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The Apple Doesn't Fall Far from the Tree: English Bank Regulation and Branching Strategies in the Nineteenth Century

September 2014

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Discussion Paper Number:
IBH-2014-01

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Abstract

After the Bank Charter Act in 1833, English banks could branch nationally without legal or geographical restriction. Many new joint stock banks took this opportunity to branch and thus created the foundation for modern branch banking in the UK. Drawing upon a new dataset, this article maps the locations of joint-stock banks and their branches. Bank size and spread demonstrate that many branched vigorously but stopped at the creation of local or multi-regional structures. Our research shows that branching strategies were influenced by 'soft' Parliamentary pressure (but not regulation), prominent branch bank failures and a lack of managerial expertise.

Keywords

banks, strategy, branches, regulation, management

Acknowledgements

This work was supported by the Economic and Social Research Council [grant number: ES/J500148/1] and Leverhulme Trust of the research project F.212I: 'The constituencies of English and Welsh domestic joint stock banks, 1826-1885'. Thanks to the archivists (past and present) who assisted in the collection of data used in this paper, especially Jesse Campbell, Edwin Green, Sara Kinsey, Karen Sampson, Susan Snell, Alison Turton, and Philip Winterbottom. Thanks also to those that commented on an earlier draft of this paper: Peter Scott; those at the Association of Business Historians Conference, Preston, June 2013; attendees of the Queen's University Centre for Economic History Book Manuscript Workshop, September 2013; and attendees of the Business History Conference, Frankfurt, March 2014.

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Introduction

A central factor contributing to bank stability is the ability to conduct branch banking. The literature recognises that geographical expansion, amongst other things, can contribute to bank stability and bank growth.[1] Within an international context and, in the U.S.A. in particular, regulation has often been seen as the principal force that has prevented branching banking and hindered the establishment of large branch networks.[2] Britain in the nineteenth century, by comparison, was largely free from such restrictive legislation. Following the crisis of 1825/6, the Banking Co-partnership Act 1826 permitted the formation of joint-stock banks. These new financial institutions constituted the first wave of quasi-corporate bank formations in England and Wales. After 1833, legal restrictions in England and Wales were lifted, removing limitations on the scope of geographical operation of banking and branching. From this point onwards, English banks could follow any number of branching strategies and banks were permitted to operate across the nation.

Much scholarly attention has been paid to geographical expansion and concentration in the number of English banks during the period from the 1880s to the 1920s, when changes in the structure of banking left the 'big five' high street banks, with a London head office and a large branch network.[3] These five banks had acquired smaller banks to add to their branch network, an efficient way of expanding whilst at the same time reducing risk and uncertainty through gaining existing expertise and local knowledge. Branching nationally and across regions allowed banks to diversify their risk and utilise their resources efficiently by moving money from areas where deposits were plentiful to other regions where demand for lending or opportunities for investments were greater.

This paper sheds new light on the spread of branch banking in England and Wales in an earlier period of expansion, with datasets of bank locations before the merger movement of the 1880s

[1] Grossman, *Unsettled Account* 78, Cameron, *Banking in the early stages*, 311-313. Cottrell, "'Conservative abroad, liberal at home': British Banking Regulation during the Nineteenth Century" 39

[2] Grossman, *Unsettled Account* 238-40, 260, White, "The Merger Movement in Banking, 1919 1933", Bodenhorn, *A History of Banking in Antebellum America* 31-44

[3] Banks achieved this growth primarily through mergers and acquisitions – the quick and cost efficient way of gaining market share; business expansion; diversifying deposit base, shareholder base and borrowing customer base; achieving economies of scale; and meeting the demands of increasing large-scale industrial and commercial customers. Birmingham and Midland moved their head office from Birmingham to London in 1891; Lloyds and the Birmingham Banking Company moved from Birmingham to London in 1884 and 1889 respectively; and Barclays moved to London in 1896. The remaining two of the Big Five – the National Provincial and Westminster Bank – had been based in London from their formation. A London head office allowed membership of the London Clearing House, and subsequent benefits, but also was a strategy to keep up with the behaviour of competitors. Holmes and Green, *Midland*, p. 57 and 79.

and 1890s. It therefore presents an analysis of the spread of branching from 1826 to 1877 in order to provide a more nuanced picture of the growth of joint-stock banking than has been presented hitherto. Previous studies of this earlier period of growth have focused on the history of individual institutions or upon the lending activity of joint-stock banks.[4] Little attention has been paid to branching strategies.[5] The period covered also ends just before the fall of the City of Glasgow Bank in 1878 and before the Institute of Bankers was formed in 1878, both events leading to changes in the structure of banking and a greater formalisation of education and training in bank management.[6] This time period has been chosen as it follows the development of joint-stock banks, which had a tendency to branch more than private banks, from their inception through to their maturity in the market, and to the beginning of banking as a formalised profession.

Before the merger movement of the 1880s/90s, joint-stock banks were thought to have been reluctant branchers. Up until the 1870s, English banks have been thought to have been progressively expanding and developing a branch network in a somewhat linear process but without creating large-scale networks.[7] They were believed not to have branched as extensively as their neighbouring Irish and Scottish joint-stock banks.[8] Early joint-stock banks were thought to operate in a similar fashion to their private predecessors and have been described as local in terms of their business and operated without extensive branch systems.[9] Private banks were able to branch but rarely did so. Their capital base was built purely on the wealth of the six partners of the bank and was therefore limited in scale, which consequently limited the scope of their operations. Expanding geographically and delegating authority to a variety of branch managers was a level of risk that most private bankers were unwilling or unable to take.

Previous work has largely focused upon enumerating the growth of branch banking. This article adds a new analysis by using GIS software, and plotting and mapping the geographical spread of branches. In doing so, this provides a unique insight into the motivations behind branching and

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[4] Institutional histories include Ackrill and Hannah, *Barclays*; Crick Wadsworth, *A Hundred Years of Joint-stock Banking*; Gregory, *Westminster*; Holmes and Green, *Midland*; Sayers, *Lloyds*. Works on banks and lending for this period are numerous but include Collins and Baker, 'Commercial Banks'; Capie and Collins, 'Industrial lending'; Capie and Collins, M, *Did the banks fail British industry?*

[5] Exception are Newton and Cottrell, 'Banking in the English provinces, 1826-1857: to branch or not to branch?'; Turner, "Wider share ownership?: investors in English and Welsh Bank shares in the nineteenth century"; Capie and Rodrik-Bali, "Concentration in British Banking 1870–1920". This work has tended to enumerate branch activity.

[6] Collins, 'The banking crisis if 1878', *Economic History Review*, Vol. 2, No. 4, 1998, pp. 504-527; Green, *Debtors to their profession*.

[7] Both Collins, *Money and Banking* and Newton and Cottrell, 'To branch or not to bank' tend to see branch extension as a linear process.

[8] Munn, 'The Emergence of Joint-Stock Banking in the British Isles: a Comparative Approach'.

[9] Crick and Wadsworth, *A Hundred Years of Joint-stock Banking*, 7

bank strategy.[10] This methodology and the visual representation of branch banking provides a new view of bank strategy in England and Wales; its ability to form large national networks capable of diversifying risk geographically, it's dynamism and its willingness to explore and service new areas. It allows analysis of the scale and scope of branching, as well as the motivations behind branch strategies and the success, or otherwise, of managing branch networks.

This paper demonstrates that the early joint-stock banks did, in fact, branch enthusiastically, especially before 1836. Thus they were not, as has been previously supposed, reluctant branchers. The early joint-stock bankers were operating in an untried and untested market, with limited expertise. In this environment they took risks in establishing branch networks. Indeed some failed. Yet as the century progressed, joint-stock banks competed successfully against their private counterparts. The rate of branching may have slowed after 1836, but the habit of branching had been set and proved a successful strategy for business expansion and for increasing market share by the joint–stock banks. A core branch network had been established in England and Wales by 1844, providing the foundation for the modern branch banking system. The only limitation on this growth before 1877 was the reluctance of banks to expand beyond the regional level. Conservatism, caution, a market that still had space for expansion and a lack of managerial expertise combined to halt bankers from banking on a national level. National expansion came only after the merger movement of the 1880s. Early joint-stock bankers may have been pioneers in branching but their innovative spirit had limits in terms of the risks they were willing to take.

The paper will begin by defining branches and by examining the strategic reasons behind branching. It then considers the regulatory context for branch banking, before examining the dataset. The results from the dataset are analysed in terms of branch numbers, their locations and the size and shape of branch networks. Conclusions are then drawn.

Bank branching: definitions and strategies

Legislation defined branches loosely. It recorded both branches as offices or places of establishment, and this broad category therefore included branches, sub-branches and

[10] See Larson, Ward, and Wilson, 'Banking from Leeds, Not London: regional strategy and structure at the Yorkshire Penny Bank, 1859-1952'.

agencies.[11] An office could be a building which opened every business day. Some banks did not have dedicated premises, and business might be conducted from a room that opened for just one day a week. The difference in step-up costs between renting a room and acquiring a specific building was quite considerable.

Even as late as 1914, this diversity in the scale of branch operations persisted. *Bankers Almanac* explained that 'The proportion of offices not opened daily has increased in England and Wales. From being about one-twelfth in the years 1886–1888 it is now nearly one-quarter of the whole number [6,709]'[12].Therefore, for the purposes of this research, and as contemporary sources fail to differentiate, a broad definition has to be taken which subsumes all offices - whether 'full' branches or sub-branches or agencies. The *types* of business, if not the volumes undertaken at these locations, were largely the same.

A branch would engage in the general business of banking. It would open new accounts, take deposits from customers and provide credit to borrowing customers, through overdrafts or bills of exchange. It would also deal in currency exchange and note issuing. Each branch was run by a branch manager, local directors or agents, who were required to report to the Board of Directors. All bank employees, including directors and managers, were required to pay a sum as money as a security or bond to the bank which was proportionate to their salary, as a promise guarantee honest behaviour.[13]

Why expand and open branches? The principal reason why a bank would spread its operations was to enlarge its business – to seek out new deposit taking, note issuing, lending – and to gain market share. Opening a branch was quick and relatively cheap, as compared to establishing a whole new bank. Branches could be opened in locations where a full bank could not be supported. Gilbart, the manager of London & Westminster joint-stock bank, explained that a 'branch bank may ……. be opened in places not sufficiently wealthy to furnish capital for a joint-stock bank, and where the people have no banking facilities'.[14] Branches can also been viewed as a form of advertising for the bank; another means to attract new customers.[15]

From the point of view of the customer, the spread of banking meant the availability of branches closer to their residence or location of business. In this way the public and the business

[11] In practice, the difference between the management of a sub-branch and branch is that a branch was overlooked by the head office. A sub-branch reported to the branch. Stamp Act 55 Geo 3. c.184 s 24; Newton and Cottrell, 'Banking in the English provinces'.

[12] *Banker Almanac*, 1914.

[13] For example, Sayers, *Lloyds*, 82 and HSBCGA: North and South Wales Banking Company, Deeds of Association, M0001/0001, 1836.

[14] Gilbart, *The history and principles of banking*, 135.

[15] Dick, 'Market size, service quality, and competition in banking', 49-81.

community gained from the convenience of services that could be offered to them. This was a period in which the population of England and Wales was expanding – from 15,914,000 in 1841 to 36,070,000 in 1911 - and demand for banking services grew.[16] Mobility remained limited so local, convenient banking services would be desirable to most customers, commercial and domestic alike. Demand for new branches often came from shareholders.[17] George Rae, author of *The Country Banker* and manager of the North and South Wales Bank, was somewhat cynical about such proposals, believing that they were usually made by those with 'an eye to the management of the new Branch for himself' rather than commercial or community benefit.[18]

In an era when branching was new and untested in England and Wales, establishing satellite offices involved a high level of uncertainty. Once branches had been established by some pioneering banks, other joint-stock banks could observe the successful actions of their peers and, as a result, reduce the perceived uncertainty in branching. This would consequently lead to imitation in establishing branches.[19] There was also likely to be a certain momentum in branching activity. If branching was successful, it was likely that those banks that had experienced such success would repeat this strategy.[20] Early movers in branch banking could also gain an advantage in terms of pre-empting physical space.[21]

Yet branching involved risk and uncertainty. On the one hand, if banks extended too far from their sphere of influence they could lose their ability to apply their local/regional knowledge and to successfully assess the credit-worthiness of customers. An example of this was the Hull Banking Company, which established a branch network rapidly after its formation in 1833. Several branches were opened over the Humber River in the neighbouring county of Lincolnshire. These branches were in agricultural areas and business did not grow quickly. Therefore, the bank took the opportunity to lend large sums in Leeds, 61 miles away. When one of the borrowing firms in Leeds failed, owing the Hull Banking Company £40,000, there followed a run on the bank, particularly at its more remote branches in Lincolnshire. Cash was dispatched from the bank's London agents to replenish their reserves, but reaching the more remote branches that were several hours from Hull was problematic. It transpired that the bank and its

[16] Baines and Woods, 'Population and regional development', in *The Cambridge Economic History of Modern Britain*, 44.
[17] RBSGA, Branch committee minute book of National Provincial Bank of England, NAT/1/.
[18] Rae, *The Country Banker*, 285.
[19] DiMaggio and Powell, 'The iron cage revisited: Institutional isomorphism and collective rationality in organizational field'.
[20] Amburgey and Miner, 'Strategic momentum. The effects of repetitive, positional and contextual momentum on merger activity'.
[21] Schmalensee, 'Entry deterrence in the ready-to-eat breakfast cereal industry'; Lieberman and Montgomery, 'First Mover Advantages'.

branches survived the run, having received cash just in time, but consequently most of the branches were sold or closed. The Hull Banking Company reduced its branches from 13 to 3 and did not attempt to branch as far again, demonstrating that both the management of lending decisions and branches, as well as dealing with customers that were distant from a head office, could be problematic for these small banks. This was certainly the case of the Hull bank, which had small amounts of paid up capital and deposits – £42,000 and £90,000 respectively.[22]

For the early joint-stock banks there was a delicate balance. Distance to customer was commercially important. Hudson observed in 1830s and 1840s that 'banks with branches in the West Riding also failed… partly it seems because remoteness from head office meant that it was more difficult for branches correctly to assess the credit-worthiness of parties apply for loans'.[23] In the American case, Lamoreaux suggested that "specialization undoubtedly helped bankers reduce their vulnerability to failure".[24] A small unit bank run by local businessmen had the advantage of very specific knowledge about the regional economy. They knew their customers and their needs. This provided a good reason to expand business at a regional level but not beyond.

Yet, by operating at a local and parochial level, banks could become too dependent on a firm or industry and become exposed to high levels of risk. For example, a decline in the metal industries would adversely affect towns and cities such as Sheffield and Birmingham; this in turn would expose those banks lending to industrial customers in these locations to the risk of default on credit extended. The result could be instability if too much pressure was put on the bank's resources.[25]

Some banks managed the expansion of their business through the extension of their branch networks successfully. By doing so they spread geographically, spread their customer base, spread their risks and achieved greater stability.[26] Not only were such branch banks just lending to one sector but their depositor base (the main source of funds above investment from shareholders) was extended, providing a more stable capital base. More deposits also provided lendable resources for the bank and thus increased the opportunity to profit from extended credit (with charges) to customers. Branching across a region allowed banks to utilise their

[22] Crick and Wadsworth, *A Hundred Years*, 209-211.
[23] Hudson, 'The Role of Banks in the Finance of the West Yorkshire Wool Textile Industry, c. 1780–1850'.
[24] Lamoreaux, *Insider Lending*, 162.
[25] For banks in Sheffield coming under pressure during recessions in the iron and steel industry see Newton, 'Regional bank-industry relations during the mid-nineteenth century', 67 and Crick and Wadsworth, *A Hundred Years*, 220-1, 224, 227.
[26] Research into modern banking has found that geographical diversity is an advantage to banks, especially new entrants. Berger and Dick, 'Entry into banking markets and the early-mover advantage'.

resources efficiently by moving money from a branch where deposits were plentiful to another branch where demand for lending was high. Other banks, often smaller institutions such as the Hull Banking Company, were less successful and by extending outside their geographical area and their sphere of specialisation, increased their vulnerability to failure.

Knowledge of local industries and credit-worthiness was crucial to success and having multiple spheres of operation could be problematic. Taking over or merging with existing private banks, which possessed local knowledge and expertise, could address the lack of local knowledge and expertise. As these banks had already built a customer base and reputation, merger was a simple way to strengthen the acquirer's commercial position. This was common practice and for example, Wilts & Dorset Banking Company, a new bank established in 1835, quickly acquired private banks to gain a regional presence. It absorbed the private bank Luce & Co. (founded in 1812) in 1836 and Gundry & Co (established 1809 in Chippenham) in 1837.[27] The Wilts & Dorset absorbed the business of these private banks and used their premises as their own branches.

Merger did not always occur to overcome a lack of expertise and knowledge. Amalgamation could also be unplanned and happened through circumstantial events such as the failure of another institution. In 1846 the Sheffield & Retford Bank ceased trading and the 'good' accounts were taken over by the Sheffield Union, a joint-stock bank founded in 1843, which purchased the Retford part of the business. The business of failed private bank Parker, Shore & Company was finalised in 1846; the bank never re-opened and the Sheffield Union took over the premises and a large amount of the private bank's old business.[28] In 1832, failures of the private bank Schofield and Clough provided the York City and County Bank with 'opportunities to establish branches at Selby and Howden'.[29] Thomas Clough stayed on as Manager for the Howden branch, and Robert Morrell at the Selby branch, both being described as 'experienced bankers'.[30]

Impulsive and unplanned branching may also have been defensive and driven by a desire to protect and consolidate rather than focussing upon a new opportunity for profits or the ability to absorb regional shocks. In 1885, Rae offered the advice:

[27] Sayers, *Lloyds*, 348.
[28] Crick and Wadsworth, *A Hundred Years*, 215-217.
[29] HSBCGA: Y1, Board of Directors Minutes Book, 1830-1832, Second AGM, 23rd Feb. 1832.
[30] ibid.

> If on the line of towns A., B., and C. you have Branches at A. and C. only, you could not allow another bank to occupy B. You would have to do so yourselves, although you might have to work the Branch at a loss.[31]

Therefore branches were used as a shield to protect territorial advantage and to exclude other banks.

Before 1880, there was still enough competition between banks for good locations and customers to be fought over and, thus, for services to be expanded. Indeed, those that held bank accounts were still in a minority of the population and therefore there was still opportunity for market expansion.[32] Joint-stock banks set up branches close to their private counterparts and, as economic literature would assert, organisations that locate near each other compete more vigorously than those organisations that are located at a greater distance from each other.[33]

Therefore, branch banking in the period 1826 to 1877 could take place in a variety of forms. It had the capacity to expand a banks business (deposit taking and lending) quickly and efficiently; attract new depositors and shareholders for the benefit of the bank's resources, stability and custom; potentially diversify risk for the bank; allow the efficient use of resources by providing the ability to move money from deposit-rich branches to those where demand for lending was higher; offer customers a greater ease and convenience of service; and benefit local business communities by supplying them with relatively stable banking services. The following section will consider the legislation that permitted the growth of branch banking and competition in banking services during this period.

The regulatory context for banking

Across the nineteenth century, reforms aimed to either explicitly expand or contract the size of the banking system and branch networks in England and Wales. This section examines legislation that permitted (or restricted) the development of joint-stock banking companies as new financial institutions and permitted an entirely different model of banking – one that developed a branch network - in comparison to their private counterparts.

Following the crisis in 1825/6, emergency legislation intervened to improve the stability of the English banking system. The Banking Co-partnership Act 1826 altered the Bank of England's

[31] Rae, *The Country Banker*, 287.
[32] Even by 1968, only 28 per cent of British people over the age of 16 had bank accounts. Ackrill and Hannah, *Barclays*, 163.
[33] Prescott and Visscher, 'Sequential location among firms with foresight', Schmalensee, 'Entry deterrence in the ready-to-eat breakfast cereal industry'.

monopoly in order to introduce joint-stock banking. These new banks would have an unlimited number of owners, in comparison to the private banks which were limited to just six partners, and were allowed to branch. Joint-stock banks were permitted to form outside of a 65-mile radius of London.[34] The Bank of England defended its exclusion zone vigorously through litigation, but more often mere legal threats were sufficient to see off those trying to establish within the 65-mile exclusion zone.[35] The Bank Charter Act of 1833 altered the Bank of England's monopoly again, but not significantly. The Act in 1833 confirmed that joint-stock banks were now permitted to establish in London, within the 65-mile exclusion zone, but that they would not have note-issuing rights.[36] After 1833, joint-stock banks could therefore establish a branch network of national proportions, one that extended across the whole of England and Wales, including London, without geographical restriction.

In terms of branching, the wave of new banking legislation did not alter the regulation of the size of branch networks. The Stamp Act 1815 remained in place and it required that banks apply for up to only four licenses which cost £30 each.[37] As Parliamentary inquires clarified that the law did not limit the number of branches in 1833, and again in 1836, so joint-stock banks followed the letter of the law.[38] They did not apply for more than four licences even if the bank had more than four branches.[39] The cost of licences was minimal and was unlikely to have inhibited the development of extensive networks for banks with a good supply of capital.

Parliamentary inquiries in 1836, 1837, 1838 reflected a residual nervousness about branch banking, an anxiety which had developed in the 1820s when joint-stock banks began branching, and which led to a strong push in Parliament for new legislation to curb branching activity, and indeed restrict joint-stock banks more generally.[40] Anxiety was expressed in relation to unnecessary branches and potential resultant instability.[41] After a period of intense political scrutiny in the 1820s and 1830s, and following the high profile failure of Northern and Central

[34] Banking Co-partnership Act 1826 7 Geo. IV c. 46
[35] Gregory, *Westminster*, Chapter 4 for London generally. Outside London, Acres claimed that despite the Bank warning North Wiltshire Bank that its branch in Hungerford was within the 65 mile radius, it persisted in opening its branch in Hungerford and was only open for a year. In Morris's history of Swindon, he revealed that it was the Bank of England's special privileges which 'caused the scheme to be abandoned' after it was found to be just within a half a mile of the radius. Morris, *Swindon Fifty Years Ago*, 266; Acres, *The Bank of England*, 500.
[36] Bank Charter Act 1833 3 & 4 Wm. IV c. 98.
[37] Stamp Act 55 Geo 3. c.184 s 24.
[38] Select Committee Report on Joint-Stock Banks (P.P. 1836, IX). Select Committee Report on Joint-Stock Banks (P.P. 1833, IX).
[39] Gilbart, *The history and principles of banking*, 110.
[40] Initially, early legislation did not anticipate that joint-stock banks would begin to branch. In 1826, legislators discussed the Bank of England's geographical expansion with attention to the strategy that might be adopted elsewhere. Banking Co-partnership Act 1826 7 Geo. IV c.46 s. 15.
[41] See for example *Report of the Secret Committee on Joint-stock Banking* PP, 1837, XVII, 23.

Bank in 1836 - a bank with a large branch network - Parliament finally achieved their aim with legislation in 1844.[42] The 1844 legislation acted firstly to prevent the promotion of new banks. Peel, the bill's promoter, ensured that any new joint-stock bank could only be established by letters of patent or by royal charter and a large amount of capital. The 1844 Act discouraged new bank formation and promoted a return to charter based incorporations with new restrictive capital requirements. New Joint-stock banks were required to have a minimal capital of £100,000 and share denomination of £100. This policy aimed to restrict the number of joint-stock banking companies and only 12 new joint-stock banks were formed between 1844 and 1857, when the legislation was repealed.[43]

The new legislation, secondly, discouraged the development and maintenance of large branch networks. The 1844 Acts inhibited mergers and amalgamations by restricting the use of financial instruments. The Act achieved this by limiting each bank's note issue to the amount in circulation in 1844, a measure also used to hinder movement within the banking system. The new rules would mean that only the Bank of England could increase its own note issuing. If a private bank joined with another bank to form a joint-stock bank after 1844, it could not combine note issue. Similarly, joint-stock banks could not merge and retain both issues. As joint-stock banks and private banks tended to be banks of issue, this intended to deter amalgamations between banks. And if a bank was a new promotion is could not issue notes at all, adding to the disincentive to new formations.

The Act also closed a legal loophole, which meant that banks only needed four licences costing £30 each (irrespective of the size of the network). Under the 1844 Act, banks had to have a licence for every single branch in their network. Although the cost of the licence had not changed and remained at £30, the new need to take out a licence for every branch would deter the retention of old branches which were unprofitable and the opening of new branches. Peel doubted 'whether these banks having 50 or 60 branches in very small towns renting houses and appointing efficient persons to superintend them is a wise policy'.[44] Peel and his new legislation thus aimed to discourage banks from maintaining their branch networks and inhibit greater expansion. The strategy was successful in the short-term.

While the general introduction of limited liability for companies in 1855 was seen by some as a means to improve management,[45] for banks limited liability came later in 1857 (with the repeal

[42] The Bank Charter Act and Joint-Stock Bank Act 7 & 8 Vict. c.110, 7 & 8 Vict. c. 32.
[43] Cottrell, P. L. *Industrial Finance*, 34.
[44] *The Bankers' Magazine*, Volume 1, 202, Parliamentary Debates, series 3, Volume 74, col. 1335-1341, 20 May 1844 (House of Commons)
[45] Taylor, *Creating Capitalism*, 150-64.

of the 1844 Act) but importantly retained some of the restrictive clauses and capital requirements from the 1844 Act.[46] Further, the Acts between 1857 and 1862 led to banks being able to register as limited liability companies. As such, the liability of bank directors and shareholders became limited to the size of their investment/share in the bank.[47] These banks could be formed merely by registration. There was some nervousness that limited liability would provoke reckless behaviour in banking. It was believed by many that reckless tendencies by directors and owners in the past had been prohibited by the very nature of unlimited liability. There was also concern that limited liability might attract shareholders but put off depositors. Such mistrust was fuelled when some of the new limited liability banks fell victim to share price speculation after the 1866 Overend Gurney crisis.[48] Indeed it was not until the 1879 Companies Act that limited liability became more accepted in the financial sector. The 1879 Act offered greater protection to shareholders, a development that was very much welcomed after losses incurred by investors in the City of Glasgow Bank failure in 1878.[49]

Thus early banking legislation did very little to dis-incentivise branch expansion. After the passage of the Bank Charter Act in 1833, banks were able to operate in London and expand across England and Wales. Following the failure of some ambitious branchers (the Northern and Central Bank in 1836 and the Yorkshire District Bank in 1840), legislation passed in 1844 aimed to restrict the pace at which these banks expanded. It affirmed the view that wide geographical spread was risky and undesirable. But the Bank Charter Act 1844 only last 13 years and was enacted after distinct changes had taken place; in particular many banks had by this point taken the opportunity to establish branch networks. And, after its repeal in 1857, expansion could (and did) begin again with few barriers. The changes in the banking system and branch expansion are outlined in more detail below by examining the volume and geographical spread of branches.

Branch banking: the dataset

Firstly, this section will consider the number of banks and their branches, gathered form the dataset, before looking at locations of branches in the following section. The key developments

[46] Cottrell, *Industrial Finance*, 50-53; Turner, "'The Last Acre and Sixpence'"
[47] 20 & 21 Vict. c. 49; Cottrell, *Industrial Finance*, p. 52-3.
[48] Crick and Wadsworth, *A Hundred Years*, 33. Overend Gurney was a discount house based on Lombard Street that suspended payments in 1866. See Holmes and Green, *Midland*, 43-45.
[49] The 1879 Act offered reassurance and clarity to investors and depositors alike. Indeed, most joint-stock banks adopted limited liability after this date and by the 1890s there were hardly any unlimited joint-stock banks remaining. Collins, *Money and Banking*, 100-101; Holmes and Green, *Midland*, 62. For a detail discussion of risk for bank shareholders see Turner, 'Does Limited Liability Matter?', Turner, 'Wider share ownership?', Acheson and Turner, 'The death blow to unlimited liability in Victorian Britain: The City of Glasgow failure'.

in branch banking from 1826 to 1877 were the rise of banks with significant branch networks and the persistence but declining strength of single unit banks in England and Wales. In particular, this section highlights that joint-stock banks branched vigorously before 1836. These trends will be considered in detail by looking at data from the whole period. Data has been collected from Parliamentary Papers between 1826-1842, and the *Bankers Magazine and Banking Almanac*, available from 1844.

The sources provided a list of names and places of office locations. For some places, there were multiple potential locations with the same name, and these have been verified with trade directories. Banks sent this information to government departments and all three sources published this raw data. Some contemporaries doubted the accuracy of these returns.[50] Given their contemporary use as bank directories to transfer money across the country and the ever-changing political and social attitudes towards branch banking, it is questionable that banks might gain from filing inflated and intentionally dishonest returns.[51] The data is therefore relatively reliable.

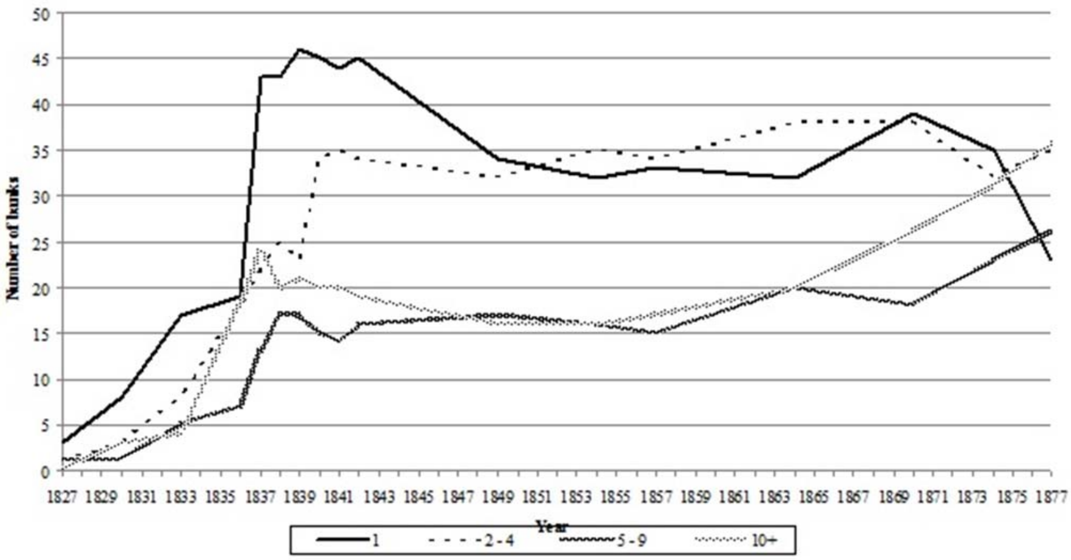
Table 1: The number of offices per joint-stock bank in England and Wales, 1826–1877

	1830	1836	1844	1854	1864	1874	1877
All banks							
Mean	4.6	7.8	5.8	5.9	7.6	10.0	11.8
Median	1	3	2	3	3.5	4	5
Standard deviation	6.4	9.6	10.7	11.5	16.9	20.0	21.6
Maximum	25	42	93	96	127	149	152
Minimum	1	1	1	1	1	1	1
Number	16	63	106	99	110	121	120
Five largest branch banks							
Mean	12.0	33.6	41.6	45.2	66.8	85.0	88.6
Median	10	40	28	26	34	50	52
Standard deviation	7.1	8.7	26.1	28.7	46.0	47.6	48.2
Maximum	25	42	93	96	127	149	152
Minimum	4	23	23	21	27	42	48

Source: *Parliamentary Papers 1826-1842*, Banking Almanac 1844–1877

[50] Waterston, *A cyclopædia of commerce, mercantile law, finance, and commercial geography*. 58
[51] See Joplin, *An examination of the report of the joint-stock bank committee*, 44

Figure 1: The number of offices in England and Wales, 1827–1877



Source: *Parliamentary Papers 1826-1842*, Banking Almanac 1844–1877

Table 1 demonstrates that the key rise in branches in 1836 and from 1860s onwards. It shows that whilst the mean number of branches per bank rose from 4.6 in 1830 to only 11.8 in 1877, the five largest banks in the sample show that the more vigorous branch banks expanded their networks far more prodigiously than the 'norm', reaching an average of 88.6 branches by 1877. Figure 1 shows banks organised by the number of branches that they possessed (from unit banks to those 2 to 4 branches, 5 to 9 branches or with 10 or more branches) in order to contrast banks with branch networks to those with few or no branches. While National Provincial's branch network has been traditionally recognised as being atypically large,[52] this dataset shows that numerous other banks also managed a complex network of branches.

Figure 1 shows that English and Welsh joint-stock banks branched vigorously in the period before 1836. Although the majority of joint-stock banks in operation between 1826 and 1877 were single unit banks, a significant proportion had relatively large branch networks - that is from 10 to 152 branches. Stuckey's Bank, formed after the passage of the 1826 Act as a merger of private banks and in 1827, possessed 9 offices. The Wilts and Dorset Bank and West of England and South Wales District Bank began trading in 1836 with branches in 42 and 20 locations respectively.[53] This scale of branch banking was not confined to the South West as the North and

[52] See Cottrell, "Banking and Finance."
[53] These results bear comparison with early branching in Tokyo, where most banks in their early period of branching only founded 9 or fewer branches but that branching increased over time. H. Greve, "Market niche entry decisions".

South Wales almost doubled the size of its branch network in its first year of operation with a rise from 22 to 41 offices. Figure 1 identifies that in 1836 the number of banks with large branch networks (those in the category of 10 or more branches) almost equalled single-units banks.

After 1836 branch networks generally regressed towards the smaller or single unit model. Following the monetary crisis and failure of Northern and Central in 1836, Ashton, Stalybridge, Hyde and Glossop Bank for instance, abandoned their plans to branch.[54] Some, for example the Manchester and Liverpool District Bank, were able to buck the trend and maintained a network of 23 offices. Contraction coupled with an increase in number of single-unit banks meant that the average number of offices per bank fell to more modest levels (see Table 1 and Figure 1). In 1836, joint-stock banks had an average of almost 8 offices per bank, demonstrating that branching in the early phase of their development was marked. With gradual expansion thereafter, as Table 1 shows, the average branch network in England and Wales was not this size again until the mid-1860s.

Thus, despite opposition and the 1844 legislation which restricted new joint-stock bank formations, the rise of joint-stock banks (with branches) continued after the mid-nineteenth century, albeit without the initial buoyancy and excitement of its initial branching. The story into the second half of the nineteenth century can be seen as one of continued but more gradual change. Many banks and their branch networks had already been established by 1844 and remained relatively unchanged. Growth in banking services in the latter half of the nineteenth century owed more to the new found ability of banks to take up limited liability from 1857. By the 1860s, joint-stock banks serviced major cities and commercial areas.[55]

Banks with the largest branch networks began aggressive branching strategies and expansion again in the early 1860s, as shown in Table 1 and Figure 1. The bank with the greatest number of branches was the National Provincial, originally established in 1833. This bank came closest to a national coverage by 1877 but, as Figure 2 and 3 shows, its geographical spread was patchy and incomplete; it performed as an intra-regional bank than a truly national banks.

By 1877, National Provincial was out branched (in terms of numbers of branches) by the London and County Banking Company, established in 1836. Between 1864 and 1877, the London and County Banking Company had begun a policy of rapid expansion, almost doubling the size of its network from 85 branches to 152. National Provincial likewise enlarged its network but by 1877 it was marginally smaller with 143 branches. The remaining large branch banks also followed a

[54] Armstrong, *Memoir*, 61
[55] Cottrell, *Industrial Finance*, 195.

strategy of geographical expansion but their branch networks remained smaller than either National Provincial and London and County Banking Company.

Thus the dataset shows that there were several banks with substantial networks throughout this period. Although the majority of the first wave of joint-stock banks in England and Wales constituted single unit banks, a significant number also engaged in branching and a significant number formed complex and extensive branch networks. While large branch networks existed throughout this period, the majority of these banks branched on a smaller scale than Irish and Scottish joint-stock banks.[56] The next major upheaval occurred in the amalgamation movement of the 1880s and 1890s. This contradicts the previously held view that joint-stock banks were reluctant "branchers" prior to the merger movement of the 1880s and 1890s. The branch networks themselves – their size and shape – are considered in the next section.

Bank branch: locations, size and shape of networks

From the very outset, joint-stock banks conducted extensive branch operations. As they became more established, and had a propensity to branch more than their private counterparts, their networks spread to extend to areas not well served by private banks. Gilbart, the manager of London & Westminster joint-stock bank, explained that joint-stock banks could shadow and expand into areas in a way that private banks could not. He stated that a 'branch bank may thus be established in a place where a private bank could not exist'.[57] Despite the advantages of branch banking, this section finds that banks tended to follow a local rather than a fully national branch strategy.

Branching locally was an intrinsic part of the joint-stock format and its ability to gain more custom ensured that it could survive competition with private banks. Indeed, branching to improve local levels of community service was a key part of the first wave of joint-stock bankers' strategy, and they aimed to service nearby communities well with banking provision, especially after the financial losses experienced in the 1825/6 crisis. For example, the Huddersfield Bank prospectus, declared that private bank failures:

[56] Munn notes that Scottish banks ventured outside of Scotland and set up branches in the North West of England. Munn, *The Scottish Provincial Banking Companies 1747-1864*, 177-8. Collins asserts that Scottish banks had many more branches than their English and Welsh counterparts, possibly due to the greater dispersal of population in Scotland as compared to England (where the population was concentrated and urbanised) and due to their long tradition of using agents. Irish bank branch networks were larger than the English and Welsh but smaller than their Scottish counterparts. But by 1875 the number of bank offices per capita was very similar in England and Ireland. The difference between all four countries in Great Britain was largely expunged by 1913. Collins, *Money and Banking*, 56-7 and 75-6.

[57] Gilbart, *The history and principles of banking*, 135, 82

> have been the means of again retarding the growing prosperity of a district which in former years had to encounter similar evils. By the failure of these banks a vacuum has been caused which, in all probability, will be filled up by other establishments of a similar nature; equally subject to the same disasters and from which the same consequences may again arise; unless a public company of a more solid description be formed in their place.[58]

Indeed, the data shows that banks displayed a regional focus and rarely served multiple commercial centres. While failure to branch at a distance may be seen as a sign of lack of ambition and indeed conservatism, there was a fine line between ambition and naivety. If strong systems of governance or control of branches were not enacted, the bank could be exposed to risk or poor performance via their branches through poor management; through lending to industries that were outside the immediate area of expertise of bank directors and managers; or through a lack of knowledge about, or personal relationships with, customers. Over-extension and excessive branching could, potentially, lead to less responsible banking and of course costs would be incurred, for example costs to the bank of communicating with and monitoring branches.

Northern and Central Bank (1834-6) branched mainly in the North West of England and the Midlands but its branch network also extended as far as South West to Bristol (see Figure 3). With difficulties in communication between the North and the South West of England, the Directors found that before the bank's ultimate death in 1836 they could not manage a network of this geographical size and sold the Bristol branch to National Provincial, a bank that was able to operate from this location successfully.[59]

Following the failure of the Northern and Central Bank, Parliament inquired as to the circumstances of its collapse, and several witnesses blamed its large branch networks and the quality of the management of both banks and branches.[60] Yet the problems of branch banking had much to do with how an institution was run rather than an inherent weakness in branching itself. Indeed, the problems of branch banking had much to do with how an institution was run rather than an inherent weakness in branching itself. The Yorkshire District Bank failed in 1840. At the AGM in this year the directors blamed the banks management rather than its branching strategy. It confirmed 'heavy losses' partly, 'with great regret', on the 'character and conduct of

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[58] HSBCGA: Prospectus of the Huddersfield Banking Company, H41/18, 9th March 1827.

[59] RBSGA, Agreement of Northern & Central Bank of England to surrender its Bristol branch to National Provincial Bank of England, NAT/603

[60] See in particular evidence from those associated with the Bank of England. Select Committee Report on Joint-Stock Banks (P.P. 1836, IX), Select Committee Report on Joint-Stock Banks (P.P. 1837, XIV)

their late General Manager, who had so long and so largely enjoyed their confidence.'[61] The General Manager had extended large amounts of credit to a few customers, thus over-stretching the bank, and demonstrated what could go wrong if a bank were poorly managed. Even so, the example of failed banks such as the Northern and Central and Yorkshire District was a chastening experience for those operating the new joint-stock banks and after 1836 branching slowed in pace.

Sayers highlighted that the problem of finding good quality managerial candidates for joint-stock banks throughout the nineteenth century. He argued that this problem persisted until banks were sufficiently well established so that they could train and recruit their own staff from the lower ranks of their companies.[62] Joint-stock banks could navigate this problem by poaching more experienced staff from Ireland and Scotland, where joint-stock banking had been established much earlier.[63] This managerial problem had been addressed by the 1880s, when a cadre of directors and managers existed that possessed enough experience for joint–stock banks to spread their branch networks. The foundation of a professional training in the form of the Institute for Bankers also helped to produce better quality managers. But such people had been in short supply early in the century.[64] Similarly, it was only in late nineteenth century when the London based joint-stock banks devised good systems of managerial control of their branch networks, reducing potential risk on lending by limiting the amount that branches could advance without head office sanction.[65]

In contrast, the example of the National Provincial attests to the ability of an English bank to run a large branch network successfully during this period. It expanded aggressively and its wide network was unusual rather than unique. Its branch network, shown in Figures 2 and 3, was not only substantial in size but also in its spread. This coverage, however, was not by any means national nor even across England and Wales. It was the only bank that located in the South East of England in the 1844 to 1877 map but its coverage elsewhere was patchy. It noticeably did not

[61] HSBCGA: Representative Register, X49, AGM, 7thAug. 1840

[62] Sayers, *Lloyds*, 63 Hunt, 'The Joint-Stock Company in England, 1830-1844' 345, Crick Wadsworth, *A Hundred Years of Joint-stock Banking*, 9.

[63] The Nottingham and Nottinghamshire Banking Company appointed Mr Peter Watt, an experienced banker from Edinburgh, to be their first Manager. LBGA, Board of Directors Minutes, 574, 4th March, 1834. The Westminster Bank, established in 1833, appoint Gilbart as their manager, who had previously been employed as manager of the Provincial Bank of Ireland's branches at Kilkenny and Waterford. Gregory, *Westminster*, 96-7. More generally, Munn, "The Emergence of Joint-Stock Banking in the British Isles: a Comparative Approach".

[64] Holmes and Green, *Midland*, 64, Collins, *Money and Banking*, 85-6.

[65] Cottrell, *Industrial Finance*, pp.236-44; Holmes and Green, *Midland*, pp.109-112; F. Lavington, *The English capital market* (1921, reprinted by Frank Cass, 1968), 143; L. Newton, 'Concentration and internationalisation in banking, 1880-1920', in Kinsey and Newton, (eds.), *Banking in an age of transition*; Sayers, *Lloyds*, 121.

branch extensively in either the North West or in Yorkshire, but it branched more extensively in areas where joint-stock banking services were less prominent, such as the South West of England and in Wales. Therefore it operated in many ways like a series of connected district or regional banks.

Where experience and expertise in banking already existed, a long distance branching relationship could be carried out. This principally meant mergers or acquiring other banks, or using an agency relationship. The establishment of the Institute of Bankers, a centralised body that trained and educated bankers, in 1878 resulted in improvements in managerial skills in the banking sector.[66] Certainly, after the establishment of the Institute of Bankers, training, practices and skills became more uniform, standardized and transferrable from one bank to another.

Although branching could be, and was, carried out at a distance successfully during this period, we find a general reluctance to explore new territory and regions. After Northern and Central's failure in 1836, banks halted the pace of expansion and extra-regional development, and tended to avoid the practice of operating over long distances. There is some continuity between the Figure 2 and Figure 3, with Wilts & Dorset, National Provincial and Manchester and Liverpool District banks apparent in both figures. Midland shown in Figure 3 should not be confused with Birmingham and Midland Bank established in 1836, which later became one of the 'Big Five' clearing banks. Midland Banking Company was a new promotion in 1863 and immediately began branching across the Midlands with some confidence.[67]

At the end of this period, branch networks had become denser but the pattern of branching and the banks' regional spheres of operations had, by and large, remained the same – Figure 2 1826-44 and Figure 3 1844-77 look very similar in terms of their geographical coverage. In contrast to the other banks, National Provincial had established itself in London in the 1860s. In doing this, it had given up its provincial note issuing rights but also became a member of the London Clearing House. Provincial banks always had access to London through a dedicated London agent, but this was in a limited capacity. The London agent would be a member of the London Clearing House and facilitate the discounting of bills and exchange of money.[68] As the Clearing House was an exclusive group, membership was difficult to achieve, and the efficiency of the agency system

[66] The development of a professional education body should be seen within its contemporary context - it was prompted by failure of the City of Glasgow bank rather than an internal demand for better quality managerial staff. See Green, *Debtors to their profession*.
[67] Holmes and Green, 38-41, 53, 59.
[68] For a detailed explanation, see Baker and Collins, "English financial markets in the 1830s: information networks, risk assessment and banking crisis" 56.

has often been cited as one of the principal reasons that provincial banks did not enter London until the late nineteenth century.[69]

Although branching in London may have been problematic, Provincial joint-stock banks in England and Wales did not attempt to enter London or the South East. Provincial banks would not issue, lend or take deposits through their London agent. Although National Provincial had branched in London, it had by no means filled the gap in the South East. The other Provincial joint-stock banks did not stray far from their original spheres of operations. By learning from their initial branching activity, joint-stock banks may have been inhibited in undertaking more extensive future development. Most institutions merely followed their local experience and did not branch more widely to discover new, more distant markets.

Some did, however, have wide geographical ambitions. Although country banks were not pulled into London, London banks pushed their networks outside the capital. By the latter half of the nineteenth century some realised that a wider network was achievable, as shown in Figure 3. After 1833, joint-stock banks in London did not initially create extensive branch networks but this was not the case by the end of the dataset. A few new entrants governed by a London head office with a multi-regional branch network were established after the 1857, for example London and Provincial, London and South Western, London and Northern and London Bank of Scotland. These new promotions tended to compete and overlap the territory held by existing joint-stock banks. With a prosperous economy, bankers took advantage of the strategy of expansion in such locations, demonstrating the competitive environment for banking but also the space for expansion in the market.[70] But even these London-and-county banks, which expanded the most in terms of distance from the head office, possessed an uneven and multi-regional coverage and lacked positions across a variety of commercial centres. Nor was their coverage as wide or geographically extensive as that of National Provincial. Overall, Gilbart considered that the branching system in England and Wales was a 'district' system; 'analogous' to that of the American system where 'American banks do not extend their branches into neighbouring states'.[71]

In summary, between 1826 and 1877, even though English regulation permitted banks to establish national banking structures, the largest branch networks tended, like American banks, to be concentrated and locked within regions. Although after 1833 regulation permitted branch banking to take place with few restrictions, over the course of the century only one national, or

[69] Poovey, *Genres of the Credit Economy* 53-4
[70] Prescott and Visscher, 'Sequential location among firms with foresight', 378-393, Schmalensee, 'Entry deterrence in the ready-to-eat breakfast cereal industry, 305-327.
[71] Gilbart, *The history of banking in America*, 82-83

rather multi-regional, bank developed. National Provincial successfully built and maintained a branch network that was large in both the number of branches and the distance between them.

Figure 2: The distribution of all branch locations for banks with the largest networks 1830–1842

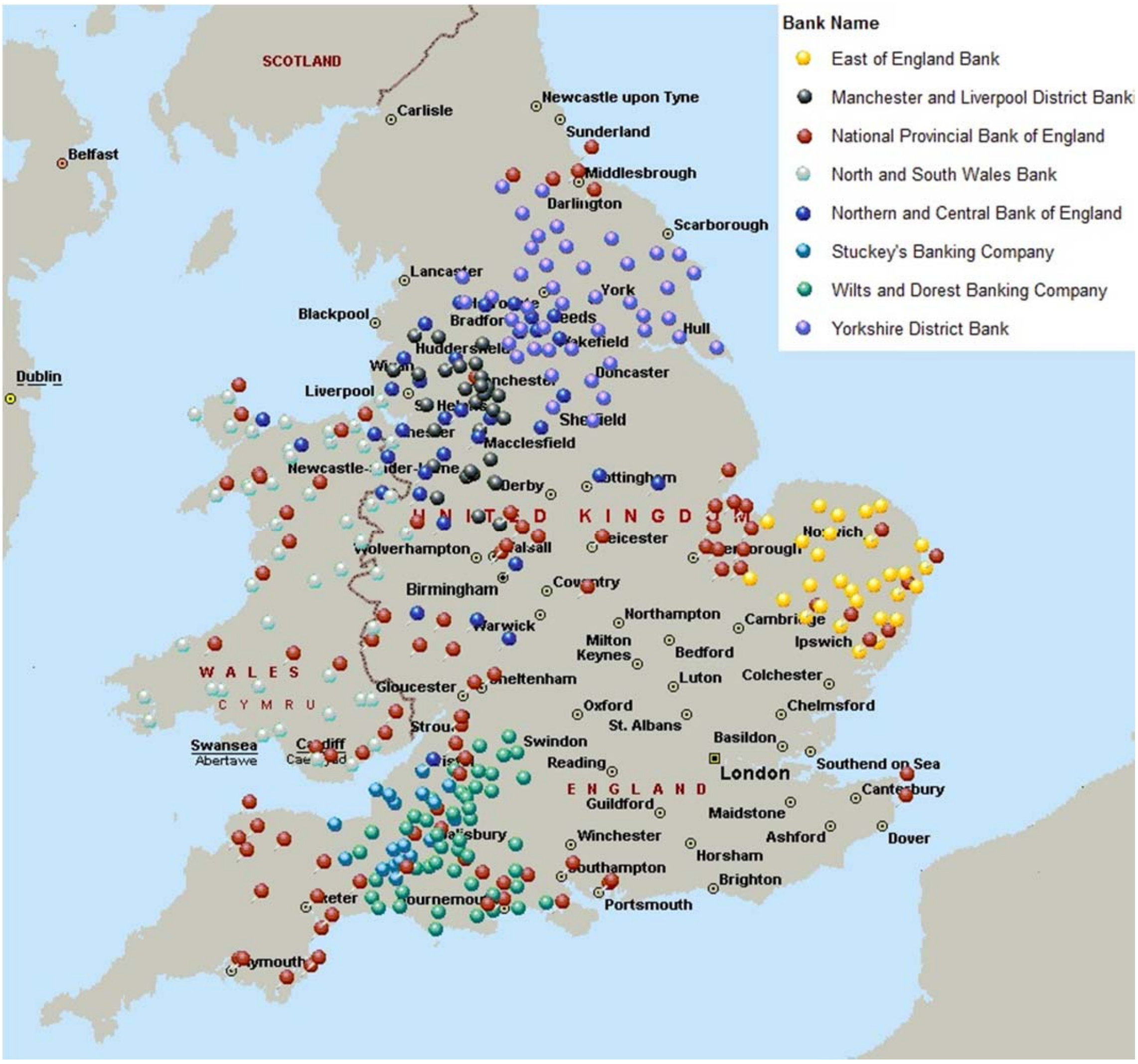
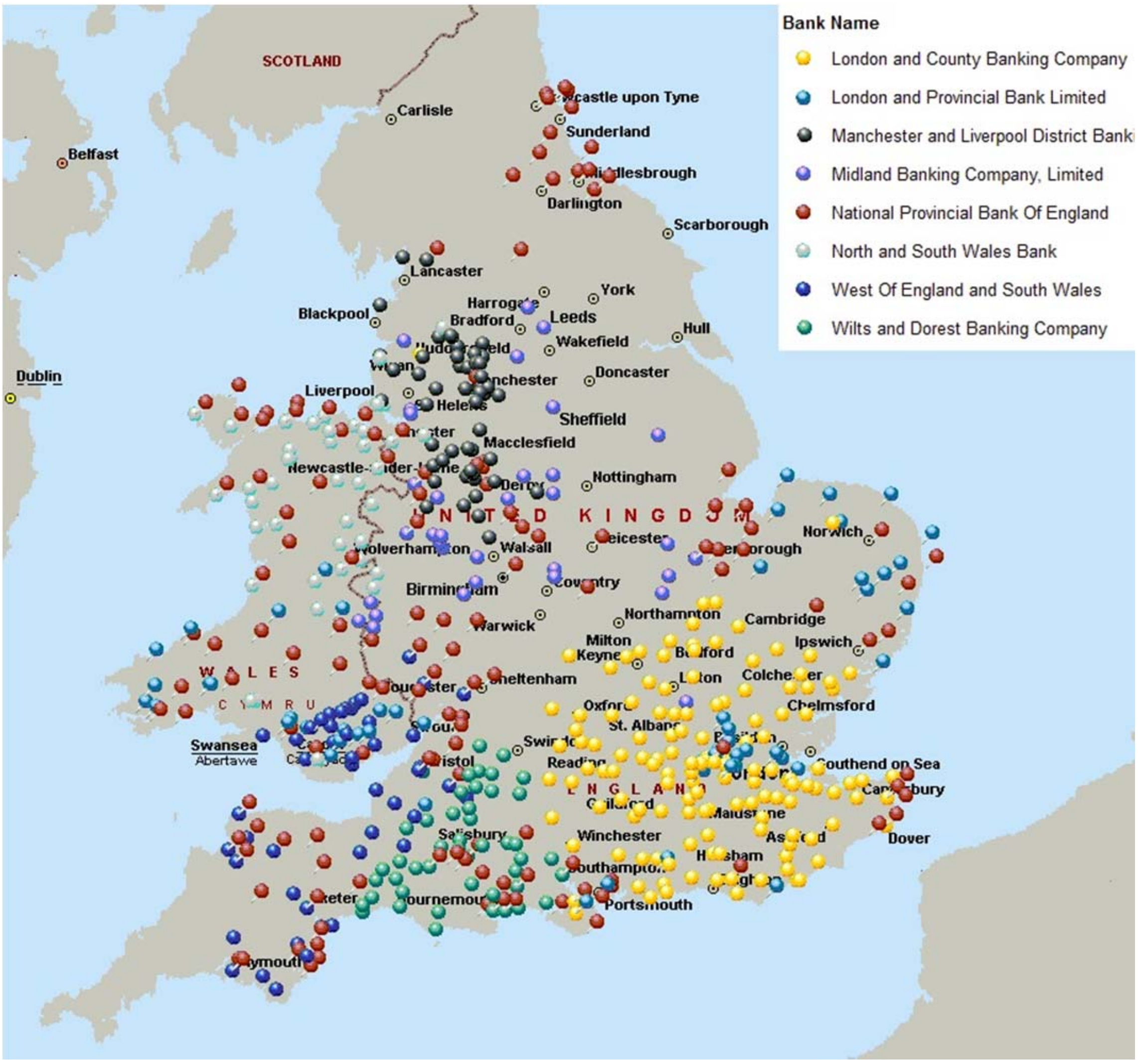


Figure 3: The distribution of all branch locations for bank with the largest networks 1844–1877



Conclusions

Geographical expansion through branching has been viewed as most significant in the merger movement of the 1880s and 1890s, when the average network exceeded 100 branches per bank, and when private banking was almost completely eclipsed.[72] It has also been viewed previously as a linear process, whereby joint-stock banks started as small, single unit banks and consequently grew branches. Yet there was much more branching in the period prior to the amalgamation movement, especially before 1836, than has previously been acknowledged. Moreover, the data analysed here shows that the process of branching was much more nuanced, fractured and non-linear than has previously been thought. Banks expanded branch networks

[72] Cottrell, *Industrial Finance*, p. 197.

but also sometimes retracted them. Other banks remain as single units up to 1877, although these were few in number.

Despite such vigorous and aggressive branching strategies, most joint-stock banks in England and Wales did not spread the business through serving a broader geographical area than the 'district' or by serving a couple of regions. By the 1870s, when London-based banks were beginning their inexorable rise, still only one bank could be described as achieving national, or more accurately multi-regional, coverage. This was the National Provincial. Truly national banks did not emerge until after intense concentration in banking had taken place during the 1880s and 1890s. Thus, by 1877, joint-stock banking in England and Wales combined the exceptional National Provincial; regional banks, such as the Wilts & Dorset or the Manchester and Liverpool District Bank; the odd single unit bank; and some London-and-county banks.

The lack of national branching occurred despite the overall success of regional branching strategies, and the fact that neither branching nor growth by merger were prevented by regulation. Why was there such a lack of geographical ambition in branching?

Pace was important. We find that once several banks had begun expanding branch networks through mergers in the 1880s, competitors followed suit. Once the larger banks began the merger movement, there was an element of competition between these institutions as they imitated and copied each other's strategy.[73] They were also spurred on by a maturing market, with potential diminishing returns from their existing branches. By the 1880s there was also an experienced and increasingly educated group of bank managers available to run branches. Managerial expertise was key to the success of a branch network. It was thus the bankers of the 1880s and 1890s who took the leap of faith and pioneered the creation of branch networks of a size that had previously not existed. Such imperatives had not existed.

Yet from early after the 1826 Bank Act, the National Provincial was a pioneer in its ability to manage a wide network of branches. Although National Provincial did not become truly national until after 1880, its size and scale demonstrated that banks *could* overcome the problems of expanding geographically and *could* operate successfully across regions via branches throughout this period. National Provincial showed that complaints of managerial incapability and poor information exchanges were not as fatal as some suggest, but rather could be overcome. One of the principal ways to achieve this was to merge. Yet few of the remaining banks followed such a strategy before the 1880s.

[73] Holmes and Green, *Midland*, 99 and Sykes, *The Amalgamation Movement*, Chapter 4.

As well as a lack of momentum, this may have been due to a reluctance to expand beyond the information hinterland of a bank, a move that would involve an increase in risk and uncertainty. This could be viewed as conservatism or cautiousness but might also been seen as objective, logical business behaviour. Some ambitious branch banks, like the Northern and Central and the Yorkshire District, had failed. Their sizeable branch networks did not make them notably more susceptible to failure, merger or death than other types of banks. But, following the failure of the Northern and Central in 1836 the banking environment altered. Although Parliamentary pressure did not result in immediate legal sanctions, negative attention and political dealings served as an early warning to other bankers in a profession not usually noted for its radical conduct. Soft and subtle attempts to regulate could still be successful in their aims. In this era, 'runs' on banks could and did bring collapse. Propriety and perceptions of stability were crucial to success. Therefore, the negative image of size, risk and expertise in managing large, branch organisations were contributory factors to the reluctance to branch. Much of this pattern in banking and branching was not a result of direct regulation but of choice, which owed much to the spectre of Northern and Central and the contemporary perception that large-scale geographical spread was unmanageable. Parliament certainly concurred with such perceptions and such views were not fully shifted until the merger movement got into full swing in the 1880s.

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