CHAPTER IX

BANK ORGANISATION

The foundation of a joint-stock bank is, of course, to be found in the body of proprietors, the shareholders who have subscribed the capital, and who receive the profits, in the form of dividends or bonus on their holdings.

In the case of the large English joint-stock banks the ownership is very widely spread among a large body of small holders. The following figures for the "Big Five," published in 1925 by Mr. Walter Runciman, are instructive :

	Paid-up Capital.	Number of Holdings.	Amount of Average Holding.	
			Nominal.	In Market Value.
Barclays . .	£15,592,372	51,011	£306	£790
Lloyds . . .	14,372,956	55,668	258	774
Midland . .	11,976,890	57,250	209	750
National Provincial . .	9,479,416	41,603	225	684
Westminster .	9,051,718	69,882	130	592 [1] 192 [2]

[1] £20 shares, £5 paid. [2] £1 shares, fully paid.

It will, of course, be readily understood that the above figures represent the number not of shareholders but of shareholdings; in other words, one shareholder will often hold shares of different classes in the same bank, thus appearing twice; and also there will be numerous cases in which the same person will hold shares in different banks. But the fact remains that the British joint-stock banks are essentially owned by quite small investors. In this they differ from the Accepting Houses, which are owned almost entirely by private capitalists—generally by those who manage them, with the support of a certain amount of what may be described as "family" money. With the exception of Hambros Bank already mentioned, they have no shares which are dealt with on the Stock Exchange, or issued to the public. The joint-stock banks differ too, it is believed, from the American banks as a whole. The most important of these are often in the hands of small groups of capitalists, and the bank share is a much less popular investment with the public than it is in Great Britain.

The shareholders delegate their powers of conducting the business of the bank to the Board of Directors. The Directors are necessarily, by the constitution of the bank, shareholders to a certain minimum extent; but as a rule this minimum is not much exceeded, and it is not held desirable that a Director should hold in shares so large a proportion of his fortune as would render the amount of dividend paid by the bank a matter of serious import to his private income. As a Director he is paid fees for the work he does; and it is better that his position as a paid servant of the proprietors should outweigh his private interest in the sharing out of profits. He is a trustee not only for the shareholders, but for the depositors, and indeed for the public at large, whose interests might be largely affected by any laxness in the conduct of his trust. The confidence in British banking which has been acquired by long experience is mainly due to the sense that Directors have conducted the business of their banks with constant attention to public interests in the first place, and have not hesitated to reduce the dividends to their shareholders whenever they considered such action called for in the interest of their depositors.

The delegation of powers to the Directors is, in fact, very complete—more so than in the case of the ordinary trading company.

The only direct control is exercised by the shareholders at the annual general meeting. There they have not as a rule any means of voting upon the dividend, which is declared by the Directors in their report. They frequently take advantage of the occasion to complain that the Directors have not given them a sufficiently large dividend, but they have no means of increasing it unless they are prepared to reject the report of the Board, and so turn the Directors out of office. They also have the power of voting for or against the re-election of the Directors who are retiring by rotation; and they can, of course, criticise freely the policy of the Board, even if they cannot modify it. But their real power over the conduct of the Board is to be found in the fact that they do elect the auditors to represent them, to examine on their behalf the inner working of the business, and to report to them upon it.

Under some banking systems, notably that of the United States, the body which gives the charter under which alone a bank is permitted to carry on business provides that the details of the business shall be supervised on its behalf by official inspectors. Various provisions are laid down, under which such items as loans and investments must not exceed a certain proportion of the capital of the bank, and so on; the inspectors maintain a constant watch to see that these proportions are not exceeded, and also criticise freely the conditions under which loans are made. The American banks, or at least the best of them, willingly accept this Federal or State supervision, and regard the Government inspectors with a friendly eye, as experienced and impartial advisers, who can often render valuable assistance. But the number of American banks is so great—there are said to be some 30,000 to 40,000 in the United States—that a complete supervision by an adequate staff seems beyond the bounds of practical attainment; and the fact remains that every year there are many bank failures.

There have been in Great Britain from time to time waves of popular opinion calling for legislation under which some system of Government supervision of banks should be undertaken. The cry has generally been to the effect that "bogus" banks should not be allowed to use in their title the name of "bank" or "banking," which is considered to have a magical attraction for the ill-informed depositor. But a difficulty arises from the certain fact that some at least of the worst cases of bank failures in recent years have been on the part of institutions which have carried on a business which has been quite genuine banking, and whose title to the use of the name "bank" could not be denied. Their practice has been to start a business by offering interest on deposits materially higher than that quoted by the banks of old standing. We have seen that the rate of interest which a bank can offer is controlled by the rate at which it can invest its funds with due regard to their accessibility in time of need. A bank which offers a higher rate can only meet its expenses by investing at a higher rate than the established banks; and the consequence has been that these "wild-cat" banks have been driven into speculative investments promising high returns. These have in the course of time failed, and thus the assets of the bank have fallen to a point at which it was no longer solvent. The temptation has been for the proprietors of the bank—generally individual speculators—to carry on in the hope of recovery, and to this end to issue balance sheets in which no allowance has been made for the depreciation or disappearance of assets; business has been maintained to the last, and at some moment of stress the crash has come, and the unfortunate depositors, mostly poor people, have found that they have been robbed of all or much of their savings.

In cases such as these it would not be possible to forbid the use of the name " bank "; a banking business is undoubtedly carried on, and the trouble is due not to a false title, but to internal administration. The only remedy lies in a proper supervision of balance sheets, and a truthful and fearless certification of them by responsible auditors. In all the cases of fraudulent bank failures it will be found that the auditor employed to certify the balance sheet has been either the creature of the responsible manager or a principal in the fraud.

It is not long since such a case of fraudulent failure led the Government to discuss with the banks the means by which the public could be protected. It appeared that only two practical courses were open. The Government might follow the American example, and appoint official inspectors to control the operations of the banks—a reversal of the policy on which British banking had grown up, and one which was not acceptable either to the

Government or the banks. Or on the other hand, a sort of official status might be given to the auditors who were employed to audit the balance sheets. In other words, a sort of panel of recognised bank auditors might be drawn up; and any institution which claimed to use the word "bank" or "banking" in its title might be required to employ as auditor a firm or person on this official panel.

There are obvious objections to the official establishment of such a privileged class, and for the present at least any legislative proposals appear to have been shelved.

The growth of joint-stock trading and the responsibilities laid upon auditors by the various Companies' Acts have led to the growth of a number of firms of accountants of the very highest ability and authority who devote themselves to the work of auditing. Their wide experience gives them the position of impartial advisers; and the control which the auditors of a bank exercise over its policy is very real. Once a year the accounts are thoroughly overhauled and discussed with the management of the bank. No self-respecting bank could possibly face anything less than an absolutely clean certificate from its auditors; they have to lay down the conditions under which they are prepared to give it. In short, the names of the auditors are the ultimate guarantee to the public that a bank is being conducted on sound lines.

The actual daily administration of the affairs of the bank is primarily in the hands of the managers, and concentrated in the hands of the General Managers at the Head Office. It is shared by the Directors, but it is probable that the part which they take in the actual administration varies considerably from bank to bank. In some cases considerable power is given to local Directors and District Managers; but the most usual practice is probably that of complete centralisation. The Directors will in any case be immediately answerable for all important appointments on the staff; they will be told off to visit branches and make themselves acquainted with the prospects of the bank in different districts; they will thus have an important voice in such matters as the opening of new branches. They may work much through Committees dealing with special aspects of the business, and may have all large transactions submitted to them daily for sanction. And they will be expected to use their influence, when possible, to bring new business to the bank. The value of a good Board to the business of a bank is very great.

In America the system is somewhat different. Much more is left to the executive officers, who are styled " President " and " Vice-Presidents " instead of " General Managers " and " Assistant General Managers " as in London. The Board of Directors sits only at intervals, and the post of Chairman of the Board is regarded as honourable retirement for a President who has served his time.

Those who are charged with the control of a bank have no more important task than that of selecting and training a succession of men who will in due time be fitted to succeed to the chief offices in the administration. For these qualifications of the highest type are needed. Technical knowledge of the widest kind is essential, including a practical acquaintance with the principles of law as it affects banking. No less important is shrewdness, the power of insight into human nature, the gift of managing men with tact and sympathy. And most important of all is, of course, character—grit, determination, and unflinching integrity. Technical knowledge can to a large extent be tested by examinations; but the others can be judged only by close and sympathetic observation during the years of development. Thus the practice of the British bankers has long been to take men young, from seventeen or eighteen to twenty or twenty-one, and to give them, after a period of probation in which unpromising candidates can be severely weeded out, the prospect of a steady career, with big prizes at the end for the select few, and for all a good pension at the age of retirement. The career of each clerk is carefully watched; and at the same time his technical education is provided by the Institute of Bankers. This body, supported by the subscriptions of its members supplemented by contributions from the banks, provides lectures and examinations; the staffs of the banks are encouraged to take the courses and to enter for the examinations. Success in these is rewarded by money prizes, and it is understood that the holding of a certificate materially assists promotion. These certificates are issued in evidence of a pass in either the lower or higher examinations, and there is, of course, keen competition for distinction.

The scale of salaries is not exactly the same in the different banks, but of course there cannot be any great variation. There is very little interchange of staff between banks; each makes it an object to cultivate a sense of loyalty in its staff, and it may be said that a discharge from service for anything less than gross misconduct is unknown. The business of the banks has, moreover, been expanding for a long time at a rate which has made such a thing as unemployment among bank clerks unknown, except for the rare cases in which a small and weak bank has had to be liquidated; even then the surplusage has been rapidly absorbed. It may be said generally that for a young man of good character service in a bank provides a safe but modest provision for life, if he is of average capacity; if he is endowed with ambition and exceptional ability he may rise to a post in which he enjoys great influence and a higher salary than a Cabinet Minister.

The novice has, of course, to begin at the beginning and go through much routine, some of it of a very trying nature. But the way in which he faces it is a test of his grit, and if he shows promise there are various ways in which he will have an opportunity of proving his worth. Somewhere about the middle of his career the man, if he is worth his salt, will be filling positions of responsibility. When he is ripe for a small managership he is in a position of considerable independence, and is the master in his own branch.

He will, of course, be carefully watched from Head Office. All the managers of branches—and the big banks have many hundreds of them throughout the country—are controlled by a system of inspection which is the foundation of the centralised administration. At unknown times an inspector will call at the office with a clerk, and take possession of all the books, going through them in detail till he is able to report fully on every advance made by the manager, and on the nature and technical perfection of the security held. The advances have, of course, previously required the sanction of the Head Office, unless they do not overstep the moderate amount which the manager is permitted to grant on his own responsibility. On the way in which he manages his branch depends each man's prospect of rising to the highest offices in the central management of the whole bank.

The existing system of bank organisation is the outgrowth of a long series of amalgamation, leading to an immense development of branch banking. The first thing to notice is that amalgamation has not resulted in any diminution in the number of branches, but in a very large increase; in other words, it has not reduced, but largely stimulated competition between the banks. It was not the intention,, when amalgamation was carried out, to save money to any extent by closing competing branches. That has been done to some extent; but it is obvious, to anyone who will walk through London with open eyes, that in very many cases it has led to the maintenance of branches of the same bank in immediate neighbourhood—in some cases actually facing one another across a street; and that new branches are being opened on every hand. It is increased efficiency of administration, developed by the ever-growing sphere of operations, in short a form of " mass production," that has led to this remarkable growth. It was the Scottish banks which first discovered the secret that banking could be profitably developed by a bold system of extension, bringing branches within the immediate reach of all possible customers. The extent to which Scotland led in this development, and to which her example has been followed, appears from the figures herewith.

	Number of Banking Offices.			Number of Inhabitants per Office.		
	1844	1906	1925	1844	1906	1925
England and Wales . .	976	5547	9100	16307	5885	4262
Scotland . .	368	1180	1563	7120	3790	3162
Ireland . .	180	777	1293	45417	5738	3518

It would not be exact to say that, with 9,100 branches, there are, or were last year, as many as 9,100 managers; for a certain number are "sub-branches" under the same management as a neighbouring independent branch. But the proportion of these is small; and even after deducting them it may be said that of the staffs of the great banks a proportion quite unusual in other large businesses is engaged in sharing the task of management. Though under the general control of the Head Office, every manager has a position of personal responsibility, and has to answer not only for the profits of his branch, but for the superintendence of his own branch staff. In some cases at least it may be said that the managers of branches form not far from 10% of the whole of the employees of the bank. There is thus no sharp line to be drawn, as in most businesses, between "employers" and "employed."

The practice of making the staff of each individual bank into what is almost a closed corporation, the practice, that is, when once the period of probation is over, of discharging a bank clerk for nothing less than grave misconduct, and discouraging any interchange of clerks between the different banks, has certain obvious effects. Each bank carries on its staff a considerable number of men who can at the best be classed as average, and who will never prove themselves capable of taking positions of responsibility. For these, however, the large branches of the bank can always supply plenty of routine work where no more is required than industry and mechanical accuracy. The smaller branches, on the other hand, where each member of the staff has to take a share in many different kinds of work, form the best school for the training of promising young men who are anxious to use their minds.

The constitution of each of the big banks has also brought about the organisation of the staffs themselves, not into a body of the nature of a common Trades Union for the defence of their interests, but into "Internal Guilds," one for each large bank. A "Bank Officers' Guild" has indeed been formed, but has not achieved the same representative position; and all negotiations between the staffs and the Boards of the big banks are carried on through the mediation of the internal Guilds. These have, however, a joint council which assures, what follows indeed from the competition of the banks themselves, a close similarity, though not actual identity, in the conditions of employment in the various banks.

Of the organisations which bring the banks themselves together two have been already mentioned—the Institute of Bankers, whose special object is the professional training of the young banker; and the British Bankers' Association, established in 1919 to absorb the old "Country Bankers' Association" and unite all British banks in a common body to discuss matters of common interest. But something must be added about another vital piece of banking machinery, the engine, in fact, through which has been evolved the modern cheque, with all its far-reaching effects on the financial development of the country, namely, the London Bankers' Clearing House.

The origin of the Clearing House, like so much in the history of banking, is obscure; but it is fairly certain that it arose in an unofficial manner. As the system of private deposit banking grew in London, it was necessary for every bank to send round daily "walk clerks" whose business it was to present at each of the other banks the claims upon them in the form of bills and cheques for collection, and bring home the proceeds. It was evident to these walk clerks that they could economise a great deal of time and shoe-leather if, instead of going to each bank to present their "charge" upon it, they all met by agreement in one place, and made their settlement together; and a practice grew up, without the authority of the banks themselves, of holding such meetings in a room at some convenient tavern. Such meetings were apparently being held in 1770, possibly much earlier. By 1773 the practice was officially recognised, and a room for the purpose was hired in Dove Court, Lombard Street. In 1805 this was vacated, and a ground floor room taken in premises adjacent to Smith, Payne and Smiths Bank in Lombard Street. In 1833 the present Clearing House was built in Post Office Court, Lombard Street, once the site of the General Post Office, and in 1834 thirty-nine private banks combined to buy the freehold of the premises.

This was the moment when the London joint-stock banks were being formed; but the private banks, jealous of the intruders, refused them admission to the Clearing House which they owned; and it was not till 1854 that the monopoly was relaxed, and six joint-stock banks were admitted. The number of private banks had by this time been reduced to twenty-five. By 1895 this number had further fallen to four, and the shares in the private limited company which had been formed to own the freehold were taken over by all the Clearing Banks, who thus became owners instead of tenants. As a matter of fact, however, the actual management of the Clearing House had been in the hands not of the owning company, but of a Committee of the Clearing Bankers—a purely voluntary association, which appears to have no fixed constitution, but exists solely by custom.

The business of the Committee is twofold: it has to manage the Clearing House, which is largely a matter of routine; and it is the body which fixes the rate of deposit interest in the Metropolitan area, as already explained when we were dealing with the discount market. It is, moreover, a convenient meeting-place where the London banks can discuss matters of common interest; and before the establishment of the British Bankers' Association there was a tendency to regard it as the mouthpiece of the bankers as a whole. But it has never included representatives of the country bankers as such; and when, at the beginning of the war, it was found necessary to have a Committee officially representing the banks in consultation with the Government, a special Committee, known as the Treasury Committee, was chosen unofficially from leading bankers, not necessarily members of the Clearing House Committee, and including important representatives of country banking. That Committee still continues in existence, and is a co-opted body, based not on any definite constitution, but on the general assent of the banking community.

Into the actual mechanism of the Clearing House it is hardly possible to enter. It remains in its essence what it was at first, a meeting-place for the clerks of the various London banks; it has only three officers of its own, the Principal, Deputy and Assistant Inspectors. The rest of the work is carried on by the staffs of the banks themselves. In its origin it was designed only for clearing the cheques of the various City offices of the banks; and this, now called the "Town" clearing, remains the most important. In addition to the Head Offices of the banks a certain number of City branches are included; the condition is that these must be within a few minutes' "run" of the Clearing House. In 1858 a separate system of clearing was evolved for cheques on country banks and branches; and in 1907 the Metropolitan Clearing was added. The letter T (Town), C (Country), or M (Metropolitan) appears on every cheque, and this simple expedient greatly facilitates the sorting of the cheques preparatory to clearing. The difference between the three is that the settlement between the banks is made, for the Town Clearing, on the day itself on which the cheque is passed into the clearing; the Metropolitan Clearing is settled on the next day, and the Country Clearing on the second day after.

The process of clearing a cheque is briefly this. When it is received by the bank from a customer for collection, and has been duly recorded for credit of his account, it is passed on to the Clearing Department in the office, where the whole mass is sorted out by the letters T, M and C to the different clearings. Then the "articles" which include all claims to be collected from other banks in the day, such as bills falling due, are sorted out into "charges" on the banks which have to pay them, and these charges are listed on an adding machine, a typewriter which not only records the amounts, but mechanically adds them up at the end of a column by the mere pulling of a handle. The charges thus listed are handed to the "runners" or clerks whose business it is to convey them to the Clearing House. Here are waiting clerks from all the banks, each at his seat, ready to receive the charges, and list them for transmission to the Head Office of his bank. The lists are compared, and the balance is recorded in the sheets of the Clearing House. At the end of the day these balances are added up and each bank knows what it has to receive from and pay to each of the other banks. The differences are made up, and each bank then is debited or credited with the balance it has to pay or receive in the "Clearing Bankers' Account" at the Bank of England; and these balances are at once settled by draft on the Bank of England, so that the Clearing Bankers' Account is balanced up every evening, since the inter-bank payments and receipts must always be equal.

The amounts which pass in this way through the Clearing are gigantic. The total amount cleared during 1925 was no less than £40,437,119,000, and as much as £263,255,000 has been cleared in a single day. It is by the certainty and rapidity of this machinery that the cheque has attained its vogue in Great Britain and the United States. It has largely supplanted the use of metallic and paper currency. Indeed it is the growth of the cheque system, combined with the steady output of gold, which have rendered the limitation to the fiduciary issue of notes imposed by the Bank Charter Act of 1844 so long of life.

In significant contrast is the French practice. No clearing system existed till some six years ago, when a "Chambre de Compensation" was established in Paris. The reason for this is that the cheque system is as yet hardly developed in France. Indeed all deposit banking is still in its infancy. Payments are largely made by the acceptance of bills for quite small amounts; and the acceptor makes the bill payable not, as in England, at his banker's but at his own house. The large firms, of course, have gradually accustomed themselves to the cheque system, and with it has followed the adoption of clearing for bank payments; but the mass of small traders still adhere to the practice of keeping their cash at home, and a large expense and great risk has to be incurred by all the banks in the employment of messengers who go round to private addresses to collect payment of bills, often of quite trifling amount. Even Germany still lags behind, though considerable progress in the use of the cheque was made, under Government pressure, during the war. It is the concentration of payments in the Clearing House which symbolises the extent to which British and American banking have developed the use of the cheque, and made of deposit banking the most powerful auxiliary to the expansion of industry and commerce.