Micro-savings through the lens of UK savings banks in 1841

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Introduction

Microfinance is a set of financial services that currently serve nearly 140 million low-income, credit-constrained families, mostly in the developing world.[1] The attention of practitioners and researchers has so far been focussed largely on micro-credit, that is, the provision of small loans to poor borrowers who lack access to cheap institutional credit. It is well-established though that the lack of access to deposit facilities which enable the poor in developing countries to save is also a crucial and an unresolved problem. Poor borrowers are often charged high interest rates which cover the transaction costs of making microloans, but the small, high-frequency and high-volume requirements by micro-savers rarely yield a return. Not surprisingly, while suppliers of microloans have grown exponentially, demand for micro-savings by the poor – especially in Asian economies but also some African and Latin American ones experiencing rapid rates of industrialisation and urbanisation – remains largely unmet. In this essay we examine how micro-savings facilities were offered during the earliest phases of microfinance in nineteenth-century Britain to enable poor households, then as now, to save for a wide variety of contingencies, emergencies, investments and control over household finances, where female savers have traditionally been at a disadvantage vis-à-vis their male counterparts.[2]

The vast literature on microfinance has often looked at history for guidance. Ever since Stuart Rutheford's 1999 ground-breaking contribution on micro-savings in East Africa, historical inquiries have emerged for guidance and policy prescriptions on how to augment the supply of micro-saving products for the poor. Yet comparable historical studies and data on older savings banks in the United Kingdom are missing, particularly with regards to regulated charities, known as savings banks, which laid the ground for the enhanced

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[1] 'Microfinance Barometer' (2018)
[2] For a thoughtful account of nineteenth century savings by low-income families in the UK from a gender perspective, see, Rutheford *et al.* (2010)

network of postal savings banks that facilitated micro-savings transfers.[3] Though new practices such as technology have an important role to play in overcoming high transaction costs and allow microfinance institutions to meet the demand for micro-savings facilities, in this essay we examine the broader pattern of participation in savings facilities in the United Kingdom in 1841 to argue that of equal importance was the regulatory environment. Legal regulations from 1817 onwards created a framework that enabled local philanthropists to respond flexibly and relatively informally to rural demands for access, while at the same time developing more sophisticated and secure mechanisms to accommodate the demands of richer urban areas where access was less of an issue, laying the groundwork for the further elaboration of the system after 1861. The history of how some savings banks in Britain had managed by 1841 to increase participation among local populations can therefore suggest how modern micro-savings institutions could rise participation.

Thus, at a time when the efficacy of microcredit is being questioned as a result of anecdotal evidence of "debt traps", when field work is delivering mixed results from randomized control trials on microcredit, and when micro-savings is also gaining ground as a potential solution to some of these problems, we argue that historical experience can help provide researchers and practitioners with effective ways to promote micro-savings.[4] In particular, in this essay we hope to propose an alternative pathway by suggesting the impact that effective regulatory conditions which balance philanthropy and financial sustainability can have on promoting a higher rate of participation. The first part of the paper offers a brief historical account of the contemporary financial services offered for low-income households, and their roots in the particular form of savings bank which emerged in the United Kingdom in the early nineteenth century. In the second part we summarise the data and descriptive statistics produced by a study of participation in savings banks in the United Kingdom in 1841. In the third part we provide our econometric results, which highlight the particular importance of access, wealth and professional management in determining the use of savings facilities. The final section suggests potentially replicable saving insights for microfinance institutions in the twenty-first century.

[3] Though see Schmidt et al. (2016) for a historical study of the German experience.
[4] An example of such efforts is the path-breaking work by Nava Ashraf, Dean Karlan and Wesley Yin (2006) on the Philippines. Based on behavioural psychology, the authors found that the introduction of commitment saving products could increase savings by individuals with hyperbolic preferences.

1. A Brief History of the Micro-Savings Movement in the UK

As Britain began to undergo major industrialisation in the late eighteenth century it initially had, as in parts of the contemporary developing world, a similar shortfall in formal institutions for savings facilities to major segments of the population. Both private and joint-stock banks existed, but they catered almost exclusively to the elite. The working classes relied on a mixture of informal methods for saving, which ranged from hoarding their savings to investing them in goods such as clothing that could be pawned or sold to raise funds, to informal arrangements with retailers or publicans who might take charge of funds and allow depositors to draw against their deposits when making purchases. More formal institutions known as "friendly societies" developed in the mid-eighteenth century and had more than 700,000 members by 1805, but mostly offered a fixed tariff of payments for medical or funeral expenses in return for regular subscriptions rather than flexible arrangements for deposits and withdrawals.[5] By the 1790s the lack of savings facilities that would allow the working classes to save money against illness and old age, or for self-improvement, and also dissuade them from spending their money on "unproductive" and "immoral" indulgences such as liquor and tobacco, was becoming a source of concern to the elite, especially due to the example of the French Revolution. The influence of both Enlightenment and Evangelical thought suggested though that the poor could be guided into rational and moral behaviour by the appropriate structures, and experiments to encourage saving were tried.

These culminated with the foundation of the Ruthwell Savings Bank in Scotland in 1810 by Revd Henry Duncan, the first modern savings bank, a bank that was created with the sole purpose of meeting low-income individual's demand for savings. Unlike the friendly societies, which elected their trustees, the bank was run by a board of trustees drawn from amongst the social elite, such as local gentry, clergy, lawyers and doctors, who oversaw the receipt and repayment of deposits and invested them in securities which would provide a high rate of interest to reward depositors. The social elite's motives to act as facilitators of micro-savings via savings banks, were philanthropic and paternalistic, but often at the same time self-serving, due to fears about the potential for popular revolution and a desire

[5] Gosden (1961); Horne (1947) pp. 10-48 ; Munn (2017)

to reduce the amounts spent on welfare.[6] This model rapidly spread, especially after Parliament passed an act in 1817 which established a solid legal framework for the foundation and operation of these 'trustee' savings banks and provided subsidised returns on deposits invested in government securities.[7] In particular, added to the fact that the savings banks were already run by reputable individuals and clergymen, the implicit guarantee of government involvement inspired trust while the small deposits yielded a subsidised return, and non-binding withdrawal limitations.

Not surprisingly, the savings bank movement exploded. By 1829 there were already 476 savings banks in England, Wales and Ireland, with 409,714 depositors and £14.3 million in deposits, compared to £2.8 million only ten years before. Ten years after, in 1839, the number of savings banks had increased to 541, with 748,396 depositors and £22.4 million in deposits, and by 1849 there were 577 banks with more than 1.2 million depositors and £28.6 million in deposits.[8] This amounted to about 8 per cent of the total population, although, as this paper will show, there were also substantial variations between individual counties. Participation was particularly low in rural and semi-urban counties, many of them in Scotland, Ireland and Wales. Nonetheless, only a few years of their formal introduction, private savings banks were therefore providing savings facilities to a substantial proportion of the total population, mostly in urban areas. The upsurge of these government-sponsored private banks laid the groundwork in turn for the creation of the Post Office Savings Bank in 1861, a public savings bank run through the postal system.[9] When it was created, there were 1.6 million depositors in trustee savings banks, with combined deposits of just under £41.8 million. By 1871 the numbers of depositors and size of deposits in trustee savings banks had fallen by about ten per cent, but the numbers in the Post Office Savings Bank had risen to 1.3 million depositors and £17 million in deposits, covering in total at least twelve per cent of the population.[10]

The early savings banks in Britain were therefore private institutions, under the management and control of boards of unpaid trustees, and established on a non-profit basis. Yet they were closely tied to the public sphere, not only through a system of regulation noted below but also because the government heavily subsidised the returns

[6] See also Schmidt et al. (2016) for the German experience.
[7] Horne (1947) pp. 58-97
[8] Horne (1947) pp. 386-9
[9] Horne (1947) p. 167-83; Daunton (1985) pp. 82-106
[10] Horne (1947) pp. 386-70

offered by savings banks in order to encourage participation, and guaranteed the funds invested in government securities. Informal deposits in the hands of retailers or publicans might gather no interest at all, while friendly and building societies offered specific and tightly defined benefits. Some commercial banks offered interest on current accounts during this period, especially in Scotland, but this rarely exceeded the prevailing rate of interest. By contrast, the 1817 Act offered savings banks a return of 4.6 per cent on every £100 they invested in government securities compared to a market rate of 3.75 per cent, and required trustees to pass on this rate to depositors with only very minor deductions to cover management costs.[11] As the interest rate on these gilts fell, this was reduced to 3.8 per cent in 1828 and 3.25 in 1844, but still remained higher than any individual depositors might have obtained by purchasing gilts directly through the market.[12] In 1842 there were complaints that the government had spent over £5.4 million subsidising savings banks since 1817. The creation of the Post Office Savings Bank in 1861 encouraged savings banks to offer higher returns in order to retain customers, through the creation of the 'special investment departments' in the 1870s that invested the deposits upon the open market in order to obtain better rates than those subsidised by the government.[13]

The United Kingdom in the nineteenth century therefore developed a successful system for micro-savings which allowed working classes to save small sums, from a shilling upwards, supplemented from the 1850s by a series of 'penny banks' which allowed very poorest to save even smaller sums.[14] The system was copied widely within Europe, North America and the wider world. By 1820 there were already savings banks in most major American cities, such as Boston, New York, Baltimore and Philadelphia, and the institution had spread rapidly throughout the country by 1861.[15] Almost all the major British colonies in Canada, Australia, Africa and the Caribbean had savings banks in operation by the 1840s. The savings bank in Britain was therefore an important phenomenon in its own right and a model for others, making the reasons for its growth and development particularly important, but so far studies have remained largely unsystematic and impressionistic. Although individual banks in Britain and the United States have been examined using econometric methods to track the behaviour of depositors and investors, as noted below, the overall growth and development of savings banks upon a national level has so far relied

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[11] Horne (1947) pp. 74-9,
[12] In 1842, most rates were 3.3 to 3.4 per cent: PP 1843 (281)
[13] Horne (1947) pp. 215-27
[14] Horne (1947) pp. 182-98, 216
[15] Horne (1947) pp. 87-90

on crude measures of overall participation. Consequently it has so far been difficult to offer more rigorous explanations for the growing level of participation in savings banks during the earliest phases of industrialisation in Britain and elsewhere, and how far this can guide modern microfinance practices. The next section will address this gap by offering a study of participation levels in Britain in 1841, when the system had reached maturity, and by identifying the main factors behind it.

2. Data and Descriptive Statistics

The crucial data on the number of savings banks per county and the numbers of deposits and depositors in 1841 was derived from a survey published by John Tidd Pratt in 1842 entitled *The History of Savings Banks in England, Wales, Ireland and Scotland*.[16] Tidd Pratt had been the government Registrar of Savings Banks for the United Kingdom since 1828, a position which gave him access to the annual returns provided by all of the savings banks in the country. The government only published annual abstracts of these statistics, but Tidd Pratt had published an earlier version of the *History* in 1830 covering only England, Wales and Ireland, as well as a number of other pamphlets promoting the banks, such as the *Progress of Savings Banks* in 1845, as part of his campaign to publicise the benefits of savings banks for the elimination of poverty. 'The beneficent spirit of the present age', both editions of the *History* began, 'is in nothing more remarkably displayed than in the combined energy with which individuals of the highest ranks of society are labouring to promote the welfare of the lower orders'.[17] Collated from official statistics, the data from the *History* are therefore a reliable summary of the overall state of savings banks in the United Kingdom in 1841, and have been used here with further data from official sources, including the returns provided to Parliament in 1843 of the costs of management for each savings bank in the United Kingdom.[18] As a result, it is possible for the very first time to obtain detailed county-level data on numbers of depositors and their deposits, the managerial cost of running savings banks, and a range of other factors that may have influenced participation in the savings movement.

Analysing this data at the level of the county rather than the individual town or savings bank, as in other studies, not only ensures that this analysis includes the rural depositors

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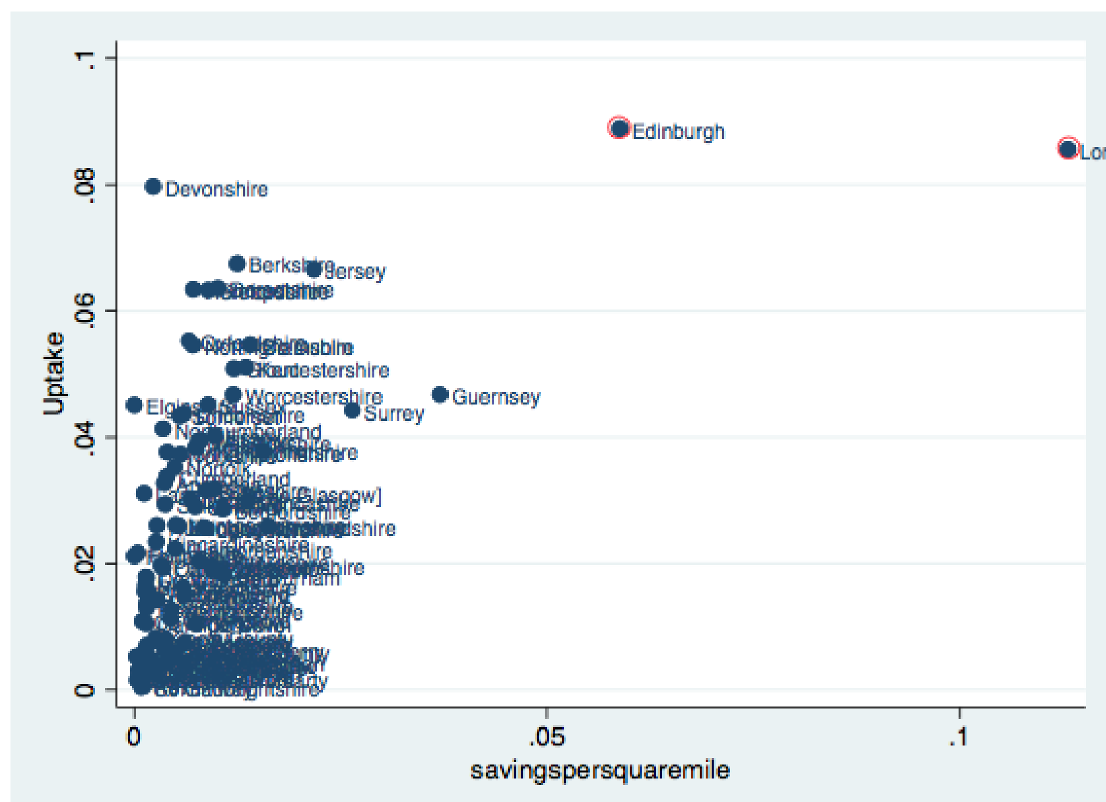
[16] Tidd Pratt (1842). See Horne (1947) pp. 80-1.
[17] Tidd Pratt (1830) and (1845)
[18] PP 1843 (281). The 1841 census data are taken from 'A vision of Britain through time' (2018).

who travelled into urban centres to make use of saving facilities but also enables the data to be analysed against the rich range of other surviving county-level data.[19] The census of the United Kingdom for 1841 provided statistical information for the population of every county, and levels of migration and employment, and surveys of the total annual value of real or landed property per county were published in 1842 and 1843 which offers a proxy for the income of these counties. However, as it excludes income from other sources such as salaries or shares, it probably tends to understate the wealth of counties with major urban areas such as London where professionals and rentiers were concentrated. A preliminary analysis shows a strong association between participation on the one hand and income on the other, as shown in Figure 1, which in turn suggests that higher levels of income per capita might have led to higher levels of participation. As Figure 2 shows, a high level of participation was also associated with a greater concentration of savings banks, with the heavily urbanised counties of London and Middlesex, and Edinburgh, whose boundaries were coterminous with the limits of the city itself, demonstrating some of the highest levels of participation per head in the country.

Figure 1. Wealth and savings

[19] See the database submitted as a complete research study with this paper.

Figure 2. Savings and concentration



In sum, the ‘uptake’ or level of participation of depositors in each county in the United Kingdom in 1841 seems to have been strongly influenced by wealth and access, which may seem to suggest that like today levels were highest in urban areas, where both access and wealth were concentrated. Our econometric analysis addresses this question directly.[20]

3. Urbanization and Savings

Our data enables us to proxy the degree of urbanization directly and indirectly via several variables, but for the purposes of this analysis we have chosen independent variables which were most relevant to the rapidly industrialising economy of early nineteenth century Britain, and thus by extension to modern emerging market economies. We firstly examined levels of concentration and the access of depositors to savings facilities, as proxied both by the number of savings banks per 100,000 people and the number of

[20] ‘Microfinance Barometer’ (2018)

savings banks per 100 square miles, Secondly, since the increasing size and complexity of micro-savings operations requires increased costs of management in order to keep pace with depositors and meet their demand for savings facilities, especially in urban areas experiencing a high volume of business, we examined the cumulative managerial costs in the savings banks of individual counties.[21] Thirdly, as a proxy for the relative income of the population in these counties, we examined the annual real value of landed property reported for these counties, itself often associated with a high degree of urbanisation. Our results from a standard Ordinary Least Square (OLS) regression are reported on Table 1, which indicates that 70 per cent of our three proxies for urbanization can explain levels of participation between the individual counties. All the explanatory variables have the expected sign and are significant at 1 per cent, demonstrating, in other words, that there is a positive and significant association between the participation by depositors on the one hand, and the concentration of savings banks in urban areas where commercial bank concentration is high, the costs of management and the annual value of real property on the other. The coefficients are particularly high for the first and third, access and income, indicating that these were particularly important in shaping participation.

Table 1. Depositors per 100,000 People and Urbanization

Banks Per 100,000 People	320.67***
	(77.12)
Banks Per 100 Sq Miles	343.58***
	(107.04)
Management Cost Per Saving Bank	7.54***
	(1.25)
Annual Value of Wealth Per Person	445.95***
	(105.10)
Constant	-1,285.07**
	(500.61)
Standard errors in parentheses	*** p<0.01, ** p<0.05, * p<0.1
Observations	70
R-squared	0.70

In order to test whether our results were largely driven by the two outliers, London and Edinburgh, both highly urbanised counties with a high concentration of savings banks, large management costs and high levels of income, we ran the regression without these

[21] See, notably, Armendáriz-Morduch (2010)

outliers. As shown by our results on Table 2, all coefficients continue to be positive and significant, but the size of the coefficients, unsurprisingly, changes once these extreme examples are removed, with the independent variables thus having less effect on levels of participation. One unexpected result is that although the coefficient for banks per 100 square miles increased by 66 per cent, whereas the coefficient for banks per 100,000 people decreased by 12 per cent. This may suggest that geographical proximity to the savings bank may have been the more important factor in driving participation compared to the mere existence of savings banks within a given area, with rural or suburban areas of middling population density with few large savings banks offered easier access for depositors than remote rural areas with a low population density but a higher number of individual savings banks.

Table 2. Depositors per 100,000 People and Urbanization (excluding London and Edinburgh)

Banks Per 100,00 People	285.52***
	(71.63)
Banks Per 100 Sq Miles	1,035.50***
	(296.47)
Management Cost Per Saving Bank	7.84***
	(1.12)
Annual Value of Wealth Per Person	396.58***
	(97.55)
Constant	-1,399.90***
	(448.73)
Standard errors in parentheses	*** p<0.01, ** p<0.05, * p<0.1
Observations	68
R-squared	.70

As these tables show, levels of participation were also higher in richer areas, mirroring a considerable amount of recent work on contemporary microfinance and savings confirming that the uptake of savings facilities is highest where the population possesses sufficient disposable income to have a surplus that can be set aside from immediate expenses.[22] There was no correlation between the returns offered by individual banks and the levels of participation within a region. This was not because savers were not interested in maximising their returns – there is strong evidence that depositors in the United States,

[22] This is particularly true for savings banks in emerging market economies, where the income from such deposits help to cover the high transaction costs involved, thereby meeting the aims of both profitability and social welfare, the so-called "double bottom line". See, for example, World Savings Bank Institute (2009)

for example, paid close attention to returns and moved their savings from one bank to another in search of higher yields – but because British savings banks were legally required to invest their deposits in government bonds and pass over a specified amount to individual depositors.[23] Consequently cross-county interest rate variation between savings banks was far lower than the difference in places such as New York and Baltimore, where banks enjoyed much greater freedom in their investment decisions.[24] They were also heavily subsidised, as noted above, to the extent that there were constant worries among commentators and critics in Britain that the savings banks were being exploited by the middle classes and that the subsidy was failing to benefit those among the working classes it was intended for.[25] Many savings banks in the United Kingdom therefore imposed strict limits on the overall size of deposits, and although there was very substantial variation between the size of average deposits in 1841, there was no correlation with overall participation, suggesting that the aim of richer depositors was not simply to exploit the opportunity to benefit from a generously-subsidised rate of interest.

Instead, the key benefit that savings banks may have offered in wealthy areas was a flexible set of services for depositors looking to diversify their savings portfolio. As noted above, friendly societies provided coverage for medical or funeral expenses in return for a fixed contribution, and their numbers continued to expand, from about 425,000 members in 1815 to around 4 million members, some 20 per cent of the total population of England and Wales.[26] The period also saw the growth of building societies, which enabled groups within the working class to pool their contributions to invest in homes for residence or rental.[27] Both were specialised forms of saving however, which offered specific rewards to depositors but rarely provided the more flexible facilities necessary for accumulating savings for other purposes such as personal consumption or economic investment. At a rather more informal level, the expansion of pawn-shops in the nineteenth century offered a flexible system that allowed people to use their savings for consumption and investment but liquidate that capital if they needed credit.[28] By contrast, studies of individual savings banks such as the Limehouse Savings Bank in London between 1830 and 1876 by Linda Perriton suggest that depositors did more than steadily accumulate savings as their

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[23] Olmstead (1976) pp. 66-73
[24] Olmstead (1976) pp. 74-146, Payne and Davis (1956) pp. 93-113
[25] Horne (1947) pp. 92-103; Fishlow (1961); Olmstead (1976) pp. 48-55.
[26] Gosden (1961) p. 14
[27] Cleary (1965); Hart (2009).
[28] McLaughlin (2013) and (2014); Tebbut (1983); Johnson (1985)

founders had hoped.[29] Although these 'accumulating' accounts did exist, they were supplemented by 'drawn down' and 'contingency' accounts, resembling modern current or checking accounts, as well as 'in and out' and 'lump sum' accounts used temporarily to park large sums, suggesting that depositors valued the flexibility savings banks offered them to manage this aspect of their household economy.

Thirdly, participation was higher in regions that had high management costs per savings bank, indicating that the trustees were spending more money on both the professional staff employed by the bank and facilities such as a permanent and specialised office with the necessary fixtures and fittings. Since participation also tended to be higher in areas of greater income or economic activity, this particular correlation may partially be an artefact of the sources, since such areas would tend to produce higher prices that would be reflected in turn by higher wages and rents. However, the higher levels of expenditure on staff and facilities may also have enabled banks to offer a better and more professional level of service, enabling them to attract a greater number of depositors and increase the overall rates of participation. The smaller banks depended on volunteers and could therefore only open for business for a few hours each week. Even in 1861, only 20 of the 624 savings banks were opened daily for business.[30] The employment of professional staff enable banks to overcome this problem and open more often, and also created a corps of officials with much deeper knowledge of the savings bank system whose professional livelihoods depended upon increasing business. 'Those who came into contact with the savings banks found the managers and officials anxious and willing to help, and placed implicit confidence in their advice', suggests Horne to explain the continued rise in deposits in the 1840s, '[and] the more highly developed bank began to improve business methods with the aid of a full-time highly trained staff. The best way to encourage thrift and promote confidence was to give a good service and especially to give facilities for speedy withdrawal without question.'[31]

Other factors were much less important in determining levels of participation in savings banks in 1841. As noted above, the campaigners and promoters of savings banks in the

[29] Perriton and Maltby (2015); Wadwhani (2002) and (2004); Payne and Davis (1956) pp. 114-37; Alter, Goldin and Rotella (1994) pp. 735-67. The reluctance of depositors to take up offers to convert their demand deposits into government annuities was a cause of considerable puzzlement and frustration to the government: Horne (1947) p. 112-15
[30] Horne (1947) pp. 180, 208-11
[31] Horne (1947) p. 111

early nineteenth century drew strong links between the creation of banks and the elimination of poverty, arguing in particular that by enabling poorer classes of people to put aside among against illness and old age, it would enable local governments eventually to reduce spending on poor relief.[32] However, the higher levels of participation within some counties were not in general associated with an reduction in the relative extent of poor relief, measured here by using as a proxy the numbers of paupers relieved in each English and Welsh county in 1842 under the New Poor Law.[33] In that respect the savings banks therefore failed to meet some of the key aims of many founders. Although savings banks and friendly societies had closely overlapping purposes, and catered to much the same parts of society, there was also very little correlation between the numbers of friendly societies and the levels of participation.[34] This suggests, as noted in the last paragraph, that these institutions served separate – albeit overlapping – functions. Although the phenomenon of savings and savings banks is often now linked with immigration, with migrants building up deposits in order to remit them home, using the census data to establish levels of migration at the level of individual counties in 1841 also show no correlation.[35] These factors were therefore of limited importance in shaping the levels of participation in savings banks in the United Kingdom in 1841 compared with the key factors of concentration, wealth and the costs of management.

3. UK Savings banks

What then enabled British savings banks in the early nineteenth century to meet successfully the demand for deposit facilities and to encourage far higher levels of participation in some places compared to others? Factors such as overall wealth – a by-product of industrialization – were clearly exogenous to the savings bank movement, but even here the relative success of the savings banks reflected their ability to take advantage of the higher levels of wealth in some areas, while factors such as higher access and management costs were more directly the outcome of decisions made by individual banks and their trustees. In particular, behind these decisions lay a regulatory environment which restricted the savings banks in some respects, such as the investments and returns open to them, but also created the conditions that allowed the banks to invest larger sums in

[32] Horne (1947) pp. 10-38
[33] PP 1842 (235) and PP 1843 (235). Figures are not available for Ireland, and the Scottish system of poor relief remained different until the 1845 Scottish Poor Law Act.
[34] Gosden (1961) pp. 71-93; Cordery (2003) pp. 42-64, 98-124
[35] Consultative Group to Assist the Poor (CGAP), World Bank (2008)

management or offer increased access to savers. The regulatory environment in Britain after 1817 was especially favourable, since it allowed the savings banks to adapt themselves to local conditions, including large variations in wealth and population density. The big urban banks were able to meet the demand for their products by developing a professional management and system of institutional regulation, but it was still possible for trustees to establish and run a small rural bank with very few legal or financial overheads that would give savers access to deposit facilities. In counties where trustees took advantages of these powers to found savings banks and bring in professional staff, demonstrated by higher levels of concentration and costs of management, the relative rates of participation rose.

The revival of institutional economics since the 1980s has focussed attention on the importance of effective institutional design in the creation of financial institutions, with Douglass North and Barry Weingast in particular suggesting how government can create the structures which provide the 'credible commitment' necessary for encouraging investment in public debt.[36] In the sphere of commercial banking, a growing historical and economic literature has stressed how the legal environment and regulatory structures can alter the design of financial institutions.[37] An early concern in Britain was the creation of an credible regulatory framework that would encourage saving by securing depositors against defalcation and malfeasance. The earliest banks were set up under the laws regulating friendly societies, but in 1817 specific legislation was passed, with the assistance of those banks, which created clear procedures for forming and operating them noted above.[38] This protection was strengthened by the 1828 Act, which established the Registrar of Savings Banks to exercise overall supervision of the sector and clarified that the trustees were liable to the depositors for instances of 'wilful neglect or default', though only for their own acts and not for those of other trustees. This loophole was widened by a further act of 1844, which required paid officers to post security for the money they handled but declared that trustees were not liable unless they had already stated beforehand in writing that they were, to whatever amount they chose to assert.[39] Horne argued that this was a crucial legal weakness which discouraged close oversight by trustees of accounts and caused several scandals in 1847 before the loophole was closed in Ireland in 1848 and Great Britain in 1863, after prolonged hiatuses in the growth of deposits in these banks.[40]

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[36] North and Weingast (1989); Coffman, Leonard and Neal (2013); Cox (2016)
[37] See the essays in Sylla, Tilly and Tortella (1999)
[38] Horne (1947) pp. 66-80
[39] Horne (1947) pp. 116-34
[40] Horne (1947) pp. 116-40, 150-67, 208-15

In Horne's opinion, the lax nature of formal regulation was therefore a weakness which created a crisis of confidence in British savings banks after 1844, especially at a time when the government was lowering the subsidy offered to savers.[41]

However, given that overall access to savings banks, to professional staff, and to institutions willing to deal flexibly with the monies they received were the primary factors in participation, it is now possible to reassess this conclusion. The low regulatory requirements allowed the savings banks to innovate and adapt their savings products to the demands of the individual depositor, compared to other forms of saving such as the friendly and building society, which required regular payments, prescribed the benefits that would be offered, and in some cases required depositors to remain tied to the society or else lose their accumulated benefits.[42] Some founders of savings banks similarly tried to dictate terms to depositors. The Ruthwell Savings Bank created by Henry Duncan in 1810, for instance, had a complex series of incentives that were intended to encourage regular deposits and an equally complex set of penalties intended to discourage withdrawals, such offering higher rates of interest for regular deposits and deducting accumulated interest for unauthorised withdrawals.[43] These were eliminated by the Edinburgh Savings Bank when it was set up in 1813, '[and] in the long run', Horne notes, 'it was the simpler Edinburgh model which prevailed'.[44] The complexity was instead reflected in the considerable administrative demands this imposed on the trustees through the sheer volume of business, which required the employment of a growing number of clerks, bookkeepers and managers who could in turn develop or adapt methods of administration and oversight suited to the scale of this business. These were not fool-proof, and the scandals of the 1830s and 1840s noted above undermined the confidence of depositors even in large professional savings banks to a significant extent, but before 1847 they served to encourage innovation and adaption which enabled the larger savings banks to meet the demand for savings facilities, particularly in large urban areas.

Such models were inappropriate however for the vast majority of rural areas, where most savings banks were far too small to enjoy the economies of scale which would have enabled them to employ the professional staff needed to conform to onerous and demanding

[41] Horne (1947) p. 140
[42] Gosden (1961) pp. 94-114, 198-210; Cordery (2003) pp. 65-97
[43] Horne (1947) pp. 39-46
[44] Horne (1947) pp. 46-8

administrative and legal requirements. By setting low regulatory requirements the system of trustee savings banks encouraged the voluntary and unpaid participation of a wide range of local elites who could provide a basic array of key services to local depositors without incurring excessive risks or requirements, enabling them to run the savings banks on a shoestring and to pass the benefits of subsidised returns on to their depositors. The regulatory structures therefore encouraged participation and broadened the access of deposit facilities in rural areas by allowing the formation of smaller and less active savings banks which built credible commitment less by formal institutional structures and more by the informal trust created by the capture and incorporation of key local elites into its systems of oversight. As recent work has emphasised, trust was a key component within the pre-modern economy, enforced through informal social and cultural sanctions but enabling a reduction in the cost of transacting business between parties lacking effective formal means of contract enforcement.[45] In the case of savings banks, by allowing the formation of banks by local elites with strong ties to the area, whose position and reputation frequently depended upon their standing within their communities, and who were often motivated by a genuine sense of philanthropy, this some counties to achieve a higher level of participation by the formation of numerous small banks that were more accessible to rural savers.

This process can be seen most clearly in the case of the county of Devon, a major outlier which had only 1.1 banks per 100,000 people and 0.23 banks per 100 square miles, and was only moderately wealthy, but had one of the highest participation ratios in Britain, about 7,970 depositors per 100,000 people. Only the richer and heavily urbanised counties of London and Edinburgh had a higher ratio. This was achieved because the principal savings bank, the Devon and Exeter Savings Bank, adopted a unique system of branches which enabled it to cover most of the towns and large villages in the region. A large network of Receivers of Deposits accepted deposits and remitted them, at the clients' risk, to the central office at Exeter, where they were entered into the books of the banks in the usual fashion.[46] By 1839 there were more than 150 receivers, the vast majority of them local clergymen and gentry acting without reimbursement, who were not only best placed to encourage local residents to deposit funds but were also presumably considered by depositors as some of the most trustworthy intermediaries. Like a system of unpaid

[45] See for example Fontaine (2014); Muldrew, (1998).
[46] Devon & Exeter Savings Bank (1846).

trustees, this network of receivers provided access and encouragement to a very large number of rural savers while enabling the bank to maintain a core of salaried administrators at its head office in Exeter who could maintain professional oversight over the receivers

The Devon and Exeter Savings Bank therefore exploited the relative freedom that the regulatory structures offered to maximise participation by striking a highly effective balance between easy access and informal trust, on the one hand, and professional management and institutional security on the other. 'Why the Exeter system was not generally followed it is difficult to say', Horne noted, not least because early savings bank proposals had included branches or agencies, '[but] in spite of these early attempts to encourage an organised and comprehensive system based on the counties or large towns, the Exeter Savings Bank remained the only bank to develop a really extensive agency system'.[47] Its nearest equivalent was in fact the later Post Office Savings Bank created in 1861, which operated through the local branches of the General Post Office and provided a similar range of services. Given that most towns and villages of any size had a post office and full-time postmaster by this point, the system therefore offered savers considerably wider access to deposit facilities compared to most savings banks, as well as additional benefits such as the ability to remit money across the British Isles cheaply, easily and securely which were not offered by individual trustee savings banks. At the same time, these branches were under strict bureaucratic control through a central office in London, itself backed by the British government, therefore offering an effective combination of access and security. As a result, as noted above, participation rose rapidly, and was essentially level with trustee savings banks within ten years. Over 200 of the latter had closed by 1879, the majority of them the smaller rural savings banks which competed directly with the new Post Office Savings Bank to offer cheap and convenient access to rural depositors. The survivors tended to be the larger savings banks in urban areas where the Post Office had no advantage in access and which offered, as noted above, professional support for savers. 'They were specialists in thrift', notes Horne, '[and] were interested in their clients as actual and potential savers … and to take that professional interest in them which makes a person glad to come again', something that urban post offices were less able to do.[48]

[47] Horne (1947) p. 67
[48] Horne (1947) p. 215

4. Concluding Remarks

Low-income individuals, above all, wish to have access to flexible savings products. But because their deposits are tiny compared to those of white-collar workers, and because full commitment is exceedingly difficult, as savings can be completely wiped out due to unforeseen contingencies, the high transaction costs have frequently deterred the provision of micro-savings facilities. One of the main lessons from the experience of savings banks in the United Kingdom in 1841 is that the ideal saving product likewise involved high transactions costs, which necessitated either the employment of professional staff or some form of financial subsidy, delivered by trustees voluntarily donating their time and services to provide a basic level of micro-savings facilities to depositors. This was possible because of the very strong tradition of philanthropic or paternalistic obligation felt by elites, the bonds of shared trust which linked local societies, and a tradition of minimal (minimalistic?) governmental regulation which made it acceptable to devolve responsibility and risk to the trustee and, ultimately, the depositor. The institutional features of the savings bank as it emerged in Britain during the nineteenth century reflected this, allowing a diverse range of response to demands. Today, higher regulatory requirements intended mainly for commercial banking mean that few are in a position to offer deposit facilities to their clients, since the high cost of compliance creates additional transaction costs which deter commercial banks from extending their services to the lowest income households. By the same token, potential suppliers of micro-savings facilities in the non-governmental sector such as charities and development foundations are deterred from acting by the cost and complexity of complying with commercial regulations for charitable purposes.

Replicating the regulatory environment of the nineteenth century United Kingdom is obviously inappropriate for modern savings banks, not just because standards of practice have altered but also because the social and economic situations are often not directly comparable. However, we believe that the selective adoption of key aspects of this regulatory environment by groups of savings banks such as the World Savings Bank Institute could help to raise level of participation and address the demand for deposit facilities. Since their inception in the 1970s, microfinance institutions have set themselves a self-sustainability goal, which in the micro-credit sphere explains the exceedingly high interest rates charged to low-income clients. The same "double bottom line" objective of

delivering both financial sustainability at the same time as social benefits also characterizes most of the institutions offering micro-savings facilities, a misguided approach resulting in high charges and low rates of interest which discourage saving and leave large parts of the population unbanked and without secure deposit facilities. The historical experience of the United Kingdom suggests that offering subsidised returns in secure investments – in this case the government securities guaranteed by the Treasury and the British state – could be a way to support local micro-savings institutions and absorb some of the high transaction costs inherent to this practice. By enabling micro-savings institutions to cover some of these transaction costs while also providing an explicit guarantee for the security of those investments, by separating to some extent the control of those investments from the business of taking and receiving money, this would help to address some of the key concerns which prevent low-income households from making use of these institutions.

Finally, access was clearly a crucial factor in encouraging participation, and was strongly promoted by a regulatory system which enabled interested parties to set up savings banks with only minimal administrative overheads. This enabled basic but relatively secure facilities to be provided to meet the immediate needs of depositors, both in urban and rural areas, even people with most complex savings needs were forced to resort to larger savings banks elsewhere. The problem with this model in the United Kingdom by 1841 was that low regulatory oversight led to a growing number of abuses that led the government to impose a growing burden of regulation, increasing the costs of compliance and undermining some of the factors which had led to the growth of the savings bank in the first place. As this paper has suggested, the Exeter and Devon Savings Bank perhaps provides a model of how this was, and might be, successfully addressed. Professional management was combined with an extensive branch network of unpaid but supervised agents, frequently acting out of philanthropy and charity rather than for personal gain, who offered basic services to a wider range of depositors in rural areas that would otherwise have lacked them entirely. As a result, the county of Devon had one of the highest levels of participation in the British Isles. However, even for all of the limitations in the system of individual trustee savings banks that prevailed elsewhere, this paper has argued that they were the product of a regulatory system that established the conditions for high levels of participation in areas that took advantage of them. The result was the creation of a system of subsidized savings banks which was both accessible and adaptable, and provided

depositors with pathways into retail banking and postal banking and a range of other useful financial services that were instrumental in meeting demands for saving facilities.

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