all. Become more selective in choosing customers and then get as close to them as possible. By choosing customers with care, by providing high levels of service and by controlling operational costs, price should therefore be adjusted. It is important to have a clear strategy in modern corbanking; being in corbanking for tradition’s sake is less defensible. All of the four strategies depend on four key areas - marketing, information system, performance measurement and quality of services.
In Table 6.4.1 of Appendix 4, all banks, Australian, foreign, majors, non-majors, American, British, Japanese and Asian banks held the most significant and important strategy to be long-term customer relationships. The system focus-high value products was also significant and important to American banks. In conclusion, most banks agreed that having good long-term customer relationships was the most important strategy of corbanking. Long-term customer relationships can be the most rewarding and integrated strategy.

7.1.6.5 Strategic Alliances (Table 6.5.1 and 6.5.2).

Strategic alliances or correspondent alliances or co-operation are examples of collaboration with competitors with a view of securing competitive advantage. Looking at the scene of international banking, strategic alliances are and will be agreements by which banks, operating in entirely different markets and technological environments, will co-operate and form partnerships for clearly defined objectives. (Palmer 1990). Strategic alliances can be considered as a special case of corbanking relationships. In Table 6.5 of appendix 7, 11 banks in Australia (25.6%) had strategic alliances or were willing to have strategic alliances at different levels of alliance relationships. 32 banks in all banking groups (74.4%) had no alliance.

The main objectives for having strategic alliances are share risks, share costs such as new technology, share information such as data base, build global market capabilities, speed innovation and product introduction, structure competition, provide economies of R&D and marketing, jump market barriers, cope with complexities and costs of international banking services and cut exit costs. Table 6.5a concluded that sharing knowledge and experience was the most important reason for all banks (mean=2.35, t=-2.94) including banks with or willing to have strategic alliances. In conclusion, less than 11, 30% in all
bank groups, had strategic alliances or were planning on having strategic alliances. The most important reason was to share knowledge and experience with counterparties in order to provide quality service and excellent performance.

7.2 SUMMARY OF FINDINGS

Findings of the empirical survey are summarised as follows:

7.2.1 Background Information

(1) Almost all banks considered themselves to be users but they also provided at least limited corbanking services. Majors provided more corbanking services compared with the regional bank group. American and British bank groups were more active in providing corbanking services among the foreign bank group.

(2) The all bank group had on average 558 correspondents divided between the foreign bank group and the Australian bank group. Majors held 2,399 correspondents but Asian banks held 15 correspondents. In general, the banks at Head Office level had more correspondents than the foreign banks at branch levels. All banks had at least one correspondent connection in supranational financial centres which locations also held accounts for international currency settlements.

(3) The all bank group had on average 10 corbanking staff. Activists in corbanking were Majors who had 17 staff, American bank group had 14 staff but the British bank group had 30 staff since British banks involved limited operation works. Corbanking was a secondary duty for most bank staff.
7.2.2 Correspondent Banking Services Providers

(1) The 10 banks that considered corbanking to be a core business were 3 majors, 4 American banks and 3 British banks.

(2) Most Australian banks had corbanking units within departments. Approximately 66% of foreign banks had no specific corbanking units. The mean age of corbanking units of banks was about 10 years ranging from just established to the 60 years of the oldest corbanking unit in Westpac banking corporation.

(3) Fifteen (15) reasons for banks to provide corbanking services included bank’s location, customer driven and competing banking services as the chief reasons. Furthermore, clearing and trade-related services were the most significant services. Exchange test/SWIFT keys were chiefly reciprocal exchanges.

(4) Almost all corbanking units of Australian banks are involved in operational work except the majors. In the foreign bank sector 75% banks are involved in operation work except the American banks which had 50% committed to operation work.

(5) 24 banks (56%) were cost centres; other banks were split equally as profit and cost-profit centres. For Australian banks, almost 50% were cost centres but 40% of Australian banks were profit centres, others were cost-profit centres. For foreign banks, Approximately 60% were cost centres, 25% foreign banks were cost-profit centres and approximately 14% foreign banks were profit centres. More than 70% of the American banks were cost-profit centres but more than 85% British banks were cost centres.

(6) Most Australian and foreign banks kept their corbanking revenue with their operation units with no appropriation of revenue to corbanking units.

(7) International banks in foreign countries were the chief and very active clients of corbanking services.
Clearing and trade-related services were the main sources of income for corbanking units in Australia.

14 banks (33%) targeted key bank clients which consisted of mainly foreign banks and majors. The mean target of key bankers was 15 banks.

Banks with increasing *Vostro* account balances were due to greater corbanking activities as well as holding balances from less creditworthy banker clients such as banks from underdeveloping countries. Decreasing balances were due to better fund management and effective communication technologies in order to keep balances at a minimum. 12 foreign banks (43%) maintained about the same balances for the past ten years others split equally increasing and decreasing balances. 8 Australian banks (53%) had increased *Vostro* account balances others split nearly equally maintaining and decreasing balances.

Most banks preferred to charge full fees for providing corbanking services. Most banks charge fees but more than 50% of European and Japanese banks did not charge fees.

The single most important reason for charging concession or lower fees was the business volume.

7.2.3 Correspondent Banking Users

In eighteen determinant factors for international correspondent banking relationships and nineteen selection criteria of correspondents, the one-sample t-test was used to reduce the number of determinant factors. Conclusive findings of those factors will be discussed in chapter 8 regression modelling in which bank size is the most
important factor of corbanking relationships and formal banking presence is the most important criterion of selection corbanks.

(2) Eighteen factors were identified as reasons of selecting locations of correspondents. All, foreign, European, and Asian banks considered developing communication links as the most significant and important factor, nevertheless, other bank groups had diverse views in which cost of services, strategic location, and access to a region were important.

(3) All banks were concentrated on purchasing corbanking services from key suppliers. Key correspondents were usually larger international banks with broad domestic and global branch networks and a complete range of corbanking services which were able to provide effective and efficient products and services delivery. Concentration on a few correspondents implied good rapport and understanding between correspondents and respondents.

(4) Six types of corbanking services for users were: advisory, clearing, custodian, international syndicate loan, trade-related and treasury services. The most significant service was clearing.

(5) Most banks had selection procedures of correspondents in which important approaches were established policy, prices and quality of products and making objective assessment.

(6) More than 50% of banks had more than one correspondent in a foreign country or city, and a major financial centre.

(7) Reasons for rationalisation of the correspondent system, according to priority, were lower price, improving customer services, reducing costs and simpler currency funding.
7.2.4 Relationships Management

(1) Most banks reviewed their corbanking relationships annually. Few banks reviewed their banker clients according to activities and performance of the relationships.

(2) Less than 50% of ten bank groups had formal grading of relationships except Japanese banks had no grading system but all majors had formal grading. Furthermore, fifteen factors used to grade relationships in which reliability of supply was the most important and significant factor.

(3) Good customer rapport and services were the most important advantage of long-term corbanking relationships.

(4) Most banks preferred to use contracts to establish corbanking relationships.

(5) Most banks preferred to centralise credit approval by credit departments at their Head Office levels, nevertheless, banks still allowed corbanking units to have limited credit authority for efficient delivery of services and products especially there was urgent need for services.

(6) 50% or less of the ten bank groups set their country limit equal to the aggregate credit limits of banks in a country: an effective method of reducing over exposure to country risk where all British, 60% of European and 60% of Asian banks maintained their country limit equals to the aggregate credit limit.

(7) All Australian banks allowed only their Head Offices to approve corbanking relationships. Approximately 50% of foreign banks could approve their relationships either via their branch or their Head Office.
Most banks listed counterparty risk as the most important disadvantage of corbanking.

7.2.5 Risk Management

1. In-house credit teams and rating agencies were the two important sources of support for assessment of corbanking risk. In-house credit teams always use rating agency reports as their main references, in particular for banks from developed countries.

2. Counterparty risk could be identified by eleven factors in which asset quality was the overall most important factor to justify the level of counterparty risk.

3. Most banks required their counterparts to have at least their threshold or permissible limit prior to approves relationships and transactions. Banks classified into appropriate grades usually had the threshold risk requirement.

7.2.6 Future of Correspondent Banking

1. 26 (60%) of ten bank groups, consisting of 8 Australian banks (53%) and 18 foreign banks (64%), believed corbanking to be an emerging strategy which could enhance performance and profitability of banks via fee income, lower credit risk, and customer orientation.

2. Most banks considered technology improvement to be the most important factor for the emerging strategy and one that could effectively facilitate globalisation.

3. Improving quality of services and products was still the most important and basic obstacle to development of international corbanking.

4. Most banks agreed that having good long-term customer relationships was the most important strategy of corbanking.
(5) Less than 30% of ten bank groups had strategic alliances or were planning on having correspondent alliances, which believed sharing knowledge and experiences with counterparties could improve quality services, and thus achieve excellent performance.

7.3 CONCLUSION

The results of the survey can at least trace and draw conclusions from the ways and strategies of banks in Australia that manage international correspondent banking businesses in particular from the perspectives of selling, buying, relationships and risk, and their future. This survey and analysis has no intention of forming an industrial benchmark for corbanking practices and management in Australia but it reflects current practices of corbanking in Australia.

All parties involved in correspondent banking aim to get maximum benefits from the corbanking services in order to serve their needs as intermediaries: movement of money, storage of money, raising funds, protection of value and agency function. Thus they hope to achieve the objectives of their organizations. Six sections of Australian corbanking: background, supplying, using, relationship management, risk management and future of international correspondent banking services used as a framework to study most areas of corbanking management which are the contents of this survey. Corbanking service providers and users are to ensure that customers get the best price and service, maximize benefits of reciprocity, reduce costs and improve efficiency and profitability. Relationships management is mainly to manage a portfolio of banker clients and look after their interests for the long term benefit of correspondents, whereas these also involve mutual benefits of respondents and correspondents (Buttle, 1996). The basic objectives of risk management are balancing risk and reward, creating a balanced portfolio including
country, industry, products, maturity, currency and interests, return on capital, compliance with law and policies, and meeting customer needs with safety.