

Correspondent banking has been the backbone of international finance for over a century. It's the reason a business in Manchester can make a payment to a supplier in Manila, or a company in Frankfurt can hold accounts across Southeast Asia without its bank having a single branch there.

And for most of this time, the system worked well enough.

But the world in which banks are operating today looks quite different from the one that the original model was designed for. Clients are more international, more complex, and more demanding. And the question the industry is starting to ask is whether this model was ever built to handle what's being asked of it now.

This article looks at what correspondent banking was designed to do, where its structural limits are becoming visible, and why network models are emerging as a genuine structural evolution.

What Correspondent Banking Was Actually Built to Do

To understand its future and limitations, it helps to understand what this model of banking was built for in the first place. The model is simple. One bank, operating in one market, holds an account with another bank in a different market. When a client needs cross-border services, the two institutions facilitate the transaction through that relationship.

It's a practical solution to a specific problem. Banks can't be everywhere, so they form bilateral agreements with institutions that are. The client gets access to international services, and each bank retains its independence. Best of all, nobody has to build a global branch network to make it work.

For much of the 20th century, this was sufficient. International trade existed, but it was concentrated among larger corporations. And because each relationship was

negotiated independently, banks could be selective about who they connected with and on what terms.

However, things have changed.

Where the Bilateral Model Starts to Show Its Age

The limitations of correspondent banking aren't new, but they're harder to work around as banking clients change.

The fundamental structural issue is that the bilateral model was designed for one-to-one relationships. It wasn't designed for the many-to-many reality that most internationally active businesses now operate in. An SME with subsidiaries in six markets isn't just connecting two banking relationships. It's navigating a web of them, each governed independently, each with its own standards, processes, and timelines.

That creates a specific set of problems that aren't about any individual bank performing badly. They're about what happens in the gaps between institutions:

- Governance sits with each bank independently. So, there's no collective standard for how clients are assessed, onboarded, or served across the network.
- Compliance frameworks don't travel between institutions. As a result, the same client gets reviewed from scratch each time a new bilateral relationship comes into play.
- Reporting isn't coordinated, so the picture each bank holds is always partial.
- Pricing and service standards vary relationship by relationship, with no baseline that clients can rely on across markets.

Rather than individual bank failures, these issues are structural consequences of a model built around bilateral independence rather than collective coordination. And as clients become more sophisticated in what they expect from their banking relationships, these consequences are becoming more visible.

The Scaling Problem Correspondent Banking Can't Solve

Another key issue is that correspondent banking scales by adding more bilateral relationships. So, a bank that wants to serve clients in ten markets needs ten sets of bilateral agreements, ten separate governance arrangements, and ten independent operating standards to manage.

That's manageable at low volume, but it becomes increasingly expensive and complex as the network grows. And it doesn't actually solve the coordination problem, because each new bilateral relationship is still independent of every other

one. This means that you can have a hundred banking relationships and still have no shared framework connecting them.

For mid-tier and regional banks, this creates a real strategic dilemma. They can't afford to build out bilateral relationships at the scale that the largest global banks can, but their clients are operating across the same number of markets. So, the gap between what clients need and what's commercially viable to build widens.

This is the scaling problem the bilateral model can't solve. And it's the gap that network models are specifically designed to close.

What a Network Model Is And How It's Structurally Different

In a bilateral banking arrangement, governance is negotiated between two institutions. Standards are set institution by institution, and each connection operates independently of every other connection in the bank's wider correspondent network.

In a governed network model, the governance sits at the network level. Member institutions agree to operate within a shared framework. And this framework sets collective standards for how clients are assessed, how data is shared, and how services are delivered across the network. In short, each member benefits from what every other member has already agreed to.

The practical difference for clients is significant. Instead of experiencing a different standard at each institutional boundary, they move through a structure where the baseline is consistent. Instead of each bank working from a partial picture, the network creates a shared view. And instead of standards being negotiated bilaterally every time a new market comes into play, they're already in place.

The Commercial Case for Network Participation

Building out bilateral correspondent banking relationships independently requires significant ongoing investment. Each relationship needs to be negotiated, documented, and maintained, and compliance requirements need to be met on a bilateral basis. Service standards also need to be agreed upon and monitored individually. And as regulation tightens globally, the cost and complexity of maintaining each bilateral relationship continue to rise.

Network participation changes that calculation because the governance infrastructure is already built. Compliance frameworks are therefore shared across members, and service standards are set at the network level rather than from scratch every time. A bank joining an established network also gains access to

markets and capabilities that would take years and significant capital to replicate independently.

For mid-tier and regional banks in particular, this is the more realistic path to genuine international capability. It means following clients into new markets without the overhead of building each connection from the ground up. And it means competing on equal terms with larger institutions that have had decades to build their correspondent networks.

Why This Is an Evolution, Not a Replacement

It's worth being clear about what network models aren't. They're not a rejection of correspondent banking. The underlying principle, that banks extend their reach through relationships with institutions in other markets, remains the same. What changes is how those relationships are governed and what clients can expect.

Rather than being the end of bilateral relationships, the future of correspondent banking is the elevation of them into something more structured and more consistent. Network models build on the old foundation by adding the governance layer, the shared standards, and the collective infrastructure that the bilateral model was never designed to provide on its own.

Banks that understand this distinction are better placed to make strategic decisions about where to invest.

The Direction of Travel Is Already Clear

The shift toward network models is already happening. The banks gaining ground in international markets are those that have moved beyond managing a portfolio of bilateral relationships and are operating within structured networks that deliver consistency at scale.

Their clients notice the difference. Not always dramatically, but consistently with market entry that works, service standards that hold across jurisdictions, and a banking structure that feels coordinated. These aren't features that bilateral banking delivers reliably, but they're what governed networks are designed to produce.

IBOS Association is a global alliance of independent banks operating across more than 38 markets. Built on shared governance frameworks and collective service standards, IBOS gives member banks the network infrastructure to serve internationally active clients consistently and competitively, without building that infrastructure independently. The correspondent banking model got international banking to where it is. Network participation is what takes it further.

Get in touch with Manoj Mistry to find out how IBOS network membership can extend your institution's international capability.

About the Author



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Manoj Mistry is the Managing Director of IBOS Association. With over 35 years of work experience in financial services across Europe, North America and APAC, he has developed strategic business models for Regional Financial Institution Coverage, Global Custody Product Development and Strategic Relationship Management.

Manoj has created holistic commercial strategies shaped by effective risk management, together with a deep understanding of income, cost control and governance imperatives – thereby enabling growth while overcoming potential regulatory roadblocks.

He builds and retains strong, collaborative business relationships; is a trusted partner to highly demanding global C-level leadership, and enjoys an extensive network with a broad spectrum of financial services industry professionals.

Leading from the front, Manoj has developed high-performing teams; putting colleagues and customers first to drive long-term strategic business goals while displaying integrity, creativity, and actively up-skilling and mentoring of junior colleagues.