This essay examines the impact of financial crises on savings bank institutions in the United Kingdom from the early nineteenth century to the early twenty-first century.\(^1\) It focuses principally on the trustee savings banks and their ancillary penny savings banks, as well as the Post Office Savings Bank. Attention is also given to building societies, savings institutions that specialised in the provision of residential mortgages for wage-earners, and to various commercial banks that targeted deposits from small savers.

The first fully-fledged British trustee savings bank was established in Rothwell, Dumfriesshire, Scotland, in 1810 with the aim of encouraging and assisting thrift and self-reliance among the working class.\(^2\) It was immediately followed by a host of imitators; by the end of 1818 there were no fewer than 465 trustee savings banks in the British Isles. Expansion continued but at a more moderate pace, the peak being 645 in 1861. They were run as mutual institutions owned by their depositors with a board of trustees, who mostly comprised local dignitaries motivated by philanthropic ideals as well as the hope of keeping down the local poor relief tax bill.

The establishment of the Post Office Savings Bank in 1861 significantly extended popular access to savings accounts with facilities soon available at 1,700 Post Office branches.\(^3\)

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1. I am grateful to Duncan Ross, Mark Billings and Charles Munn for providing me with copies of relevant papers written by them.
The government envisaged the ‘gradual extinction’ of the trustee savings banks and competition from the Post Office Savings Bank contributed to a steady contraction of their number; in 1913 there were 202.\(^4\) Nonetheless, far from dying out the deposits trustee savings banks’ grew more or less continuously, the combined amount rising from £1.7 million in 1818 to £71 million in 1913. Post Office Savings Bank deposits grew even more rapidly and overtook those of the trustee savings banks from 1887; in 1913 Post Office Savings Bank Deposits were £187 million, more than double those of the trustee savings banks. The trustee savings banks also faced competition for deposits by small savers from friendly societies, building societies, industrial life assurance companies, and, from the late nineteenth century, some commercial banks. The survival and continued expansion of the trustee savings banks is explained by a number of factors – the social idealism of many leading figures, their important community role, their development of penny savings banks as feeder institutions, the security of depositors’ savings, and in many years their payment of a higher rate of interest than other savings institutions.

The financial arrangements of the trustee savings banks of England, Wales and Ireland (Scotland as well from 1835) were set by legislation in 1817. Savings bank deposits, net of working funds for day-to-day operations, were paid into a separate account at the Bank of England called the ‘Fund for the Banks for Saving’ and the trustees were guaranteed full repayment on demand. This safeguarded depositors’ funds against fraud, investment loss and credit risk – the trustee savings banks’ only borrower was the state. The savings banks’ funds were administered by the Commissioners for the Reduction of the National Debt, who had responsibility for the management of government funds. To encourage deposits and expand this handy source of loans for the state, parliament in 1817 set the rate of interest paid by the National Debt Commissioners at 4.56 per cent per annum, which was a substantial premium over the current 3.75 per cent yield on Consols, the British government bond that served as a global benchmark of a default-risk free security. Since the Commissioners usually principally invested the funds they administered in Consols, in many years, the payments by the Commissioners to the savings banks exceeded the income generated by the investment of their deposits requiring a subsidy from taxpayers. This was controversial, but supporters of the savings bank movement and its work in promoting thrift successfully resisted moves to end the subsidy.

4 Daunton, Royal Mail, p.100.
The Treasury also favoured the status quo, appreciating the financial flexibility provided by the savings banks' funds. For instance, at the start of the Crimean War in 1853 the government borrowed from the savings banks' account while awaiting parliamentary authorisation of funds for the army and navy.\(^5\) One of the motives for the establishment of the Post Office Savings Bank was to boost the savings bank funds available to the Commissioners, thus making the state less dependent on the financial markets for borrowing.\(^6\)

The rate paid by the National Debt Commissioners to the trustee savings banks was modified a number of times over the years, but until 1888 they received a premium over that paid by the Commissioners to the Post Office Savings Bank which allowed them to remain competitive. Sometimes, depending on market conditions, the rate paid by the trustee savings banks was even competitive to that from commercial banks. For depositors in trustee savings banks, these arrangements ensured that their funds were both safe and paid a modest but attractive return. Furthermore, deposits were available to individual depositors on demand from till cash; in cases of heavy general demand funds were promptly remitted by the National Debt Commissioners.

Friendly societies were another significant dimension of United Kingdom savings institutions in the nineteenth century, providing insurance and other benefits for members. Legislation in 1834 allowed them to bank with the trustee savings banks thereby acting as feeder institutions. So did the ‘penny savings banks’ that were established in large numbers from the late 1840s to broaden the availability of savings facilities for the smallest of savers.\(^7\) Open typically once or twice a week in the evening in a parish schoolroom, these ancillaries gathered very small sums from ‘the very humblest of the working class’ that were channelled to a trustee savings bank.\(^8\) The recognition and regulation of building societies, a further savings institution, began with legislation in 1836.\(^9\)

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5 Horne, A History of Savings Banks, p.150.
8 Samuel Smiles, Thrift (London: Murray, 1882).
One of the reasons for government support for the placement of funds with them by small savers was because of the cost to the Exchequer of the savings bank arrangements; a critic in 1838 protested that over the previous twenty years the subsidy had cumulatively cost the state £1.5 million.10 By 1870, 3,500 building societies had been registered under the act but most were small ‘terminating’ societies that were wound up after members had achieved their housing objectives. The assets or deposits of the various savings institutions in 1913, providing a sense of their relative magnitudes, were:

Table 1: United Kingdom savings institutions funds, 1913

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<thead>
<tr>
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<th>£ million</th>
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<tr>
<td>Post Office Savings Bank</td>
<td>187</td>
</tr>
<tr>
<td>Trustee savings banks</td>
<td>71</td>
</tr>
<tr>
<td>Building societies</td>
<td>66</td>
</tr>
<tr>
<td>Friendly societies</td>
<td>53</td>
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‘Stations down the line’

Britain experienced a series of systemic mercantile-cum-banking financial crises during the nineteenth and early twentieth centuries with certain years, observed banking historian Richard Sayers, as ‘familiar as the stations down the line’: ‘major smashes’ in 1825, 1837, 1847, 1857, 1866 and 1878; with 1890, ‘a shudder rather than a crash.’11 ‘As time went on the repercussion of general economic disturbance upon the banks were less devastating,’ noted Sayers, ‘for the banks the significance of 1890 and 1907, for example, is not so much that they were years of crisis as that they ushered in years of depression.’ There were two principal reasons for the mitigation of the severity of banking crises in Britain towards the end of the century. First, the emergence through amalgamations of a much more concentrated commercial banking system dominated by big banks with national or extensive regional branch networks and usually a London head office.12

Second, the Bank of England’s pioneering development of a central bank’s lender of last resort function, as exemplified by the successful management of the Barings crisis of 1890.13

Charles Kindleberger’s ‘Anatomy of a Typical Crisis’ in his Manias, Panics and Crashes presents a schematised series of stages of a financial crisis derived from historical episodes (and also based partly on the work of Hyman Minsky): a ‘displacement’ event or innovation that changes profit opportunities; an expansion of bank credit; speculation and ‘euphoria’; speculative ‘mania’; ‘Minsky moment’ – onset of financial distress and disillusion; scramble for liquidity, ‘panic’, ‘stampede’; and ‘revulsion’ featuring a public backlash against bankers.14 Britain’s nineteenth century commercial crises conform reasonably well with this schematic model (as they should since it is substantially derived from their experiences) each seeing a larger or smaller number of failures of merchant firms and commercial banks, with 1825, 1866 and 1878 especially devastating. However, none of these major systemic crises appears to have caused the failure of a savings bank.

Banks fail either because of problems on the asset side or the liability side – or both. The nineteenth century systemic crises featured some commercial bank failures because of bad debts or depreciated assets. But there were no savings bank failures during the crises due to asset side problems because of the arrangements with the National Debt Commissioners. In a crisis banks mostly fail because of a problem on the liabilities side, meaning a run on deposits and insufficient liquid assets to meet demands for withdrawals on the part of depositors. Runs are triggered by fears about solvency and the repayment of deposits. As already mentioned, solvency was not an issue for the trustee savings banks nor for the Post Office Savings Bank (essentially a government department). Thus, unlike the commercial banks, there was no reason for a run on a trustee savings bank because of a financial crisis. Nevertheless, savings bank deposits often fell during or after the systemic commercial crises.

Duncan Ross of Glasgow University has conducted a forensic analysis of deposits at the Savings Bank of Glasgow, a leading British trustee savings bank, in the crises of 1847 and 1857. He looked at the closure of accounts by depositors during and after these crises. He found that there were higher levels of withdrawals by closure than usual on both occasions suggesting that savings banks were affected by the banking crises. There are two possible reasons for depositors to make such withdrawals: either a contagion panic effect from the commercial banking crisis; or a hardship effect from the resulting downturn in the national or regional economy. For 1857, he found that there was a short sharp spate of account closures, with money withdrawn up 182 per cent on the previous year, and concluded that there was clear evidence of a significant, but temporary, contagion effect. The economic downturn in 1857-58 was short-lived and deposits at the Savings Bank of Glasgow soon recovered. In 1847, by contrast, the financial crisis was followed by a deep and lasting recession. Deposits at the Savings Bank of Glasgow declined for several years as people drew on their savings to help them through hard times: it was not until 1850 that deposits returned to the level ahead of the crisis. On neither occasion did deposit withdrawals pose a threat to the Savings Bank of Glasgow.

British systemic financial crises, 1825 to 1890

The financial crisis of 1825 saw widespread commercial bank failures, with the closure of 73 of the 770 banks in England and Wales and three of 36 Scottish banks – but not of savings banks. Figures for the combined deposits of the savings banks of England and Wales were published from 1817. Between 1825 and 1826 they fell from £13.25 million to £13.13 million reflecting increased unemployment and decreased earnings. ‘Savings were bound to suffer,’ observed savings bank historian Oliver Horne, ‘and a decline of less than 1 per cent in accumulated small savings was not serious and was indeed less than might have been expected as a result of such an acute depression.’

17 Horne, A History of Savings Banks, p.117.
The next crisis in 1837 had no impact on the advance of savings banks’ deposits. But the deep depression that followed the crisis of 1847 resulted in a significant retrenchment in overall savings bank deposits (echoing Glasgow), that fell from £31.7 million in 1846 to £28.1 million in 1848 (11 per cent); it was not until 1852 that the pre-crisis level was surpassed. The 1857 crisis that followed the end of the Crimean War brought down three significant regional banks: the Western Bank of Glasgow; the Borough Bank of Liverpool; and the Northumberland and Durham Bank and ruined many other businesses. The ensuing recession was sharp but short; nationally savings banks’ combined deposits continued to rise despite the downturn.

The devastating failure in 1866 of Overend Gurney & Co., the leading and systemically important City of London money market bank with liabilities of £9.8 million, the largest bank failure to date, brought down some 200 banks, finance houses and mercantile enterprises. Casualties included the Birmingham Banking Co., the senior bank in the West Midlands with deposits of £1.8 million, the biggest provincial bank failure. At the time the trustee savings banks were facing competition from the new and rapidly expanding Post Office Savings Bank as a result of which their combined deposits declined year by year from £41.5 million in 1861 to £36.3 million in 1866. This existing down-trend complicates assessment of the impact of the Overend Gurney crisis on the trustee savings banks. However, in 1867, the year following the crisis, the combined deposits reversed its decline and grew to £36.5, suggesting that the Overend Gurney crisis largely by-passed the trustee savings banks. ‘The crisis was essentially one of big finance and the savings banks were little affected,’ commented Horne. ‘The small depositors did not doubt that their savings were secure.’

The banking crisis of 1878 began in October with the collapse of the City of Glasgow Bank, the city’s leading commercial bank with £12.4 million of liabilities. The collapse ruined its shareholders, beggared depositors and creditors, and caused a major recession in the west of Scotland economy.

22 Holmes & Green, Midland: 150 years of Business Banking, p.60.
The City of Glasgow Bank failure shook commercial banks all over the country with another major failure, the Bristol-based West of England and South Wales District Bank (liabilities £3.4 million), and numerous temporary payments suspensions elsewhere. The Savings Bank of Glasgow, by then Britain's largest and most successful trustee savings bank with deposits of £3 million, weathered the storm without a run though deposits were depleted as families hit by the recession drew on their savings to tide them through the down-turn. The City of Glasgow failure triggered a temporary suspension of payments by the Caledonian Bank of Inverness that, in turn, prompted a run on the savings bank at Inverness that banked with it. Confidence among the savings bank's depositors was restored by the personal appearance of the trustees who reassured them by brandishing the receipt for their funds from the National Debt Commissioners. Frightened depositors at the Airdrie Savings Bank, another Scottish trustee savings bank, also rushed to withdraw deposits, though by January 1879 funds were returning. There was also a run on the Queen's Building Society of Manchester (fourth largest in the country) that was believed to have balances with the City of Glasgow Bank and lost 5 per cent of deposits before confidence was restored thanks to a letter from the Bishop of Manchester. Nevertheless, overall there was relatively little contagion from the problems of the commercial banks to the trustee savings banks and no failures or closures for this reason.

Fraud and embezzlement crises

A common factor in the failure of Overend Gurney and the City of Glasgow Bank was fraud and the mis-allocation of deposits to speculative investments that resulted in large losses; in both cases directors went to jail. Fraud is an asset side event – depositors and shareholders suddenly discover that they do not have the assets they thought they had because staff have lost or embezzled them – J. K. Galbraith labelled the discrepancy ‘the bezzle.’

24 Holmes & Green, Midland: 150 years of Business Banking, pp.60-1; Sayers, Lloyds Bank in the History of English Banking, pp.208, 211-12.
26 Horne, A History of Savings Banks, p.220.
Numerous trustee savings banks experienced embezzlement which was the principal cause of crisis at individual institutions. However, the timing of these episodes bears no perceptible relation to the boom and bust of the major systemic commercial bank crises. The trustee savings bank episodes typically involved embezzlement of funds by management that was facilitated by poor governance on the part of well-intentioned but amateur trustees. Thus depositors’ funds disappeared through local frauds before they reached the safe custody of the National Debt Commissioners. The years 1848 and 1849 saw major scandals of this nature at trustee savings banks in Dublin, Tralee and Killarney in Ireland, and Rochdale, Lancashire, that inflicted substantial losses on depositors; additionally the years 1844 to 1857 saw 21 further cases of fraud at small savings banks, though mostly without loss to depositors.30 Many trustee savings bank embezzlements went on for years with financial crises coming and going before they came to light for other reasons.

Another notorious savings bank scandal erupted at Bilston, West Midlands, in 1862; it excited widespread interest because the embezzler was the local priest. Coming hard on the heels of the launch of the Post Office Saving Bank there were predictions of the collapse of the trustee savings bank movement but they proved exaggerated. A further spate of sensational savings banks frauds in Cardiff in 1886, and Sevenoaks, Kent, and Macclesfield, Lancashire, in 1888, led to a crisis of confidence on the part of depositors and trustees and contributed to a slump in the number of trustee savings banks from 400 in 1887 to 267 in 1893, most of which were perfectly solvent, in favour of Post Office provision for small savers; combined deposits fell from £47.2 million to £42.2 million.31 The Cardiff ‘bombshell’ prompted the creation of a Trustee Savings Bank Association in 1887 that created an Inspection Committee to monitor and improve the management of member banks with one third being inspected every year.32 The crisis of confidence among trustee savings banks in the late 1880s and early 1890s coincided with the Barings crisis of 1890, which saw the failure of a leading City investment bank and its rescue by a consortium of banks organised by the Bank of England. But this was very much a City matter and it did not contribute to the difficulties of the trustee saving banks or impact on the Post Office Savings Bank or the building societies.

30 Horne, A History of Savings Banks, pp.123-128  
Growing competition for the custom of small savers from building societies and commercial banks, in addition to the Post Office Savings Bank, was a source of pressure on the trustee savings banks in the final decades of the nineteenth century and early twentieth century. Some of these rivals were also beset by frauds, with depositors much more exposed to loss than savers with trustee savings banks. The spectacular collapse in 1892 of the Liberator Building Society and the London and General Bank, vehicles of swindler Jabez Balfour, left thousands penniless.\textsuperscript{33} The Liberator, with liabilities of £3.3 million, was Britain’s biggest building society and twice the size of its nearest rival. Its downfall was mainly due to losses from speculative real estate development that were covered-up by executives. Its failure was a great shock to public confidence in building societies and there were runs and several further failures, all of which made the state-protected savings banks and the Post Office Savings Bank attractive as safe havens for small savers. But increasingly, noted the \textit{Economist} in 1908, the Post Office Savings Bank was suffering from ‘the birth and growth of gigantic credit institutions like the Birkbeck Bank, which make a direct and much advertised appeal to the small capitalist, open up fresh avenues for thrift, and tend to draw away from the Post Office the class for which it is intended.’\textsuperscript{34} One of them, the Charing Cross Bank, with 44 branches and £9 million of deposits, failed in 1910, again because of losses from speculation by management in Canadian railway shares.\textsuperscript{35} So too Farrow’s Bank, with 73 branches and £4 million of deposits, which shut its doors in December 1920 having lost £1 million through trading.\textsuperscript{36} In both cases directors went to jail for publishing false accounts. For decades Farrow’s Bank was the last significant British bank failure involving retail depositors – until Northern Rock in 2007.

\section*{Financial crises of 1911 and 1914}

The banking crisis of 1911 is largely unrecognised in the literature on financial crises. The cause of the weakness that affected a significant number of banks was the decline in the price of fixed-income securities (bonds) from the 1890s due to macro-economic monetary factors.

\begin{flushright}
\textsuperscript{34} ‘Savings Banks,’ Economist, 3 October 1908.
\textsuperscript{36} ‘Farrow’s Bank. Payment Suspended,’ The Times, 21 December 1920; ‘Farrow’s Bank Arrests. Chairman in Custody,’ The Times, 22 December 1920.
\end{flushright}
From the mid-nineteenth century Consols were regarded as the most suitable earning asset for a bank’s surplus assets and liquidity reserve, as George Rae expounded in his influential text *The Country Banker* published in 1885. After cash, they were a bank’s most important line of defence in a run. ‘Consols are the very best security that a Bank can hold,’ a leading London bank advised a provincial bank in 1860, ‘and that they have seen three Panics, when for a time all other securities were absolutely un-negotiable, even Exchequer Bills – but – they never knew a time when money could not be borrowed on Consols.’

The conversion of the coupon on Consols from 3 per cent to 2.5 per cent (effected in two stages) reduced their yield to investors. In response, the Trust Investment Act 1889 widened the list of trustee-grade securities beyond British government obligations to higher-yield, but still high-calibre, investments such as colonial government and municipal bonds or high-class railway debentures. The expansion of eligible trustee securities from £1 billion to £1.8 billion was believed to be a key factor in the decline in the yield on fixed-income securities from the mid-1890s. This resulted in financial deficits at the Post Office Savings Bank from 1896 to 1911 that had to be covered by annual votes by parliament. In 1902, two small commercial banks, Bucks and Oxon Union Banking Co. Ltd and Cornish Banking Co., were so debilitated by the writing down of the value of their fixed-income investments that they had to be rescued by absorption by major joint-stock banks.

The pressure on banks with a relatively high proportion of fixed-income investment assets mounted to a crisis in 1911. The first casualty was the Birkbeck Permanent Building Society, which traded as Birkbeck Bank, with 113,000 depositors and a £12 million balance sheet. Founded in 1851, the *Economist* observed that it ‘fulfilled a useful purpose by providing banking facilities to small depositors, for whom the joint-stock banks do not as a rule cater.’

38 Holmes & Green, *Midland: 150 years of Business Banking*, p.49.
39 Wormell, *The Management of the National Debt of the United Kingdom, 1900-1932*, p.44.
40 ‘Consols and the Bankers,’ *Economist*, 10 February 1912.
41 Daunton, *Royal Mail*, pp.102-103.
43 ‘The Birkbeck Suspension,’ *Economist*, 10 June 1911.
An unusual feature of the bank’s business was the payment of 2 per cent interest on current accounts above £100, ‘and there is no doubt that this inducement led many well-to-do persons to deposit substantial sums.’ The London-based savings institution survived a ‘severe’ run in 1892 triggered by the collapse of the Liberator Building Society. Again in November 1910 it suffered a further run with the ‘small working-class capitalist for whom the Birkbeck is mainly intended frightened by the Charing Cross failure.’ It survived that emergency with liquidity support from the Bank of England. But withdrawals necessitated the sale of a large volume of fixed-income investments at a substantial loss and in June 1911 it suspended payments having become insolvent. Absorbed by London, County and Westminster Bank, depositors eventually received reimbursement of 50 pence in the pound.

Yorkshire Penny Bank, an important regional savings bank with 615,000 small saver depositors and £18 million in deposits was also troubled. Founded in Halifax in 1859, Yorkshire Penny Bank’s dynamic leadership developed it into an important community institution with branches across the county. In 1871 it registered as a company rather than a trustee savings bank, which allowed it greater freedom both to gather deposits and to invest in assets rather than handing the funds over to the National Debt Commissioners, which helped to fuel expansion. Yet primarily its purpose remained paternalism rather than profit-making; it estimated that two-thirds of customers were unprofitable but serviced them for social reasons. As with a mutual organisation, depositors were shareholders which made it impossible to raise capital except through retained earnings. Yorkshire Penny Bank had accumulated reserves from profits, but these became insufficient with the growth in the volume of deposits and as the value of its portfolio of fixed-income assets depreciated; by 1911 its reserves of £468,000 were just 2.6 per cent of deposits making it vulnerable to a run. Yorkshire Penny Bank’s weakness came to the attention of Sir Edward Holden, chairman and managing director of London, City and Midland Bank, Britain’s biggest bank and third largest in the world.

46 Holmes & Green, Midland: 150 years of Business Banking, pp.144-146.
Following Birkbeck Bank collapse, he was concerned that a run on Yorkshire Penny Bank could lead to its failure devastating depositors and destabilising the banking system. After consulting the Governor of the Bank of England, Holden organised a secret rescue consortium, comprising Midland and four other leading commercial banks, that formed a new company to take over the business with capital of £2 million as well as depreciation cover for Yorkshire Penny Bank’s investments of £900,000; the rescue was announced in August 1911.47

The third crisis institution of 1911 was National Penny Bank. This was founded in London in 1875 in imitation of Yorkshire Penny Bank’s business model with a small saver client base. While fundamentally saving banks, National Penny Bank and Yorkshire Penny Bank ‘drifted away’ from the savings banks movement and developed more along the lines of a commercial bank – they omitted ‘Savings’ in their titles – but the absence of shareholders and the acceptance of small sums made them anomalous hybrids relative to the mainstream commercial banks.48 Though smaller than its prototype, by 1911 National Penny Bank had 14 branches, 145,000 small saver depositors and £3 million of deposits. It too was weakened by the depreciation of the value of its fixed-income investments and experienced a run in November 1911 during which £1 million was withdrawn – a 33 per cent depletion. The eminent, well-connected directors appealed to the Bank of England which provided liquidity support and the run was halted. But there was no rescue consortium buy-out leaving it potentially vulnerable to another run.

A new run on National Penny Bank began in the week beginning 27 July 1914 as London’s financial markets broke down in the financial crisis that erupted in the approach to the First World War and culminated in the closure of the London Stock Exchange on Friday 31 July.49 The following day, National Penny Bank did not open its doors. Notices posted outside the branches stated that: ‘owing to the severe financial situation and the enormous depreciation and temporary unsaleability of Stock Exchange securities, together with the difficulty of obtaining gold coin, the directors have been compelled to close the branches of the institution.’50

50 ‘Financial Crisis: National Penny Bank Suspends Payment,’ The Times, 2 August 1914.
Yorkshire Penny Bank branches also suffered runs because of the similarity of the name although there was no commercial connection between the institutions and its ownership by the consortium of big banks effectively guaranteed its depositors against loss. National Penny Bank chairman the Earl Bessborough, a prominent businessman and philanthropist, appealed to the Chancellor for the Post Office Savings Bank to take over its assets and liabilities, that is rescued by taxpayers. But Treasury officials with much else on their plates were unable to make a quick decision and the directors decided upon voluntary liquidation; depositors eventually recovered 87 pence in the pound.

National Penny Bank was a casualty of the 1914 financial crisis, but emergency measures taken by the authorities, notably a four-day bank holiday the following week, a general moratorium and the issuance of a new state currency, ensured that there were no more suspensions among the commercial banks, trustee savings banks or other savings institutions. Savings bank depositors were specifically exempted from the potential restrictions on withdrawals from banks made possible by the moratorium (though these were almost entirely not used). By an administrative oversight, the Post Office Savings Bank was left open during the four-day bank holiday providing its customers with access to their savings while all other banks were closed (including the trustee savings banks). But there was no abnormal withdrawal of funds and Treasury officials considered that the oversight might have boosted public confidence. Upon the reopening of the banks on Friday 7 August 1914 at the end of the emergency four-day bank holiday, with Britain now at war, there were substantial withdrawals from trustee savings banks, notably at Aberdeen, Glasgow, Hull and Liverpool, but the ‘pressure’ soon subsided and by the middle of the month normal conditions prevailed. In addition to National Penny Bank, the crisis of 1914 resulted in the closure of two small commercial banks, but there were no casualties among the trustee savings banks.

52 ‘The National Penny Bank,’ The Times, 5 April 1917.
TSB – rise and fall, and resurrection

The relationship between the savings institutions of the United Kingdom and financial crisis in the century after the outbreak of the First World War falls into two parts: from the First World War to the start of the 1970s; and then from the 1970s to the early twenty-first century. From 1914 to 1971, broadly the era of British corporatism, there was a stable cartelised system of financial institutions, each with an allotted function, as directed by the state. The savings banks had an established role and continued to fulfil it, growing modestly.54 The building societies expanded rapidly in the inter-war years, which saw a house building boom and a large increase in owner occupation; their assets overtook those of the trustee savings banks in the 1920s and those of the Post Office Savings Bank in the 1930s. The building societies’ vigorous expansion resumed in the 1950s; in 1963 their assets of £4.3 billion exceeded the savings banks’ combined funds of £3.4 billion.55 Britain was free of systemic banking crises in these decades, though not of financial crises that took the form of currency devaluations in 1931, 1949 and 1967, plus innumerable sterling crises in the 1950s and 1960s and fiscal crises notably in 1931. These crises may well have affected UK savings institutions and their depositors, but generally and not directly.

Competition in banking was revived in 1971 with the introduction of Competition and Credit Control, a radical new liberalisation measure. One outcome was a credit boom that stoked a real estate bubble that led to the Secondary Banking Crisis of 1973-75. But that crisis mainly affected specialist commercial property lenders that funded themselves in the wholesale financial market; it did not impinge on savings bank institutions. However the new policy also resulted in greater competition by commercial banks for the customers of the savings banks. Competitive and political pressures culminated in the unification of all the individual British trustee savings banks into the Trustee Savings Bank (TSB) in 1976. Provided with the same powers as other banks, it became a mutually-owned commercial bank with a mostly small saver client base and regional strengths in the Midlands, North and Scotland. In 1981 TSB acquired United Dominions Trust, a leading UK consumer lending businesses that was a casualty of the Secondary Banking Crisis, which significantly extended the scope of its activities in a complementary direction.56

54 See Moss, An Invaluable Treasure: A History of the TSB.
Privatised by the Thatcher administration in 1986 as part of the government’s privatisation programme, TSB became a regular commercial bank with shareholders. The following year it acquired the troubled British investment bank Hill Samuel. This turned TSB into a sort of universal bank, which posed significant management challenges. Hill Samuel went on a lending spree and by 1992 was making a large loss with huge bad debts. TSB merged with Lloyds Bank in 1995 constituting Britain’s third biggest bank – the ‘new powerhouse’ LloydsTSB.57

The commercial banks became increasingly active in the provision of residential mortgages after Competition and Credit Control, invading the building societies’ traditional preserve.58 Changes to British banking law in the 1980s allowed building societies to compete by offering a full range of banking services, the principal remaining difference being the mutual ownership of the building societies. The Building Societies Act 1986 permitted building societies to ‘demutualise’ and adopt limited company form turning them into regular commercial banks. Between 1989 and 2000, ten of the larger building societies converted, six floating on the stock market as a commercial bank and four being acquired by a major bank to boost its mortgage business. The former building societies turned banks found it hard to compete with the bigger established banks; by 2008 all of those that floated had either been bought by another bank or nationalised.

The banking crisis of 2007-08 was arguably the most severe crisis in the history of British banking. It resulted in the nationalisation of two former building societies, Northern Rock and Bradford & Bingley, and the rescue of two leading banks, Lloyds Banking Group and RBS, by the state through massive injection of taxpayer funds. Northern Rock that developed an ‘originate and sell’ business model that allowed it to grow very rapidly. Its mortgage loans were packaged and securitised and sold to investors, which allowed it to make more loans. The problem with the model was on the liabilities side. Northern Rock outgrew its retail deposits and became increasingly reliant on funding in the wholesale short-term money market. When the money market froze in August 2007 it could no longer fund itself. Nor could it raise funds from securitisation because demand for securitised assets had evaporated.

58 See David Lascelles, Other People’s Money: The Revolution in High Street Banking (London: James & James, 2005).
Northern Rock turned to the Bank of England for emergency assistance. News of the talks was leaked and panic-stricken depositors formed queues outside branches. The Chancellor was forced to guarantee all deposits and Northern Rock was eventually nationalised. Bradford & Bingley was also heavily reliant on wholesale funding and in addition had mounting problems with its loan book; it was nationalised in summer 2008.59

HBOS, formed in 2001 by the merger of Halifax, a former building society and Britain’s biggest mortgage lender, and Bank of Scotland, grew rapidly in the five years before its demise in 2008. Its massive expansion of commercial property lending was largely funded by borrowing in the wholesale money market. It was hit hard by the conjunction of crashing property prices and the breakdown of money market liquidity. In addition it had invested in high-yield structured products related to US sub-prime mortgages. When this became known, the share price collapsed and it became unviable as an independent bank; in September 2008 it was acquired by LloydsTSB, a prudent bank that had hitherto been unscathed by the banking crisis. The combined entity was renamed Lloyds Banking Group and 198 years since the establishment of the Rothwell Trustee Savings Bank the name TSB disappeared from British banking. But instead of keeping HBOS afloat, the merger sank Lloyds Banking Group and the combined entity had to be saved by the government which became a 43 per cent shareholder.

As a result of the government rescue of Lloyds Banking Group, the bank was required to divest 632 branches to comply with European Union state aid regulations. It was decided that these branches should form a separate business trading under the brand TSB that would be launched in September 2013. And thus Britain’s trustee savings banks rose again, at least in name, resurrected by the United Kingdom’s most recent financial crisis and heralded by the newspaper headline – ‘TSB Is Back.’60

60 ‘TSB is back as Lloyds Rebrands,’ Sunday Times, 30 June 2013.
About the Author

Prof. Richard Roberts is Professor of Contemporary History at the Institute of Contemporary British History (ICBH), King’s College London. He graduated from University College London in History, with First Class Honours before writing his doctorate in economic history at Cambridge and holding research fellowships at Downing College, Cambridge and Princeton University.

Richard is a specialist in financial history and author of many publications in this field. His histories of City investment bank Schroders was published in 1992 and of consortium bank Orion in 2001. His contemporary books Wall Street (2002) and The City (2008) are published by The Economist. Collaborations with David Kynaston include conferences and publications to mark the 300th anniversary of the Bank of England (1994), the abolition of UK exchange controls (1999) and the co-authored book City State (2003). Saving the City; the Great Financial Crisis of 1914 will be published by Oxford University Press in November 2013. He also works with City consultants providing long-term perspectives for their reports; he is an Associate of Lombard Street Research; and a member of the Advisory Board of the Official Monetary and Financial Institutions Forum (OMFIF).