



"How a Scottish Minister Changed the Financial Landscape"

Henry Duncan Bicentenary Conference – June 2010

In 1810, Rev Henry Duncan, a parish minister in Ruthwell near Dumfries, founded a savings bank in his church hall as a way of addressing the poverty of his parishioners; as the idea caught on, he was recognised as the father of the Savings Bank movement. As we celebrate the bicentenary, banking is in some turmoil, and very much in the public eye.

Two day conferences marked the anniversary – one, in the General Assembly Hall on 9 June, was hosted by the Church of Scotland, the Chartered Institute of Bankers of Scotland, and Edinburgh University; on the following day, the European Savings Bank Group and World Savings Bank International hosted a conference in the Sheraton Hotel (it is hoped that ESBG/WSBI will publish the papers of that conference).

The first of these events was designed for (and attracted) a diverse range of participants, from Scotland and beyond (from banking, micro-finance, credit unions, the churches, anti-poverty campaigners, academics, students, etc). The programme set Henry Duncan in context, debated the values he embodied in the savings bank movement and explored modern models of how banking and finance can serve the needs of people struggling today.

Published here are the papers and presentations from that conference, with notes of the discussions and a post-conference reflection.

(Photo by courtesy of Lloyds Banking Group)

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"How a Scottish Minister Changed the Financial Landscape"
Henry Duncan Bicentenary Conference Programme
9 June 2010 in the General Assembly Hall, Edinburgh
Chaired by Dr Alison Elliot, OBE

10.00am Welcome – Catriona McKay (Financial Inclusion Team Leader, Scottish Government)

Session Theme: "A Very Noble Banker" - Henry Duncan in Context

10.15am Historical Context within Scotland and its Kirk (Stewart J Brown, Edinburgh University)

10.45am Historical Context within Banking (Charles Munn)

11.15am Questions

11.30am Coffee Break

11.50am "Doing God's Work?" (A dialogue between a theologian and a banker around Henry Duncan's key values and theology – John Miller and Jim Lindsay)

12.50pm Lunch

Session Theme: "Banking on the Poor"

1.40pm "Banking Today and Tomorrow" (Chris De Noose, Managing Director of the World Savings Banks Institute and the European Savings Banks Group)

2.10pm A Panel consisting of a Banker (Simon Thompson), a theologian (Graham Blount) and a financial inclusion champion (Anne Feeney) will hear a series of ten minute presentations of alternative financial models, and interrogate the presenters.

The presentations made by:

- Marlene Shiels (Capital Credit Union)
- Jackie Cropper (Grand Central Savings)
- Karl Dayson (Salford University – community reinvestment and community development finance)
- Zaheem Ahmed (Glasgow Caledonian University – micro-credit)

Each presentation will be followed by questions from the panel, followed by open discussion and a brief response from the panel members at the end.

3.45pm Closing speech "Beyond 2010" (Lady Susan Rice)

4.15pm Close

Welcome: Scotland and the Financial Landscape in 2010

Catriona McKay

(Powerpoint Presentation)

Some things Henry Duncan would recognise

- Poverty is still with us
- Secure and sustainable employment offers a way out of poverty

And some he might not

- The welfare state
- Financial services position in the economy
- The interaction between reserved and devolved powers

Reserved (UK)

- Tax/benefit system (inc Social Fund)
- Legislation on and regulation of financial services (including credit unions)
- Consumer credit

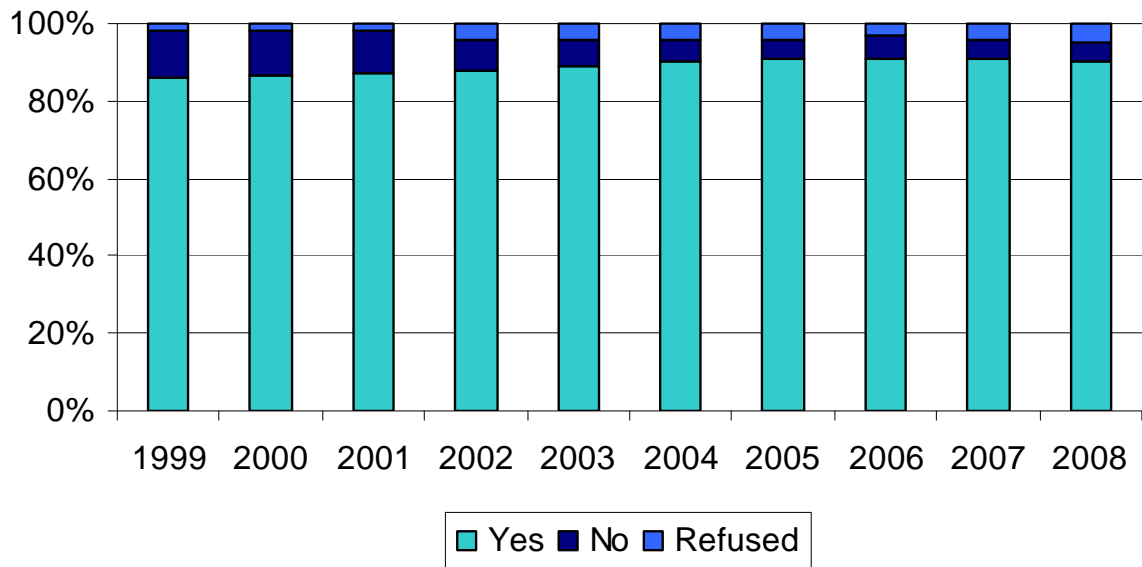
Devolved (Scotland)

- Education (but Financial Services Authority also has responsibilities)
- Information and advice
- Debt relief (including bankruptcy)

Banking (2008)

- 90% of households have a bank account
- 82% for households with annual income up to £10,000
- 79% in 15% most deprived data zones
- 27% building society account, 3% credit union account, 8% Post Office Card Account
- 2% none of these (3% refused)

Table: Whether respondent or partner has a bank or building society account, by year

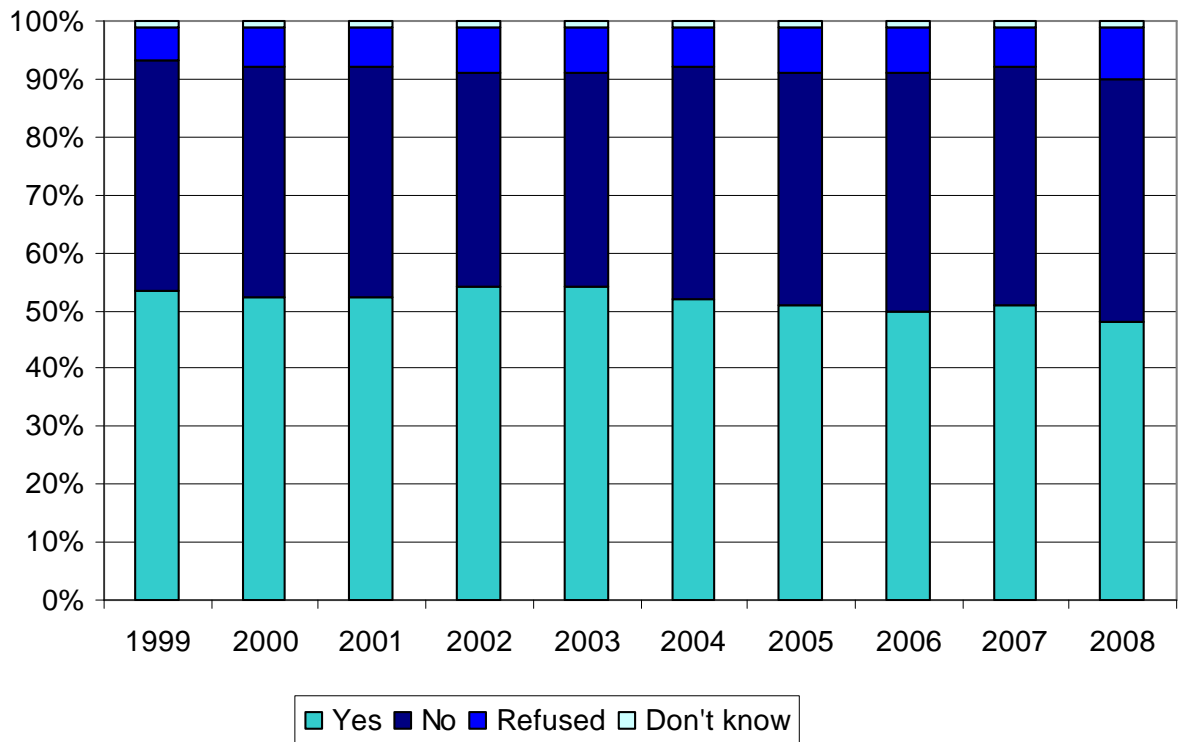


The table shows substantial progress since 1999 (though slightly confounded by an increase in refusals to answer the survey question); the number without an account is down from 12% in 1999 to 5% in 2008.

Savings (2008)

- 42% of households do not have savings or investments
- 56% for households with net annual income up to £10,000
- 74% for single parent households

Table: Whether respondent or partner has any savings or investments, by year



Credit (2008)

- Around two thirds of households used some form of credit to buy goods in the last year
- 52% used credit cards
- 14% used shop or store cards
- 14% used catalogues/mail order (Pattern virtually unchanged since 2005)
- Around one third of households used some form of credit to borrow money in the last year
- 14% used a bank overdraft
- 8% used a loan from bank/building society/credit union
- 2% used the Social Fund
- 3% borrowed from friends or family

Debt (2006/08)

- 43% of Scottish households have borrowing commitments (excluding mortgage)
- GB 49%, Wales 41%
- Average (mean) amount owed £5,200
- Half owe less than £1,600
- CAB money advice clients owed on average over £20,000

Table: How do people feel about their finances?

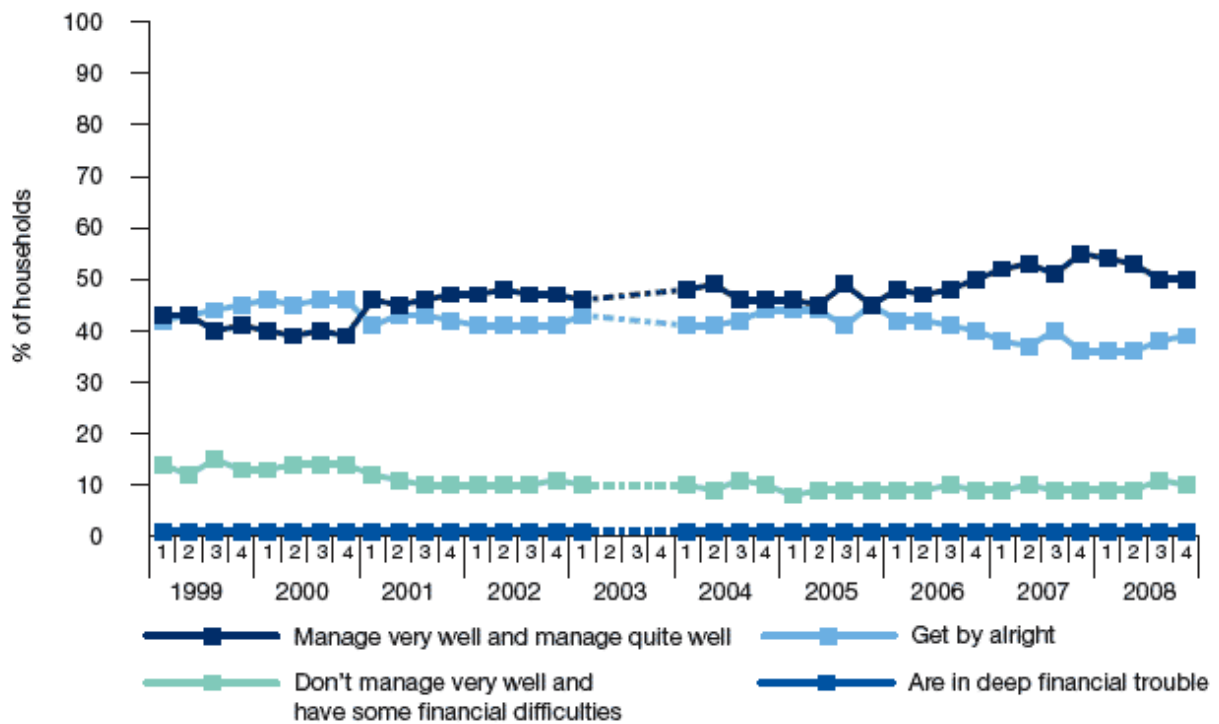
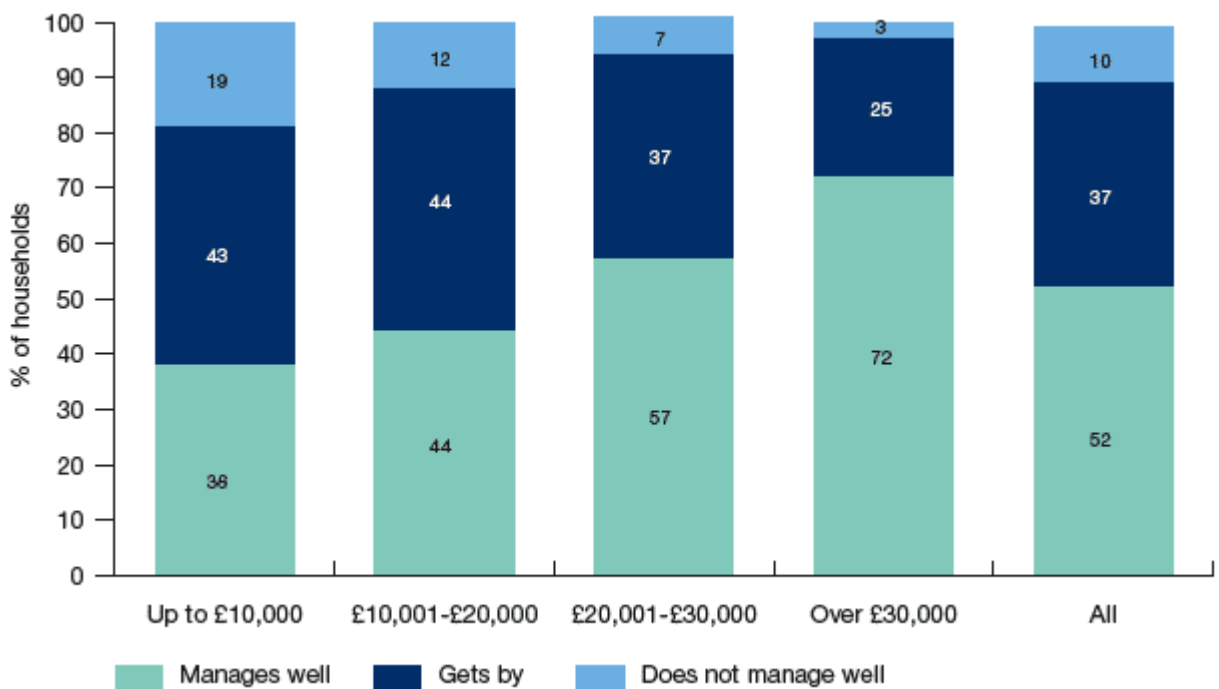


Table: How the household is managing financially this year, by annual household net income (2007/2008)



Historical Context within Scotland and its Kirk: Henry Duncan, Savings Banks and Evangelical Social Reform

Professor Stewart J Brown

Introduction

Henry Duncan (1774-1846) was a minister of the Church of Scotland and a man of broad interests and sympathies. Although best known for his leading role in the formation and spread of savings banks, he also made major contributions as a Church leader, educationalist, journalist, newspaper proprietor, novelist, natural philosopher, moral philosopher, agricultural improver, and philanthropist. He is especially remembered for his work in restoring the runic cross in Ruthwell and for his leading role in the Disruption of 1843 and the formation of the Free Church of Scotland. His varied contributions centred largely upon the ideal of elevating the population of Scotland through a shared set of moral values emphasising individual independence, the dignity and importance of each person regardless of circumstances of birth, wealth and status, and social responsibility within close-knit parish communities.

Duncan was a product of the later Scottish Enlightenment, and his thought reflected the salient features of that movement, including rational approaches to the natural world, the regulation and disciplining of the passions, the promotion of toleration, and the practical emphases on social improvement. His early connections were with the Moderate literati within the Church of Scotland, ministers who employed their pulpits to promote the cultivation of the mind and disseminate a practical morality. However, from about 1806, Duncan became increasingly a part of the Evangelical movement, including its efforts to promote a heart-felt religion, revive the influence and authority of the national Church of Scotland, elevate the labouring classes through religious instruction, and shape close-knit religious communities around the Church's parish structures. This early nineteenth-century Evangelical movement was in large part a response to the profound social dislocations and misery being created by rapid industrialisation and urbanisation; it was a robust religious movement that inspired individual action. However, while he embraced the forceful convictions and priorities of Evangelicalism, he never abandoned the intellectual approaches and ideals of the Scottish Enlightenment. His was an optimistic, tolerant and liberal Evangelicalism. Indeed, he was part of a remarkable group of early nineteenth-century Church of Scotland liberal Evangelical ministers and educators, including Andrew Thompson, David Brewster, Robert Lundie, David Welsh, and Thomas Chalmers, who sought to reshape Scotland through Christian social teachings, rational philanthropy, engagement with new thought in the social and natural sciences, and a revived national Church.

Henry Duncan's Early Career: Enlightenment and Civic Humanism

Henry Duncan was born in 1774, the third son of George Duncan, Church of Scotland minister of rural Lochrutton, near Dumfries.¹ He attended Dumfries academy, gaining a sound grounding in Latin. In 1790, after two years of study at St Andrews University, he followed his two older brothers into the profession of banking in Liverpool, taking a junior post with a commercial bank in the city. However, he remained far more interested in literature and philosophy than finance, and in 1793, his father reluctantly allowed him to leave the Liverpool bank and return to university. He now studied for two years at the University of Edinburgh and another two years at the University of Glasgow. At Edinburgh, he was most influenced by the Whig philosopher Dugald Stewart's lectures in moral philosophy, lectures which included considerable attention to political economy and

¹ G. J. C. Duncan, *Memoir of the Rev. Henry Duncan, D.D., Minister of Ruthwell* (New York: Robert Carter, 1848), pp. 1-2; H. Scott (ed.), *Fasti Ecclesiae Scoticae*, new edn., 7 vols. (Edinburgh: Oliver and Boyd, 1917), vol. ii, pp. 255-6.

educational theory. At Glasgow, he was a student of John Millar, professor of civil law, whose wide-ranging lectures embraced political economy, history, moral philosophy and Whig politics. Duncan entered the Speculative Society in Edinburgh in 1797, and developed lasting friendships with the young Whig students, Henry Brougham and Francis Horner, later among the founders of the Whig *Edinburgh Review*.² In short, Duncan received a broad education in the mature thought of the later Scottish Enlightenment. He cultivated the use of reason to explore the ‘science of man’, and he acquired knowledge of the natural sciences, especially geology and biology. He was very much shaped by the broad Scottish Arts educational tradition that the intellectual historian George Davie described in his classic study of the ‘democratic intellect’—a tradition rooted in the Presbyterian catechising tradition, with a rigorous grounding in moral philosophy and faith in common sense and the intellectual capacities of the common people.³ From his Whig professors, Stewart and Millar, Duncan also imbibed notions of civic humanism, a form of political discourse with roots in the thought of classical Rome and the city states of Renaissance northern Italy. The civic humanist tradition included the veneration of disinterested virtue, the ideal of the armed citizen, the duty of participation in public life, a stoic emphasis on moderating the passions, the rejection of luxuries and the corruption that accompanied a love of luxuries, the belief in gradual improvement, and the elevation of individual independence and a love of freedom.⁴

Duncan decided to follow his father into the Church of Scotland ministry, and in 1799, the Earl of Mansfield, as legal patron of the parish, presented Duncan to the parish ministry of Ruthwell, near Dumfries. According to his son, Duncan had the choice of two other larger and better endowed parishes, but he opted for rural Ruthwell, with its relatively small population of several hundred inhabitants and its modest stipend.⁵ He relished the life of a country minister. Here there was time for reading and reflection, and for explorations of the local geology and biology. He experimented with new agricultural methods on his glebe, and planned and developed new gardens, with an artificial lake, surrounding his manse. During the Napoleonic invasion scare of 1803, he helped to raise a unit of Ruthwell volunteers and became their commanding officer, while he wrote a series of letters for the press, under the classical pseudonyms of Senex and Juvenis, to promote patriotism and the Volunteer movement of resistance to Napoleonic ‘tyranny’. He was, in short, living out the ideal of civic humanism as a modest clerical landholder, an armed citizen, and an ardent champion of virtue and freedom.

In his religious views, the young minister was an adherent of the Moderate party, a party that had emerged in the Church of Scotland during the 1750s and that had included such clerical luminaries as the historian and Edinburgh University principal, William Robertson, the professor of rhetoric and *belles lettres*, Hugh Blair, and the renowned playwright, John Home.⁶ The Moderates believed in a close alliance between the Church, the landed classes and the civil State for the dissemination of moral instruction, civic virtue, polite literature, tolerance and an ethos of improvement. They were

² Duncan, *Memoir of the Rev. Henry Duncan*, p. 24.

³ G. Davie, *The Democratic Intellect: Scotland and her Universities in the Nineteenth Century*, 2nd edn. (Edinburgh: Edinburgh University Press, 1964), pp. 14-25.

⁴ J. G. A. Pocock, ‘Civic Humanism and its role in Anglo-American Thought’ in J. G. A. Pocock, *Politics, Language and Time: Essays on Political Thought and History* (London: Methuen, 1972). For the civic tradition in the Scottish Enlightenment, see J. Robertson, *The Scottish Enlightenment and the Militia Issue* (Edinburgh: John Donald, 1985), pp. 8-16 and passim; R. B. Sher, *Church and University in the Scottish Enlightenment: The Moderate Literati of Edinburgh* (Princeton: Princeton University Press, 1985), especially pp. 213-61.

⁵ Duncan, *Memoir of the Rev. Henry Duncan*, pp. 26-35.

⁶ Sher, *Church and University in the Scottish Enlightenment*, especially 45-212; I. D. L. Clark, ‘From Protest to Reaction: The Moderate Regime in the Church of Scotland’, in N. T. Phillipson and R. Mitchison (eds.), *Scotland in the Age of Improvement* (Edinburgh: Edinburgh University Press, 1970), 200-211; S. J. Brown, ‘William Robertson (1721-1793) and the Scottish Enlightenment’, in S. J. Brown (ed.), *William Robertson and the Expansion of Empire* (Cambridge: Cambridge University Press, 1997), pp. 7-35.

Christian supporters of the Enlightenment and their teachings reflected what the intellectual historian Richard Sher has described as a Christian stoicism and enlightened elitism. The Moderates had established a political ascendancy within the ecclesiastical courts of the Scottish Church by the mid-1760s, and through this ascendancy they made the Church a powerful force in the Scottish Enlightenment. The noontide of their influence was the later 1760s and the 1770s. By the early 1800s, however, the Moderate movement was largely a spent force. The movement had lost much of its intellectual vibrancy, while fearful of the spread of revolutionary ideas from France, leading Moderates opposed movements for political reform. The talented earlier generation of Moderate leaders had passed from the scene and the new leaders, including Principal George Hill of St Andrews University, seemed less committed to promoting the independent influence of the Church, and more with maintaining their incomes and status, and the use of Church patronage to place their family and friends in comfortable livings. The party had become subservient to the Tory political interest of Sir Henry Dundas, now Lord Melville.⁷ By 1806, Duncan had become profoundly disillusioned with what he viewed as the conservatism and blatant pursuit of self-interest among the Moderate leadership.⁸

Duncan and the Whig-Evangelical Movement

In the early years of the nineteenth century, Scotland was experiencing rapid industrialisation, associated with new mechanised processes in textile manufactures, the development of the factory system, and the construction of canals and docks. With industrialisation came the rapid growth of towns and cities, and increasing problems of overcrowding, inadequate sanitation, disease, crime, prostitution, and alcohol abuse. In rural areas, new developments in commercialised agriculture, including the enclosure of common land, the enlargement of farms, and the dispossession of many small farmers, brought dislocations to traditional rural life. The changing market economy was unstable, and conditions for the labouring orders were precarious. There was growing social unrest, including perceptions among the labouring orders that they were being exploited under industrial and agricultural capitalism. Among the upper classes, there were fears of revolutionary upheaval and deep distrust of even moderate reform. Combined with this, the traditional, largely Church-managed Scottish poor law system, based on church-door collections, distribution of relief by parish ministers and elders, and appeals to informal acts of charity within close-knit parish communities, was breaking down. Some parishes were being forced to impose 'assessments', or rates on property, to support a growing number of paupers; indeed, many began to fear that rate-based poor relief was creating an army of paupers, permanently dependent on rate-based poor relief, full of resentment towards those with property, and prone to revolutionary violence.

Amid these social dislocations and fears of popular unrest, a growing number of Christians in Scotland were drawn to the robust, passionate and assertive faith known as Evangelicalism. This was a heart-felt, emotional form of Christianity, which emphasised the supreme authority of the Bible, Christ's atonement for the world's sin, the importance of personal conversion and individual piety, and the need to shape the godly society.⁹ The Evangelical movement had been expanding across the North Atlantic world from the 1730s, but in Britain it experienced its most dramatic

⁷ Sher, *Church and University in the Scottish Enlightenment*, pp. 298-323; Clark, 'From Protest to Reaction', pp. 211-22.

⁸ Duncan, *Memoir of the Rev. Henry Duncan*, pp. 179-80.

⁹ For an excellent definition of Evangelicalism in its British context, see D. Bebbington, *Evangelicalism in Modern Britain: A History from the 1730s to the 1980s* (London: Unwin Hyman, 1989), pp. 1-19. For Evangelicalism as a response to the challenges of urbanisation and industrialisation, see C. Brown, *Religion and Society in Scotland since 1707* (Edinburgh: Edinburgh University Press, 1997), pp. 101-10; C. Brown, *The Death of Christian Britain* (London: Routledge, 2001), pp. 35-57.

expansion after 1790 amid the upheavals of the French Revolution and Napoleonic wars.¹⁰ Evangelicalism became connected with the larger movement of Romanticism, with its emphasis on the power and versatility of nature, on a pervasive spirituality in the world, and on veneration for folk lore and traditional rural communities. By the early years of the nineteenth century, the Evangelical movement was embracing various campaigns for religious and moral improvement, including campaigns for overseas missions, the printing and distribution of bibles and tracts, the abolition of the slave trade, and the expansion of popular education through parish schools, parish libraries and Sunday schools.

Duncan was drawn into this Evangelical movement. The seeds for this may have been sown as early as 1804, with the visit to his parish of three English Quakers, who deeply impressed him with their piety and philanthropic work.¹¹ From about 1808, he began actively associating with a group of able and idealistic Evangelical Whigs, who had been educated within the traditions of the Enlightenment, and who combined a respect for reason and learning with the newer Evangelical convictions. Their Evangelicalism included a desire to make the Church once more an independent intellectual force, and a commitment to moderate political reforms aimed at elevating the living conditions and educational standards of the labouring poor. These were younger men, who opposed what they viewed as a stultifying and corrupt Tory-Moderate dominance in Scotland. They included Robert Lundie, Andrew Thomson, Thomas Chalmers, David Brewster, James Brewster, David Welsh, and David Dickson—men who would rise to eminence in the Church and universities of Scotland.¹² They began disseminating their ideas through several publication ventures, including the multi-volume *Edinburgh Encyclopedia*, a project initiated in 1808 by several Whig Evangelicals and edited by the twenty-seven year old David Brewster, and the *Edinburgh Christian Instructor*, a monthly review of politics, literature, science and religion, founded in 1810 and edited by Andrew Thomson.

Duncan took an active part in these journalistic initiatives. Beginning in 1808, he was invited to prepare articles for the *Edinburgh Encyclopedia*.¹³ He also became a regular contributor to the *Edinburgh Christian Instructor*. One of his early articles for the latter journal was a long review of *Practical Piety* by the leading English Evangelical popular author, Hannah More, a figure whom Duncan greatly admired.¹⁴ In 1808, he also commenced a series of inexpensive popular tracts, the 'Scotch Cheap Repository', modelled on Hannah More's successful 'Cheap Repository Tracts' and providing a moral alternative to the 'penny dreadfuls' (with their lurid stories of murders, seductions and hangings) that formed the reading matter for many working people. He established a parish library and a Bible Society at Ruthwell. In 1809, with financial backing from his brothers in Liverpool, Duncan founded a weekly newspaper, the *Dumfries and Galloway Courier*, which took a liberal Whig-Evangelical position. He served as editor until 1817, travelling regularly to Dumfries to carry on the work.¹⁵ The development of Duncan's Evangelical convictions was a slow and gradual process; he had no identifiable conversion experience and he would never embrace an exclusive or intolerant Evangelicalism. His was a broad and liberal Evangelical faith that called him to work in this world for social improvement, including the improvement of conditions for the working classes.

¹⁰ S. J. Brown, *The National Churches of England, Ireland and Scotland, 1801-1846* (Oxford: Oxford University Press, 2001), pp. 55-61.

¹¹ *Ibid.*, pp. 44-9.

¹² For the Evangelical Whigs, see S. J. Brown, *Thomas Chalmers and the Godly Commonwealth in Scotland* (Oxford: Oxford University Press, 1982), pp. 48-51

¹³ Duncan, *Memoir of the Rev. Henry Duncan*, p. 66.

¹⁴ Andrew Thomson to Robert Lundie, 22 July 1811, National Library of Scotland [hereafter NLS], Robert Lundie Letters, Ms. 1676, fos. 30-33; 'List of Chief Writers and Articles of the *Edinburgh Christian Instructor*', NLS, Robert Lundie Letters, Ms. 1676, fol. 167.

¹⁵ Duncan, *Memoir of the Rev. Henry Duncan*, pp. 60-70.

Duncan and the Savings Bank Movement

The spring of 1810 was a time of particularly acute economic distress, resulting largely from disruptions to European trade caused by Napoleon's Continental System, with its efforts to exclude all British goods from the Continental markets. There was heightened public concern over the widespread poverty and the strains on the Scottish poor relief system, and there were heightened fears that this mass poverty and discontent would contribute to the spread of revolutionary violence.

It was in this time of economic crisis that Duncan formed a savings bank in his parish at Ruthwell, in an attempt to make it possible for working people to set up savings accounts. Up to this point, most banks required a minimum deposit of £10 in order to create an account. Very few people could deposit such a sum, which was the equivalent to the annual income for many labourers. Some working people were attracted to friendly societies, which enabled labouring people to make regular payments for old age or funeral costs; however, by the rules of these societies, failure to keep up with the regular payments would lead to the loss of the entire accumulated balance. Given the precarious conditions under which most labouring people lived, too many saw their friendly society deposits disappear as a result of unemployment or family crisis. Attempts by working people to conceal small savings in their small lodgings among meagre furnishings also too often came to grief. As a result, few working people attempted to save anything from their wages; rather, many lived from day to day, spending whatever they earned above their immediate needs on what Duncan viewed as wasteful and inappropriate luxuries. 'It is distressing to think', he observed, 'how much money is thrown away by young women on dress unsuitable to their station, and by young men at the alehouse, and in other extravagances, for no other reason, than that they have no safe place for laying up their surplus earnings'.¹⁶

Duncan's savings bank scheme was simple. People could open accounts in his bank with minimal deposits, and they were then encouraged to make small deposits from their wages when they could. Wealthy benefactors then contributed to the parish savings bank to ensure a healthy 4% annual interest on all deposits, and a 5% rate of interest when there was no withdrawal after three years (with certain exceptions). As the interest in these accounts was compounded, small regular deposits could lead to the accumulation of substantial amounts over long periods. At the same time, failure to make any deposits during lean times did not mean the loss of entire bank balances.¹⁷ Duncan also involved the depositors in the management of the parish savings bank, organising an annual general meeting of depositors to review the accounts and elect some of the bank's office-bearers. This involvement of the depositors, he insisted, was vital to his scheme; it would ensure that they felt a sense of ownership in the concern and that they were treated as rational, equal and independent partners.¹⁸

A major aim of Duncan's scheme was the moral elevation of the labouring orders. The habit of regular saving, he believed, would promote an improved work ethic and greater individual foresight and planning for the future. Working-class savers would take pride in their independence and in providing for their families' present and future needs. The depositors would anticipate the different stages of their lives, including marriage and old age, and they would seek to make provision for the changes. As individuals watched their savings grow, they would be less ready to spend money on drink or dissipation. They would thus avoid the corrupting influence of their small luxuries. They would no longer live from day to day, and their lives would become more disciplined, regular and orderly. And this growing appreciation for order in their lives would lead, in Duncan's view, to a new

¹⁶ H. Duncan, *An Essay on the Nature and Advantages of Parish Banks for the Savings of the Industrious, Second Edition, Greatly Altered* (Edinburgh: Oliphant, Waugh and Innes, 1816), p. 4.

¹⁷ *Ibid.*, pp. 1-12, 17-18, 26-7.

¹⁸ *Ibid.*, p. 12.

appreciation for religion and the things that were lasting. 'A love of order', he observed of the savings bank depositor in 1816,

naturally leads his affections to the 'God of order'. A habit of reflecting on the changes of life, leads him to repose, with confidence, on the wisdom and goodness of that Being by whose will those changes are regulated, and his mind, trained to look beyond present enjoyments towards those that are future, is evidently in no improper frame for regarding ... those that are 'unseen and eternal'.¹⁹

The movement was also about empowering the labouring classes and increasing the number of property-owning citizens. It would help the working classes to avoid becoming part of a culture of dependency on the poor laws. Indeed, Duncan was scathing about the 'degrading' moral effects of the poor laws and rate-based poor relief: poor laws, he believed, taught the working class to 'demand with insolence [that] which the Legislature gives them a right to extort'.²⁰ His savings bank scheme, on the other hand, would permanently raise the condition of the labouring classes by inducing workers 'to provide for their own support and comfort' and by promoting 'the spirit of independence, which is the parent of so many virtues'.²¹ In this, Duncan's scheme aimed to move society closer to the civic humanist ideal of independent small property owners, disinterested virtue, stoic moderation of the passions, and freedom from the corrupting, servile influences of patronage and charity.

Duncan was not the originator of savings banks. He himself had come across the idea in a pamphlet published a few years previously by a London social reformer, John Bone, while a fellow Church of Scotland minister, John Muckersey, had founded a savings bank for his parishioners in West Calder in 1807.²² Duncan's achievement was to make the plan work within his parish, and then, with the assistance of his fellow Whig-Evangelicals within the Church of Scotland, to publicise the plan and promote the formation of parish banks across Scotland and later in England, Wales and Ireland. He envisaged a national organisation of parish savings banks, each with its local management committee and its annual general meeting, with the deposits of the parish banks held in a Central Bank in every major town and with a National Central Bank to oversee the whole scheme. He suggested, moreover, that employers might form agreements with employees, by which a portion of their wages would be paid directly into their savings bank accounts.²³

In 1817, Duncan entered into a spirited controversy with the Edinburgh Episcopalian advocate, John H. Forbes (who would later be raised to the Scottish Court of Session, or supreme civil court, as Lord Medwyn), over Duncan's insistence that the savings banks must include a degree of working-class participation in their management. For the patrician Forbes, such working-class participation was inefficient and unnecessary; it would be better for members of the upper social orders, with their knowledge, experience and respectable status in the community, to conduct the banks on behalf of the poor, as a form a charity. For Duncan, on the other, it was vital that working-class depositors should feel that they shared in running their local banks and had a stake in the movement. His Ruthwell parish savings bank plan, he insisted, 'creates a strong and salutary bond of union among all the depositors; they are members of a common establishment, instituted for their mutual benefit'.²⁴ His views prevailed in Scotland.

¹⁹ Ibid., p. 65.

²⁰ Ibid., p. 66.

²¹ Ibid., p. 1.

²² Ibid., pp. 33, 37.

²³ Ibid., pp. 61-2.

²⁴ H. Duncan, *A Letter to John H. Forbes, Esq. Advocate: Containing an Answer to Some Remarks and Statements in his 'Observations on Banks for Savings' and his 'Letter to the Editor of the Quarterly Review'* (Edinburgh: Oliphant, Waugh, and Innes, 1817), p. 8.

In 1818-19, he led a campaign for parliamentary legislation to help secure the deposits in Scottish savings banks, working closely with William Douglas, MP for the Dumfries Burghs. Duncan formed an association of 'Friends of Parliamentary Protection for Savings Banks in Scotland' and early in 1819 he travelled to London, where he pressed the case with leading politicians, including the Whig Earl of Minto, and members of the Evangelical 'Clapham Sect', William Wilberforce, James Stephen, and Zachary Macaulay. Parliament passed the act in the summer of 1819.²⁵ By now, his savings bank scheme was being embraced by other Evangelical social reformers, who adopted it as one of a number of programmes for the elevation of the working classes and the formation of viable parish communities in Britain's industrialising society. Thomas Chalmers, for example, included savings banks as a key part of the innovative programmes that he developed between 1819 and 1823 in St John's parish, Glasgow, and that were aimed at the revival of close-knit parish communities in large towns and cities.²⁶

The parliamentary Scottish savings bank act of 1819 was in many respects the high point of his influence. However, while he would be most remembered for his leading role in the savings bank movement, Duncan pursued varied interests in social reform, the natural sciences and history. In 1815, he published a popular work of fiction, *The Cottage Fireside*, which portrayed the visit of a schoolmaster to his brother's family in a Scottish country parish. Through a series of episodes, Duncan presented ideas about the religious and moral education of children, the role of the parish schoolmaster, and the ideal parish community. The work was a romantic celebration of the simple life of the Scottish rural poor, and was infused with the ideals of civic humanism. True happiness, Duncan's schoolmaster hero maintained, arose from 'piety and virtue', and was 'peculiarly adopted to the situation of the poor, as it is independent of external circumstances, and sweetens the coarsest fare'.²⁷ The work sold well and he followed it in 1821 with *The Young South Country Weaver*, a melodramatic short novel dealing with the Radical War of 1820 in the West of Scotland. The novel, which dealt with the visit of a young rural handloom weaver to industrial Glasgow, contrasted the stability of rural communities with what Duncan portrayed as the fevered, discontented, violent and politicised life of the Glasgow working class.²⁸ In 1826, he published a three-volume historical novel on the Covenanters, *William Douglas*, which was set during the 'killing times' of the 1680s and which saw its swashbuckling action moved from Scotland to the Caribbean and the Netherlands; the novel, which depicted the Covenanters as heroes, was in part a response to the negative treatment of the Covenanters in Sir Walter Scott's *Old Mortality*.²⁹

Duncan also pursued research in history and natural philosophy. In the early 1820s, he oversaw the restoration of a medieval runic cross, which had been destroyed as 'Popish' by order of the Church of Scotland General Assembly in 1642. He devoted long hours to making elaborate drawings of the cross and deciphering its inscriptions and symbols. In 1827, he discovered fossil footprints of quadrupeds in the sandstone of a nearby quarry. His drawings and plaster casts impressed the celebrated geologist William Buckland at Oxford and they added to the growing body of evidence concerning the immense age of life on earth. Indeed, Duncan was one of a number of early

²⁵ Duncan, *Memoir of the Rev. Henry Duncan*, pp. 102-17; H. Duncan, *A Letter to W. R. K. Douglas, Esq., M.P., on the Expediency of the Bill Brought by him into Parliament, for the Protection and Encouragement of Banks for Savings in Scotland* (Dumfries: Courier Office, 1819).

²⁶ T. Chalmers, *On the Christian and Economic Polity of a Nation*, in T. Chalmers, *The Collected Works of Thomas Chalmers*, 25 vols. (Glasgow: Collins, 1835-42), vol. 15, pp. 304-34.

²⁷ H. Duncan, *The Cottage Fireside; or, the Parish Schoolmaster: A Moral Tale*, 3rd edn. (Edinburgh: Oliphant, Waugh, and Innes, 1816), p. 61.

²⁸ H. Duncan, *The Young South Country Weaver; or, A Journey to Glasgow. A Tale of the Radicals*, 2nd edn. (Edinburgh: Waugh and Innes, 1921).

²⁹ H. Duncan, *William Douglas; or, The Scottish Exiles. A Historical Novel* (Edinburgh: Oliver and Boyd, 1826). For the debate roused by Scott's treatment of the Covenanters, see D. M. Murray, 'Martyrs or Madmen? The Covenanters, Sir Walter Scott and Dr Thomas McCrie', *Innes Review*, 43 (1992), pp. 166-75.

nineteenth-century Scottish Evangelicals, including Thomas Chalmers, Robert Fleming, David Brewster and Hugh Miller, who were prepared to accept the ‘testimony of the rocks’ concerning the age of the earth.³⁰ In 1836-37, Duncan published a four-volume work, the *Sacred Philosophy of the Seasons*, which offered a series of reflections on natural philosophy, moral philosophy, theology, history and education—all loosely organised around the four seasons and united by an effort to trace divine design in both the natural and social realms.³¹ This lengthy work, in which Duncan invested considerable effort, did not receive much attention. It was the product of an aging Christian amateur naturalist, whose approaches and ideas were now being overshadowed by the growth of professional science.

Educational issues remained a core concern. In the mid 1820s, Duncan endeavoured to secure legislation to increase the incomes of schoolmasters in Scotland. Parliament, he observed, had recently made significant grants to increase the number of parish churches, and new investment in the parish schools must be viewed as part of a unified movement to elevate the population through religious and moral instruction, and ‘the general diffusion of knowledge’.³² He followed this in the later 1820s by taking the leading role in a campaign to create a new Scottish university in Dumfries. There was to be a significant endowment provided by a wealthy widow, and there were different proposals to move one of the Aberdeen colleges, or even to transfer the whole University of St Andrews to Dumfries. As part of this Dumfries university scheme, Duncan explored the idea of a joint Anglican-Presbyterian theological faculty, an idea far in advance of most thinkers at the time. However, despite his considerable efforts, the Dumfries university project proved abortive.³³

A lifelong opponent of the slave trade, he was nonetheless cool towards calls for the immediate legislative abolition of slavery in the British Empire, arguing in a series of newspaper articles—which he published in pamphlet form in 1830—that slavery was destined soon to come to an end through the steady ‘march of mind’ in the world. Indeed, he was certain that slavery’s demise was inevitable, as the slaves received religious and moral instruction and thus became prepared to accept the responsibilities of freedom, and as the slave-owners came to realise that free labour was more efficient and cost-effective than bonded labour. Duncan’s sanguine position on the slavery issue reflected his Whig faith in gradual progress and his relatively high view of human nature. These views, while they were welcomed by many conservatives, led to a heated exchange in the press with his fellow Scottish Whig-Evangelical, Andrew Thomson, who believed that only the force of law would make the planters relinquish the lash and the profits of slavery.³⁴

Duncan’s final years were shadowed by the controversy between the established Church of Scotland and the British State over private patronage in the appointment of parish ministers—a controversy that would culminate in the break-up of the established Church of Scotland at the Disruption of 1843. Under Scottish law, virtually every parish church had a patron, generally either a member of

³⁰ Duncan, *Memoir of the Rev. Henry Duncan*, pp.149-56.

³¹ H. Duncan, *Sacred Philosophy of the Season; illustrating the Perfections of God in the Phenomena of the Year*, 4 vols. (Edinburgh: William Oliphant and Son, 1836-37).

³² [H. Duncan], *Statement and Representation respecting the Parochial Schoolmasters of Scotland; with a View to the Bill about to be Brought into Parliament for the Amelioration of their Condition* (Dumfries: J. McDiamid, 1835), pp. 14-15; H. Duncan to John Lee, 9 March 1826, 11 April 1826, NLS, Lee Papers, Ms. 3426, fos. 23-4, 35a-35b.

³³ H. Duncan to John Lee, 26 August 1827, 12 August 1828, 5 November 1828, 20 August 1829, 8 September 1829, NLS, Lee Papers, Ms. 3436, fos. 206-7, Ms. 3437, fos. 104-5, 139-40, 237-8, 246-7; Duncan, *Memoir of the Rev. Henry Duncan*, pp. 194-5.

³⁴ H. Duncan, *Presbyter’s Letters on the West India Question; addressed to the Right Honourable Sir George Murray, G.C.B., M.P., Colonial Secretary* (London: T. & G. Underwood, 1830); I. Whyte, *Scotland and the Abolition of Black Slavery, 1756-1838* (Edinburgh: Edinburgh University Press, 2006), pp. 198-202; Duncan, *Memoir of the Rev. Henry Duncan*, pp. 159-63.

the Scottish landed classes or the Crown. The patron had the legal right to present, or nominate, a duly licensed candidate to become the minister of the parish church, and if the candidate was sound in doctrine and morals, the Church was obligated to make that candidate the minister, regardless of the wishes of the congregation. Duncan opposed church patronage in principle. A long-time advocate of increased popular rights, he objected to the manner in which patrons could ride roughshod over the wishes of congregations in presenting ministers. In 1832-33, he attempted to use his friendship with the leading Whig politician, Henry Brougham, to secure parliamentary legislation that would give a congregation the right to veto a patron's presentation, if the congregation felt the presentation was objectionable.³⁵ These political negotiations proved unsuccessful. Then in 1834, the General Assembly of the Church of Scotland decided to enact its own veto law, without parliamentary sanction. During the next four years, the Church's veto law worked reasonably well in giving congregations a voice in the appointment of ministers. In 1838, however, the Scottish civil courts ruled that the Church's veto law was illegal, and a bitter conflict ensued between the Church and civil courts.

Duncan, along with most Evangelicals in the Church of Scotland, remained committed to the cause of popular rights, as expressed through the congregational veto. He was selected to serve as Moderator of the General Assembly during the fateful year, 1839, when the conflict between Church and State intensified over a disputed appointment of the minister to the Aberdeenshire parish of Marnoch. By now, leading politicians in Parliament viewed the Scottish Evangelical opponents of patronage as radicals and fanatics. For their part, anti-patronage Evangelicals became convinced that the British State was seeking to undermine the Church of Scotland's independence as a spiritual body. All hopes of compromise or reconciliation faded. 'Nothing in public affairs', Duncan wrote to Brougham in May 1839, 'has given me greater distress than the collision which must inevitably take place between Church and State' over the issue of patronage.³⁶

At the Disruption of May 1843, Duncan joined about a third of the clergy and perhaps half the lay membership in leaving the Church of Scotland to form the Free Church. Giving up his manse and church, he struggled, at the age of seventy, to oversee the building of a new church in Ruthwell, to find a decent house for himself and his wife, and to offer support to Free Church congregations in neighbouring districts. Amid these difficulties, 'the worn-out veteran' suffered a stroke and died soon after, in early 1846.³⁷

Conclusion

Henry Duncan was a product of both the later Scottish Enlightenment and the Whig-Evangelical movement of the early decades of the nineteenth century. He shared the Enlightenment commitment to reason, moderation of the passions, toleration, and the capacities of the human mind to comprehend the laws governing the natural and social worlds. His thought especially reflected the civic humanist tradition, with its emphasis on sturdy independence, disinterested virtue, citizen militias, and its opposition to the corrupting influence of luxuries. To this he added, after 1810, a moderate Evangelical faith, including the Evangelical commitment to the elevation of the labouring orders through religious influence and universal education. His Evangelicalism, with its emphasis on the equality of all souls and the responsibility of each individual before God, complemented his Whig belief in the gradual but inexorable progress of society. Duncan, significantly, never seems to have subscribed to the darker, pessimistic positions of some political economists, including the Malthusian doctrines of overpopulation and chronic scarcity, or to the

³⁵ H. Duncan to Lord Brougham, 21 September 1832, 23, 24 October 1832, 19 November 1832, 5 December 1832, 31 May 1833, University College, London, Brougham Papers, Henry Duncan Letters, Nos. 1239, 1218, 43,043, 43,044, 43,045.

³⁶ H. Duncan to Lord Brougham, 11 May 1839, London, Brougham Papers, Henry Duncan Letters, No. 37,108.

³⁷ Duncan, *Memoir of the Rev. Henry Duncan*, pp. 289-93.

Ricardian 'iron law of wages', by which most wages would stabilise at the bare subsistence level. His remained the more optimistic political economy of Adam Smith and Dugald Stewart. Nor did a belief in pervasive human sin cast a shadow over Duncan's belief in human rationality and progress—as was evident in his confidence in 1830 that the march of mind would bring an end to slavery, without recourse to legislation.

Indeed, Duncan could seem at times overly sanguine about the influence of human rationality and the beneficence of the world. His savings bank scheme was based on the premise that labouring people could regularly save something from their wages and that they could be convinced of the benefits of allowing small contributions to accrue over long periods of time. But it was not possible for large sections of the population to save anything while illness, or unemployment caused by the periodic economic downturns could swiftly wipe out any savings. For all his interest in social reform, Duncan did not seem to have grasped the horrendous poverty experienced by large numbers of industrial and agricultural workers in early nineteenth-century Scotland, or the precarious nature of working-class employment in a the fluctuating economy. This lack of understanding was evident in his depictions of living conditions of Glasgow factory workers in his *Young South Country Weaver* of 1821. In this novel, the factory workers lived in comfortable houses, with their wives and daughters remaining at home, with reasonable working hours and conditions, and plenty of leisure time. Those workers drawn to radical causes were simply dupes of self-interested demagogues, rather than men and women responding to desperate social conditions. His optimism is also evident in his pamphlet on slavery of 1830, with its rose-tinted portrayal of healthy slaves in the West Indies, experiencing the benefits of education and church life, and having the leisure for intellectual improvement. In his rhetoric promoting the savings bank scheme, he could seem overly confident about its potential to transform and elevate the religious and material condition of labouring men and women. Such views may have reflected his faith in God's benevolent governance of the world; for him, God's benevolence must be evident in the progress of human society, just as it was evident in the beauty and harmony of the natural world. The virtue of hard-work, foresight and regular savings must find reward in God's economy.

All this said, the savings bank scheme was a major achievement. While not a panacea for the problem of poverty in an industrialising society, the scheme did promote the virtues of foresight and self-discipline. Perhaps the most attractive feature of Duncan's savings bank scheme was its refusal to patronise the labouring classes, and its insistence on the potential of most people to achieve independence and shape their destinies. This insistence, as has been noted, could appear overly sanguine in the tempestuous early decades of the nineteenth-century, years which marked a general decline in living standards for most working people. However, the long-term benefits of the savings banks would be felt for many working families as from the early 1850s Britain moved beyond the bleak conditions of early industrialisation into the growing prosperity of the Victorian 'age of equipoise'. Then more and more working-class and lower middle-class families were able to benefit from Duncan's savings bank scheme, and accumulate small savings. As the nineteenth century progressed, many would find in the savings banks the encouragement to plan for the future, achieve independence and hope for a better life.

Historical Context within Banking: Henry Duncan and the Banks

Professor Charles W Munn, OBE, FCIBS

In the late 18th century the idea that working class people might have bank accounts would have been seen as a strange notion. After all many middle class people did not have them. Moreover the notion that a range of financial institutions could be set up to provide bank accounts for the working classes would have been seen as somewhat fanciful.

Nevertheless the idea that working class people might have surplus income and be able to save some of it was certainly not new. After all the friendly societies, which provided sickness and death benefits to their members, had been around for a long time and achieved legal recognition and a measure of regulation in the 1790s. So there was some provision for working class people to save some of their incomes.

There was, however, no provision for people to save for periods of unemployment or under-employment. People kept what little money they could save for such occasions in their homes or on their persons. This was neither safe nor very convenient and various middle class commentators, including Henry Duncan, worried that there would always be a temptation to spend it. Young men were likely to spend it on strong drink while young women were more likely to spend it on clothes.

Duncan was primarily concerned that people should be able to remain independent through life's adversities and so his idea for the creation of savings banks was based on the principle that people should be encouraged to save their money to help them through the difficult times in life and, as an inducement to do this, they would be paid interest on their savings.

Duncan launched his bank in his parish of Ruthwell in Dumfries--shire in 1810 and before long savings banks were being formed all over the United Kingdom. They were not without controversy for although there were many thousands of middle class supporters who gave their time and talents to be trustees of these banks there were also those who opposed their formation. At one extreme were those who argued that working people should only be paid enough to survive and that if they were able to save it was clear that they were being paid too much and should have their wages cut. But there were other, somewhat more reasoned voices who were also opposed. The London Times was no friend to savings banks and argued that the rates of interest paid to savers were too high when compared with the rate of return on investments in government securities (gilts). The newspaper feared that middle class people would place their savings in the new banks and thereby gain a subsidy from tax payers which was more properly intended for the working classes.

There were also those who questioned Duncan's motives, and the motives of others who helped to set up Britain's savings banks. They were accused of being driven by a desire to reduce the poor rates. In Scotland at that time the poor were supported by locally raised funds which were distributed through the local parish church. These monies were largely provided by the more prosperous members of society amongst whom there would be those who resented having to pay and who thought the working classes to be undeserving of assistance. It is easy to see, therefore, how Duncan's, and his supporters', motives could be misunderstood or misconstrued,

However, even the most cursory reading of the various articles that Duncan wrote reveals a genuine concern for the plight of the poor, especially in troubled times. And these were troubled times.

Britain had been at war with revolutionary and Napoleonic France almost continuously since 1793. The prices of food and other necessities had risen, in some cases quite dramatically, and working class incomes were under severe pressure.

This fact also partly explains why it was that the savings bank movement, which soon spread to other parts of the United Kingdom and then throughout the world, started in Scotland. One explanation is that Scotland was a poorer country than England in the early 19th century and therefore, the need being greater, solutions were found to the problem. It was a question that Duncan himself addressed.

He attributed the emergence, and early success of savings banks in Scotland to four factors. The first of these was the character and habits of the people. With at least one school in every parish standards of literacy were quite high and people would therefore be able to read and understand their savings bank's rules and the numbers written in their bank pass-books. The Scots were also noted for their thrifty habits which, of course, stemmed from their relative poverty.

Secondly Duncan believed that the ecclesiastical establishment in Scotland, being protestant and Presbyterian, was more likely to give free rein to local initiatives. The absence of bishops, or much other central control, gave local parish ministers much more freedom to act. It also gave them more local responsibility. What Duncan did not say was that the lay elders of the parish met regularly in Kirk Session and their experiences there would give them valuable knowledge about how organisations should be run. Many of these elders became the trustees of savings banks.

Thirdly Duncan thought that the savings bank movement was helped by the way in which the poor relief system worked in Scotland. It was not reformed until more than a decade after the English poor law system was changed in 1834. It has been argued, but by no means proved, that the existence of the savings banks was at least an important factor in explaining why it took so long to reform the Scottish poor law system.

The fourth factor, to which Duncan gave a lot of weight, was the fact that Scotland's commercial banks were prepared to pay a very generous 5% interest on deposits that they received from the savings banks. The commercial banks were also the main source of bank notes and coin for the savings banks. (All commercial banks in Scotland at that time issued their own bank notes.) This was at a time when most English commercial banks did not pay any interest at all on deposits.

The Act of Union between Scotland and England, which was passed in 1707, guaranteed certain freedoms to Scotland in matters of law, religion and education. One consequence of this was that Scotland, in the 18th century was able to evolve a system of banking which was different from the English system and which was much more responsive to local needs. It also proved to be more stable and more enduring.

It was based on four elements. The note issue has already been mentioned. So long as the notes stayed in circulation the banks were able to maintain credit lines to their customers. By the early 1770s there was a note exchange system in place which ensured that the banks could not over-issue their notes and which brought regulation and stability to the system. Deposits have been mentioned already. Like the bank notes, both of which were public liabilities, the deposits enabled the banks to lend money to business people in a cash strapped society and economy. The inducement of interest on deposits was a valuable addition to the service provided by the banks.

The third element was lending. Like banks in other countries the Scottish commercial banks lent to business by discounting their bills but they also evolved another credit instrument-the cash credit.

These were essentially personal bonds but they operated much like the modern overdraft and were very popular with borrowers. Most borrowing was for commercial purposes and banks were vigilant about lending which might be for some kind of credit accommodation rather than for a commercial purpose which would, in turn, generate revenues which would enable the loans to be repaid.

The fourth element of the Scottish banking system was branches. Many of the banks had a branch network which enabled them to spread their deposit gathering and credit providing activities. Some networks were very small and extended only to satellite towns of the main office. But others, like that of the Bank of Scotland, were much more extensive and which, by the late 18th century, required the Bank to appoint branch inspectors to enable them to check on the veracity of transactions in far flung places.

There are two points to note about Scottish commercial banking at this time. The first is that it was a system, with many inter-dependencies that were well understood by the various participants. The second is that it was well established by the time that Henry Duncan was thinking about setting up a savings bank. Many people had bank accounts and bank offices were a well established presence in many Scottish towns and all of the cities. These facts almost certainly made the creation of a range of savings banks easier to achieve in Scotland where the banking habit and the provision of banking services were well established and highly visible. It was relatively easy therefore to graft onto the system the numerous savings banks that were established after 1810.

Savings banks became a welcome addition to the mobilisation of savings and, undoubtedly, assisted in the more rapid economic growth achieved in Scotland in the first half of the 19th century. It was normal practice for savings banks to establish a relationship with their local commercial bank and to receive a generous rate of interest for their deposits in addition to other services such as cash collection and provision. Some savings banks went further in their relationships with the commercial banks and secured undertakings such as the promise of the provision of assistance in times of commercial pressure i.e. if there was ever a run on the savings bank.

By 1825 the Scottish banking system, in all its parts, had achieved a level of maturity which was far ahead of what had been achieved in other parts of the United Kingdom. The Irish banking system had all but disappeared in the crisis there in 1820 and many English banks failed in the commercial crisis of 1825-6. It did not take long thereafter for legislation to be amended to allow these countries to adopt the Scottish system of banking. Consequently Scottish trained bankers became much sought after and better paid than they had ever been before. The Scottish banker became a vital part of the Scottish diaspora every bit as significant as the doctor, engineer and merchant.

In more recent times, the 1970s and 1980s, the savings banks in the UK have disappeared. Political decisions following the Page report in 1973 led to their becoming a commercial bank before being absorbed into what is now the Lloyds Banking Group. All except the Airdrie Savings Bank disappeared. It has continued an independent and prosperous existence. Although much changed from its earliest form it weathered the recent commercial crisis and attracted a great deal of attention, from all over the world, from people who were keen to know how a savings bank, still operating under legislation of 1819, could survive when its larger commercial cousins were crumbling around them.

The answers to that question are both simple and complex. Airdrie Savings Bank survived the economic storm because there was still much in its governance, structure and people which resonate with what Henry Duncan was trying to achieve 200 years ago. It is governed by an independent, unpaid board of trustees who are all local business people. Its professional management has certainly moved on from Duncan's time and is now people by a cadre of

professionally qualified bankers some of whom have commercial banking experience and other who have spent their entire career with Airdrie Savings Bank. Its policy is now, and has always been, to provide a service to the local communities in which it works and it has always eschewed some of the more fashionable banking trends such as the use of derivatives.

Its survival poses an interesting public policy question. Is there a need, or an opportunity, for the savings bank movement to be re-created in the United Kingdom?

Morning Question and Answer Session

Una Barclay, from Christian Aid, asked the panel a question about the role of wealthy benefactors in Duncan's saving bank: to what degree the bank's attractive rate of interest was sustained by the ongoing patronage of wealthy benefactors, and how precisely that patronage worked. Ms Barclay also asked for an explanation of the difference between a credit union and a savings bank.

Stewart J Brown responded that few details as to the precise role of the bank's wealthy benefactors was available from the historical sources. All that is known is that their interest sustained interest rates at 4-5%.

Charles Munn noted that every mutual organisation needs start-up capital, and suggests that the wealthy benefactors contributed start-up funds before the bank became a self-sustaining enterprise.

Alison Elliot asked whether, should these wealthy benefactors withdraw their funds, the bank would fail.

Charles Munn responded that, if the bank was self-sustaining at the point when the benefactor withdrew their funds, there is no reason why it should fail. Working capital would be needed to start the bank, but after that, running costs were minimal.

Alison Elliot returned the panel's attention to Ms Barclay's second question about the difference between credit unions and savings banks.

Charles Munn responded that a credit union's main function was to offer credit, though you have to save with the union before applying to it for credit. The main function of a savings bank is to safeguard savings. He noted that the UK has seen little progress in the establishment and popularity of credit unions in comparison to other countries, and noted also that the legal status of credit unions had been difficult in the UK until fairly recently. Mr Munn drew attention to the fact that Scotland was also famous for its life assurance companies which, though often started as commercial enterprises, became mutual organisations once established.

Evelyn Graham, from Falkirk Council debt advice service, asked the panel whether early savings banks had difficulties with debtors defaulting on payments, and asked how such debtors paid the bank back.

Charles Munn clarified that savings banks were not in the business of lending to individuals, though loans were sometimes extended to commercial projects. Savings banks were for saving.

Stewart J Brown noted the existence of 'friendly societies'. Members contributed regularly and then received payments from the society either in old age or for their funeral. If contributors missed payments, they lost all they had invested. With savings banks, there were no penalties for missed contributions, though savers would get a lower rate of interest if they withdrew from their account within the first three years of having opened it.

Alison Elliot enquired as to whether Henry Duncan had an interest in national banks.

Stewart J Brown replied that Duncan's main focus was on Ruthwell.

Robbie Mochrie, from Heriot Watt University, pressed Charles Munn on his portrayal of Henry

Duncan, pointing out that Duncan had campaigned for the 1819 Banking Reform Act using £100 from his yearly stipend of £300. He commented that Munn's portrayal of Duncan could be seen as sceptical. Dr. Mochtie then asked the panel to comment on the significance of the savings bank within the wider Scottish welfare context.

Stewart J Brown recalled that Henry Duncan campaigned against assessed poor relief, but argued that reducing the amounts of poor relief contributions paid by the middle class was not a major concern for Duncan. Duncan was concerned with strengthening the communal aspect of welfare provision, rather than the state element. Duncan was not a radical like William Godwin or Robert Owen. Henry Duncan and Thomas Chalmers were moderate Whig reformers, who found themselves positioned further to the right as they aged and the establishment changed around them.

Chris Cook, from the Nordic Enterprise Trust, commented that Duncan's interest in strengthening the communal rather than state aspects of welfare sounded similar to recent Conservative emphasis on the 'big society', and Philip Blond's red toryism, which seek to devolve welfare to charitable organisations and the local level. Mr Cook's question related to an earlier comment by Charles Munn: why did English banks not take deposits? Was it because they were only interested in circulating capital?

Charles Munn noted that it was difficult to give a blanket answer. English country banks tended to be very small, and could also issue banknotes, which took the place of deposits. He noted that it was arguable that Scotland's poverty in comparison to England created a more sophisticated banking system which was more interested in attracting capital. Scottish Poor Law reform took place eleven years after concomitant reforms in England; it has been suggested that savings banks were making such a difference to the condition of the poor that welfare reform was delayed. Mr Munn also noted that he was not sure he agreed with this line of argument.

"Doing God's Work?"

A dialogue between a theologian and a banker around Henry Duncan's key values and theology

Very Rev John Miller and Jim Lindsay

John Miller and Jim Lindsay were introduced to the conference participants. Jim Lindsay is the general manager of Airdrie Savings Bank. Former moderator John Miller, until his retirement, had been a parish minister in Castlemilk; subsequent to his retirement, Mr Miller had undertaken work in Zimbabwe.

John Miller introduced the discussion by saying that the tone would not be adversarial, but rather an interview followed by questions from the audience. Mr Miller began the discussion with an anecdote about his time in Castlemilk. Castlemilk is a large housing development in a hilly area of Glasgow. In heavy snowfall, many roads become impassable to buses. One winter in the 1980s, eighteen inches of snow fell overnight. Mothers trying to withdraw money from the post office were turned away because, although the post office workers had managed to open shop, the money van had not arrived. Women began to arrive at Mr Miller's house, requesting money. With no money to give, Mr Miller reached an agreement with Cooper's Fine Fare that they would supply people in need of food in exchange for an I.O.U slip. Mr Miller then began to produce these slips, 'I promise to pay the bearer on demand £20', with the Church of Scotland as guarantor! *Jim Lindsay* responded by noting that he had lent £2 to a conference participant at the beginning of the day for parking, and had assessed the person's character and likelihood of repayment without mechanised or electronic assessment.

John Miller asked Mr Lindsay to characterise ASB's (Airdrie Savings Bank) way of working.

Jim Lindsay noted ASB's commitment to making banking services accessible to low income households. ASB's constitution provides for a 5p minimum deposit to open an account. ASB strives to be accessible to people with different amounts of money, and from different backgrounds. ASB does not exist to make a profit, and so it does not have a problem with extending savings accounts to people who are likely to deposit and remove their money almost immediately. ASB often gets referrals from larger banks who consider certain customers a liability. ASB was founded in 1835. It is run by a board of trustees, who effectively act as its directors. Their task is to look after the interests of depositors.

John Miller then asked what ASB's values could be said to be, if it did not exist to maximise profit.

Jim Lindsay replied that ASB has no shareholders, which is an important principle. ASB does need to make some profit in order to build up financial reserves. Its activity is governed by the need to look after depositors' money safely: everything else follows from this aim. One third of money is lent, another third is in securities, and the remaining third is invested for immediate liquidity. This balanced approach means that the bank's commercial side is held in check: customers are not bombarded with constant offers on cards, mortgages, and so on. ASB's staff base is very stable, meaning that service at local branch level is personal.

John Miller recalled that Henry Duncan had been offered the choice of three parishes, one in Ireland, one at Lochmaben, and Ruthwell itself. Ruthwell was the poorest of the parishes. Henry Duncan chose to help the poor. Mr Miller asked whether this was still a driving concern for ASB.

Jim Lindsay replied that ASB was based in North Lanarkshire – not a wealthy area. He wasn't sure whether this had helped ASB to survive. ASB has chosen to remain independent because of its local

trustees, who have taken the decision that remaining local is the best way to serve the interests of depositors. Local challenges and issues are better understood, and these needs are represented and translated into decisions about the banks policies, practices and direction. ASB's location in a historically poor area has helped it understand the issues surrounding financial inclusion. ASB encourages local schoolchildren to save, and engages in education practices that, while a financial loss, are considered to be an investment.

John Miller returned Jim Lindsay's attention to the local trustees and asked who they are, and how they are chosen. He also recalled the 1817 discussions over whether working-class people should be involved in the governance of savings banks.

Jim Lindsay noted that building societies' governance practices were more democratic than ASB's. The working trustees of ASB choose new trustees based on their suitability and connection to the local community. ASB trustees work unremunerated, and Jim Lindsay noted increasing difficulty with finding suitable candidates who were willing to work on a voluntary basis. However, he did suggest that having voluntary trustees contributed to ASB's good governance, which was driven by local interests rather than by desire for profit or shareholders' interests. He did note that this organisational arrangement made ASB sound like a bowling club! He also emphasised the need for ASB trustees to have sharp financial skills.

John Miller commented on the non-remunerated trustees, and how different this approach was from that of larger banks. He noted that employees in larger banks have incentives to engage in certain activities. Did such incentives exist at ASB?

Jim Lindsay responded with an initial clarification. The potential for large financial rewards lies chiefly in esoteric areas of banking. In normal, day-to-day banking, rewards are less of an issue – particularly, in the current economic climate, if these are given in the form of shares. ASB has a simple profit-sharing scheme, but this is not geared to individual targets. Staff work to a budget rather than a sales target – the difference may seem semantic, but it does mean that achievement does not necessarily bring particular rewards. Incentives are more linked to providing good services to customers.

John Miller noted that, at least in the period before the financial crash, there were many tempting jobs in financial services away from ASB. He asked Jim Lindsay whether ASB had ever experienced difficulty recruiting or retaining staff.

Jim Lindsay replied that they lost some staff periodically, but did not experience recruitment problems. ASB provides its employees with the opportunity to pursue professional qualifications through the Chartered Institute of Bankers. In such professional qualification classes, ASB employees mix with employees from other banks – they seem to find that ASB compares well, and that grass is not necessarily greener on the other side.

John Miller then moved on to ask about Jim Lindsay's personal history and involvement with ASB. Lindsay had previously been employed in a senior post at RBS, where the financial crash in the UK began. John asked Jim how he had felt when he saw RBS's difficulties.

Jim Lindsay said that he had felt absolute dismay, born of a feeling that an institution that had existed since 1727 was disappearing down the river. Having left RBS with positive feelings about the bank, he experienced deep regret at what had happened. He was also concerned both for former colleagues, and also for the deposits that ASB had with RBS.

John Miller asked whether, after the crash, ASB had been approached by other banks seeking to learn from their approach.

Jim Lindsay replied that, while there had not been interest from other banks per se, there had been a fair amount of media interest. The experience of engaging with the media had been entertaining, given that ASB has neither a PR nor a media department! The media interest had begun when ASB contacted the local newspaper in order to publish an article reassuring depositors that their money was safe. They invited the editor and a journalist from the local paper to their office. This article appeared with the title, 'Airdrie Savings Bank Bails Out HBOS', because ASB had a deposit of approximately £1 million with HBOS. Following the publication of this article, the national press became interested, and articles appeared in the Scottish Daily Express, Sunday Post, and then eventually the Times and the Sunday Times. These were later followed by telephone calls from The Economist, Asian Banker and a publication in Paris. Some academic interest in ASB was also generated.

John Miller returned the conversation to Henry Duncan, and his motivation in starting up the savings bank. Duncan seemed to have become a minister because of his civic humanism rather than his faith. The faith element in his commitment to the savings bank came later, perhaps because of the visit by the group of Quakers to Ruthwell parish. He asked Jim Lindsay about motivations for entering banking, and asked whether this motivation was significant.

Jim Lindsay replied in general terms about people's motivations for entering banking. His own motivation, and that of most branch workers, is to serve customers. Motivations that have damaged the banking sector include a drive for profitability. The UK has a comparatively large banking sector for the size of its population, which means there is competition. This often produces conflict between the major banks' interests and the original purpose of banks, which was to keep the depositors' money safe and, if engaging in lending, only lending to those who are likely to repay. The financial crisis originated at high levels of banking, not the general retail level, although the latter did create problems with excessive selling practices. He emphasised that banking must remain grounded in its primary purpose of protecting depositors' interests, rather engaging in than in esoteric commercial practices.

John Miller asked whether Jim thought that the commercial banking sector had anything to learn from ASB, and what he would like to see them learn.

Jim Lindsay replied that all ASB had done was stick to good, old-fashioned banking principles. The Bank of England characterised well the tension in all banks between doing things for the good of customers, and gambling with the bank's balance sheet. Clearing banks used to restrict themselves to a limited range of activities, a range of accounts and a few more specialised activities for commercial customers. They did not do mortgages, equity or life insurance. The competition in the UK banking sector means banks have tended to expand and develop from their basic interests. Drawing this distinction between basic services and more esoteric banking practices, it is evident that the financial crash has required the UK taxpayer to subsidise the extra level of risk from the latter. Melvyn King of the BoE has argued that this is unsustainable, with which ASB agrees.

John Miller pointed out that derivative construction and trading by banks has produced massive financial improvement in the lives of the poor. He recalled a story about Henry Duncan who, having seen starvation in south-west Scotland, underwrote a shipment of grain from Liverpool to the Solway Firth. His motivation was alleviating deprivation.

John Miller then opened the discussion to questions from the audience.

Eunice Smith opened the questions by asking Jim Lindsay (a) what return he expected on the £2 he had lent for parking that morning and, (b) what were his hopes and motivation in moving from RBS to ASB.

Jim Lindsay replied that he had been rather charmed by the idea of ASB, and wanted to see if it was possible to continue a very traditional banking service. He also recalled that his grandmother used to collect money for Dundee Savings Bank, so interest in small financial institutions ran in the family! He has found ASB's branch focus to be substantially similar to RBS, but finds the working hours more amenable – he was once asked to leave his office at 5.30pm, because otherwise he would be locked in the office overnight!

Ian Russell asked whether the profit element in banking was too driven by the possibility of bonuses. Having worked in branch banking, he remembered being told, 'Remember the customer: they pay your salary each month.'

Jim Lindsay replied, emphasising that this was without judgement, that other banks had pursued a more retail-oriented approach. He noted that this retail approach actually provided few bonuses at a local level – the emphasis as rather more on 'achieve, or lose your job'. Banks are driven by external, rather than internal, factors to achieve profitability, and there is an 'industry approach' in banking (produced by competition) that means if one bank starts doing something, the others follow.

Anne Feeney asked Jim for his thoughts or feelings regarding the final figure for the bailout of commercial banks - £140 billion. She asked whether he felt banks could be doing more to promote financial inclusion.

Jim Lindsay replied that banks could indeed do more to promote financial inclusion. Many already do, in terms of financial education, but there is scope for more work. He drew attention to Lloyds TSB's work with eastern European migrant workers.

Another contributor asked whether Jim Lindsay saw ASB expanding, or moving elsewhere.

Jim Lindsay replied that they are starting to think about it. The main strength of the bank is its local context. He wants to see if this strength could be moved into different contexts, although he noted financial regulation difficulties surrounding the setting up of new banks. The financial regulatory issues from the Financial Standards Authority make it difficult for ASB to move elsewhere. There were tentative moves: before the financial crisis and the attendant fall in interest rates, they had visions of opening branches in the wider Lanarkshire area, but decided to be cautious. When the financial landscape improves, they may well expand. Lindsay noted that it had been eighty years since the last branch opening!

Chris Cook said that he had attended the Digital Money Forum in London recently, and had been fascinated by attempts at financial inclusion in the third world. Accounts were being opened at a rate of 15,000 a week, using micro-deposits and mobile phone technology. He noted that in such a rapidly changing financial landscape, a small, agile bank might do well. He asked how one might raise the capital for engaging in a similar venture, and related this to a more general question about how to expand while retaining stability.

Jim Lindsay noted that expansion was more difficult now that new financial regulations are in place. ASB is continuing with cautious expansion. While serving the interests of existing depositors, they are also aware that they need to serve the needs of future depositors. He noted that there would be no clear reason or motivation for ASB to expand quickly. Further, there is a sense from the FSA that the fewer small institutions they have to deal with, the better. Lindsay concluded by saying that an expansion in size would increase their sustainability up to a point, but they would not compromise their current strengths or priorities.

Banking Today and Tomorrow

Chris de Noose (delivered by Dirk Smet)

Thank you very much for giving me the opportunity to present you the vision of the International and European Savings Banks on banking today and tomorrow. As representative of the World Savings Banks Institute and of the European Savings Banks Group, it is a pleasure for me to be here today and also tomorrow, for the two conferences that are dedicated to Henry Duncan and his heritage. It has been a pleasure working with the organisational team in Scotland and I first of all wish to thank Lady Susan Rice, Graham Blount and all the other people that contributed to this initiative. It is very comforting to see that Henry Duncan's ideas still mobilise so many people two hundred years later.

Ladies and Gentlemen: this morning, a session was dedicated to the question if banking is really doing God's work. Well I guess that Lloyd Blankfein, the Chairman of Goldman Sachs had something else in mind when he made this statement, but I think that if he meant that doing God's work is to safeguard people's savings and offer them the necessary credit to realise their projects, then the savings banks in Europe, Africa, the Americas and Asia are not doing such a bad job.

I don't have the pretension to describe the ideal future for the banking sector as a whole, but I am convinced that the most important task of the savings and retail banking sector, today and tomorrow is to support the real economy. The most important task of banks is to offer a secure, trustworthy solution to the people to put their money away. With these collected savings, the banks need to grant credits to private people, companies and local authorities. That is what savings banks all over the world are doing and that is what they are good at.

Allow me to quote Walter Bagehot, one of the first editors in chief of *The Economist* and author of the classic book *"Lombard Street: a description of the money market"*. In the introduction to his work he declares: *"A million in the hands of a single banker is a great power; he can at once lend it where he will, and borrowers can come to him, because they know or believe that he has it. But the same sum scattered in tens and fifties through a whole nation is no power at all: no one knows where to find it or whom to ask for it. Concentration of money in banks, though not the sole cause, is the principal cause which has made the Money Market of England so exceedingly rich, so much beyond that of other countries"*

Walter Bagehot wrote for an audience of City-of-London bankers now almost 150 years ago, but the mechanism of savings mobilisation that he described from the point of view of the merchant or investment banker is still as powerful and essential today as in the 19th century. It is a powerful tool for the banker or for the macro-economic policy maker, but it is also a powerful tool for the individual. A carefully managed savings mobilisation initiative with a long-term view can change people's lives for the better. That is what Henry Duncan did 200 years ago in his church hall in Dumfries and that is what WSBI members are doing today in their respective countries.

In essence, it all comes down to leveraging to the maximum the power of the distribution networks of the financial institutions. Already now, WSBI members in many countries have the biggest branch network of the financial sector. Two reasons explain this. Firstly, our members do not consider their branch network to be a cost, as many commercial banks do. Instead they consider it as the most powerful tool to maintain contacts with their customers and they try to lower the entry level to their branches as much as possible. The customers appreciate that; many surveys show a very high rate of satisfaction with the presence and services of our member banks.

Allow me to remain a few minutes more with the distribution capacities of the savings and retail banks that are a member of WSBI. As I said, they very often have already a very dense network. But a lot of efforts are being done to increase the network even more. As you can imagine, it is expensive to construct bank branches, equip them and put employees in them. That is why a simple, but very promising area for development is to work with agent networks. These networks can be groups of department stores, grocery shops, lottery stores that take care of a certain array of financial services and are located in remote parts of the country, where it is difficult to open a bank branch. By doing so, our members in Brazil and in Chile have added several thousands of points of sale to their traditional networks. This innovative model of agent banking is being studied by several of our members in Africa and will maybe be exported in the near future.

Other members reach out to their clients with mobile branches, with the motto *"If you don't come to the bank, the bank comes to you"*. Government Savings Bank of Thailand and Postbank Uganda use trucks, vans, boats and even motorcycles to reach clients all over the country, in the most remote parts. All these vehicles are equipped with state of the art technology, to make transactions as efficient and cheap as possible.

And of course there is the internet and mobile telephone technology that also come to the rescue of retail and savings banks. Two billion people have a mobile telephone but only a fraction of these 2 billion also have a bank account. A tremendous amount of work remains thus to be done. But I am convinced that the growth stories of tomorrow lay hidden in this enormous reservoir of human potential.

Transferring money via the mobile telephone to pay bills, but also to put money on a bank account is another promising new distribution channel that various of our members are testing at this moment. I am sure that it will empower people, that it will allow the users of these innovative methods and technologies to organise their lives in a more efficient way, to get better healthcare, to send their children to school and so further.

This is all fine, some people tell me, but is it profitable? Well, let me reassure you, it is profitable. Recent studies have demonstrated that poor people already save considerable amounts of their income and would be helped if they had easily accessible accounts with low transaction costs at their disposal. A very exciting project that WSBI is working on at the moment aims to double the amount of such easily accessible accounts in ten countries: El Salvador, Indonesia, Vietnam, Burkina Faso, Indonesia, Kenya, Lesotho, Morocco, South-Africa, Tanzania and Uganda. Concretely, this means that we want to create in three years time 10 million new savings accounts in ten countries. To do so, our consultants are reviewing back- and middle-office procedures, are updating the IT infrastructure and are fine-tuning the marketing policies of our member banks. Our members are extremely enthusiastic about it and so am I.

After dwelling on the distribution side of the bank business, I would now like to stress the importance of not focussing exclusively on shareholder value. The savings and retail banks that are member of WSBI focus on stakeholder value instead. That means that the biggest part of the company profits is not siphoned away at the end of each fiscal year, but is reinvested in the company's projects or is dedicated to projects in the socio-economic or cultural field and benefit indirectly to the customers.

We have nothing against commercial banks quoted on the stock exchange. But we believe that the financial sector should not consist only of such institutions, but should leave also room for institutions that pursue another goal. Another key element for the future of the banking sector is diversity. If all banks look in the same direction, if all financial institutions pursue the same goals, the

domino-effect is never far away. Diversity is risk diversification and as such, the savings and retail banks are one of the “circuit-breakers” of the global financial system.

A last element of the future of banking lays undoubtedly in the ongoing support to the real economy. That part of the economy that creates value, that creates jobs and useful products and services to us all. I cannot stress enough the essential role of the banking sector as the go-between between the savers and the borrowers. Our modern economies are fuelled by credit and the banks are the cogwheels of the economy. Without banks, the economy stalls. Banks need to be aware of this very important function and should avoid excessive risk taking. WSBI members in many countries are among the most important lenders to small and medium sized enterprises. In Germany, for example, 4 out of every five SMEs are a client at a savings bank. During the crisis, SME-lending by WSBI members has often increased. Our member in the United States, the Independent Community Bankers of America has a wonderful phrase to describe this commitment; we are here to serve Main Street, and not Wall Street.

Ladies and Gentlemen: in the two centuries that have passed since pioneers in Scotland, France, Germany, Spain and other countries created the first savings banks, a lot of things have changed and the savings banks have changed a lot also. They have taken very diverse legal forms. Some are public institutions, some are foundations, others are organised as cooperative societies. Still other institutions have taken the road to the stock exchange. But all of them have remained loyal to the three elements that all members share. These elements are what we call the “Three R”-principle; Retail, Regional and Responsible.

We are retail, because we get most of our revenues from offering services in the field of payments, savings, credits and insurance to private people, SMEs and local authorities

We are regional, because, as I explained to you earlier, we have a wide and extensive network of branches and points of sale.

We have a responsible attitude, because we don’t exclusively focus on shareholder value.

These three values have brought us through two hundred years of history and these same values will also strengthen us for the challenges that await us in the future.

I wish to thank you for your kind attention and am available for any questions that you might have.

Afternoon Panel

Simon Thompson
CEO, Chartered Institute of Bankers in Scotland

Anne Feeney
Financial Inclusion Champion for Scotland, DWP

Rev Dr Graham Blount
Centre for Theology and Public Issues, University of Edinburgh

Presentation by Marlene Shiels, CEO Capital Credit Union

Firstly, congratulations to the University of Edinburgh, CIOBS and everyone in attendance for celebrating the achievements of Henry Duncan and his efforts to help people with fewer financial choices.

Credit Unions share his philosophy to this day, as financial co-operatives one of our core principles is to provide access to quality financial services, regardless of economic circumstances. And we know it works. GLOBAL STATS

- 186,000,000 Members, over 600,000 of which are in Britain
- 54,000 Credit Unions, over 500 CUs in Britain
- 97 Countries

Credit Unions are different to mainstream banks and the difference is our philosophy - the same philosophy that Henry Duncan held dear and was driven by to found the first savings bank!

Four of our nine core credit union operating principles are :

- Building financial stability – every member has a savings account regardless of how little they can save
- Ongoing education of our members – FEO – Kimberley Swan
- Social responsibility
- Non-discrimination – serving people from all walks of life.

And yes the business model is different in other ways, we have no external shareholders and our members are the owners of the co-operative, but it would be too easy to say that being a co-operative is all that makes us different.

Credit Unions work with people from all walks of life, much like Henry Duncan, that's what drives us. We have developed a business model that allows us to mobilise the resources of the credit union by providing competitive, quality products for those members that DO HAVE financial choices, to develop products and services for the benefit of those members who have little or few financial choices, people who are financially poor.

So how do we do this? Reality is that Credit Unions are still small in comparison to most banks. We achieve our goals through partnership working. Our partnership with all our members, our

partnership with our communities, our partnerships with our sponsoring employers, with government and local agencies. Capital works with over 40 sponsoring employers including Scottish Government, 5 local authorities, the Scottish Parliament, numerous Housing Associations, voluntary and commercial organisations throughout the Lothian's and Scottish Borders.

Credit Unions are not charities, our core goals are not profits, but are for service to our members.

At Capital Credit Union we have over 17000 members, over 3,000 of which are what we would call financially excluded. Capital provides access to savings, loans, current accounts and a range of other financial services, but we also provide financial education as part of the package. We are helping members to budget, build their credit rating, and become more informed in the choices they make and ultimately help members create wealth, not a state of spiralling debt. Over 500 of our financially excluded members are now operating credit union current accounts for the first time.

Such has been the success of our partnership with the Department of Work and Pensions, through the Growth Fund Project; we are working with four other credit unions to help them develop products and services for the most financially excluded in their communities.

Credit unions are an alternative to mainstream banking, and share Henry Duncan's philosophy of serving as "poor men's banks." There is a strong credit union infrastructure, and I am on the board of the Association of British Credit Unions, which is made up of around 300 credit unions and has over 4,000 members. There are 186 million credit union members worldwide, with 54,000 credit unions in 97 countries. Although traditionally set up in poor areas, the pervasiveness of credit unions means they are becoming more mainstream. For example, I am the first from a credit union to belong to the council of the Chartered Institute of Bankers in Scotland. But credit unions are committed to working with people from all walks of life, even if they look to make some profit.

Capital Credit Union is based in the Lothians and Borders of Scotland, and has 17,000 members—most of whom borrow as well as deposit money. We have gained over 3,000 members just in the last few years, all from financially excluded backgrounds. Over 500 hundred of these are accessing a credit union current account for the first time. To help our clients, we prioritize the provision of financial education as well as services: how to balance a budget or a credit rating, how to optimize credit union membership.

Credit unions may be a small part of the banking sector, but partnerships allow our influence to spread. For instance, Capital Credit works with 43 sponsoring employers who recommend us to "fewer option" customers. The Scottish Parliament, housing associations, community groups, and many others join us in this capacity.

Although credit unions are traditionally for the poor, they should not—and cannot—only be for the poor. Mainstream banks should also welcome the poor. But credit unions, if they are to fulfill their special role of providing options for the excluded, rely on the capital brought in from other members.

Q. *Mr Thompson*: Why are UK credit unions so small? Should they try to grow?

R. *Ms Shiels*: Credit unions are heavily regulated, and most of the regulations have been written by mainstream bankers. Until 2002, the UK had the most restrictive credit union legislation in the world: they could only operate within a 1 square-mile of the branch, and they could not have more than 5,000 members; members could not save more than £5,000, and couldn't borrow more than £5,000 more than their savings. The FSA changed the legislation though, and now credit unions can grow. Should they grow? Credit unions have proven that size is unimportant—

what matters is retaining the philosophy upon which they were founded.

- Q. *Ms Feeney*: Why are credit unions disconnected from the Savings Gateway? (The Savings Gateway is a government service which encourages low-income earners to save by providing matching funds to a proportion of what is saved.)
- R. *Ms Shiels*: Credit unions already encourage saving, but Capital Credit has indeed registered for the Savings Gateway. Mostly there is a communication problem, as credit unions think there will be a charge that will discourage members from saving.
- Q. *Rev Dr Blount*: How can credit unions learn from TSB's (negative) example and keep its distinctiveness while they grow?
- R. *Ms Shiels*: The credit union philosophy has to be central at every step.

Presentation by Jackie Cropper, CEO Grand Central Savings

200 years ago, in 1810, Henry Duncan's unbanked were the rural workers, unable to put aside money for the fluctuations in harvests. Today, in 2010, the unbanked are the homeless, the low paid, those on state benefits, those with mental health problems, addictions and those who have fallen into the ever increasing cycle of debt. It is those people that Grand Central Savings was established for and works with every day.

Grand Central Savings is about the people. Our customers are at the heart of everything we do. They are the most important part of Grand Central Savings and we will *always* do our utmost to keep that focus and not let them down. We will continue to provide a friendly safe environment; continue to look at ways of saving the customers money and never lose sight of working with the most financial excluded people. It is the sheer commitment to our current and potential customers that keeps us all going and focused.

Grand Central Savings (GCS) is an independent charity providing banking facilities, money advice and assistance to the most financially excluded in communities. Working with the socially excluded and economically vulnerable, GCS provides its customers with a safe place to keep their money, where they will be always be treated with dignity and respect.

Open to all, GCS's customers include;

- Benefit claimants
- The homeless & vulnerable
- Prisoners and ex-offenders
- Immigrant workers
- Pensioners
- Those with mental health issues
- Those with addiction problems
- Young adults, including those leaving care and starting college
- Those in debt and financial difficulties
- Those moving into employment

WHAT WE DO

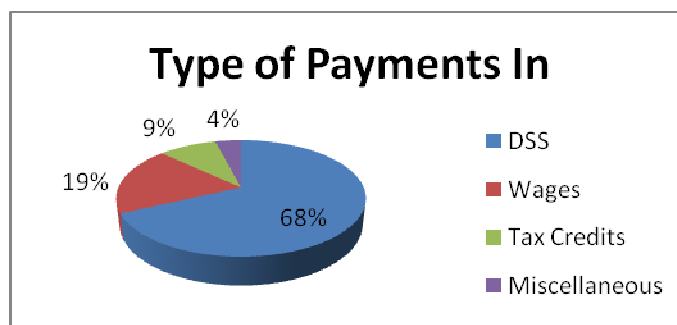
The Background

GCS was established in 2001 in Glasgow. Originally part of the Big Issue Foundation Scotland, GCS was established to provide banking facilities to the homeless who - with no prospect of opening a high street bank account – had no capacity to save money for essentials, or keep their money safe. Our experience and empathetic service has resulted in a significant expansion in the groups that we serve and in the demand for our services in Scotland and across the UK. In recognition of this need, since 2008 GCS has operated as an independent Scottish Charity. Supported by the Bank of Scotland, GCS has a unique arrangement, supported by the Financial Services Authority (FSA).

Our Customers

GCS currently operates in Glasgow City and Greenock, Inverclyde (Opened in March 2010). GCS has in the region of 1,400 regular customers. In the twelve months ended 31 December 09, the Glasgow branch recorded 27,000 transactions. Since GCS was launched, we have distributed £17million to customers – with over £3.5million distributed in 2009.

Of those using the GCS Glasgow facility, 71% are male and 29% female. The vast majority of customers fall within the 26-65 age group (96%), with 3.25% being between 16 to 25 years of age, and 0.75% being over 65. The customers' funds come from a number of sources;



GCS caters for the specific needs of those who are financially-excluded by:

- Removing the major barriers often encountered by such individuals when trying to access mainstream banking (e.g. the stringent ID requirements).
- Recruiting staff on the basis of their knowledge of, and ability to work with, people from disadvantaged and/or chaotic backgrounds.
- Ensuring all procedures and systems are user-friendly for individuals unused to dealing with financial matters and who may have low levels of numeracy and literacy skills.
- Providing a money advice service offering customers advice and assistance on budgeting and money management, thus assisting them to stabilise their lifestyles and be better placed to seek employment, manage any debt problems and plan for the future.
- Providing a Rent Payment facility through which Local Housing Allowance or Housing Benefit is paid direct to the landlord, thus helping to ensure the security of a customer's tenancy. GCS can also work with the customer's landlord to establish an arrears repayment plan.

Opening an account with GCS could hardly be easier, the process taking on average only about five minutes. *Would-be customers don't even have to have an address.* All that is required is that they produce one form of ID (anything from a DSS letter to prison release papers is acceptable) and that they fill out a short form stating their name and NI number (and address if they have one). They are asked to give two sample signatures and a passport-style photograph is taken for identity purposes.

The Need

Treasury figures for 2007 illustrated that there were two million adults in the UK without access to a transactional bank account. Whilst recent figures from the Financial Inclusion Task Force show a fall in the number of unbanked to 1.75million, more than half of this number are in the poorest fifth in society – precisely those people that have the greatest need for a bank account. High Street banks have largely failed to address this issue – however GCS can provide a real solution. GCS has also seen a significant increase in new customers who have an existing high street bank account (and would be regarded as banked in the above figures) but cannot use the account due to high account fees, charges or money owed to the bank.

A New Economic Foundation report in 2005 found that 35 per cent of individuals living in deprived areas lacked even basic bank accounts. A Help the Aged study (2003) highlighted the fact that lack of access to banking facilities increased with age – it found that over 25 per cent of those without access to a bank account were retired. The recession and banking crisis has exacerbated the already desperate plight of those living on the margins.

At a local level, feasibility studies are carried out to ascertain the level of unbanked and financial exclusion in local areas. The feasibility study conducted for Inverclyde's Financial Inclusion Partnership found that there were 17,000 people in the area who were unbanked, with 3,000 of these being from the most financially-excluded background, including homeless and similarly vulnerable groups.

WHY GCS? - SHORTFALLS IN MAINSTREAM PROVISION

The political will to reduce the numbers of unbanked in the UK is welcomed. The obligation on high street banks to provide free accounts for all that was announced in the March 2010 budget is to be supported, however there are a number of barriers to this, listed below. Grand Central Savings unique service overcomes all of these issues:

- Many find they are unable to access conventional banking provision due to their inability to satisfy the stringent ID requirements. *The budget obligation on High Street banks only extends to those with a 'valid address' Over 40% of GCS customers have no fixed abode – and would therefore still be refused an account*
- Many are also put off or intimidated by the atmosphere of the standard bank branch – feeling it is just “not for them”. *Those on benefits, low incomes and those with current or previous debt feel intimidated by high street banks and feel pressurised into taking out credit, services and overdrafts that they cannot afford, but don't have the financial capability to refuse. Many of our customers have told us that they feel looked down upon in these establishments.*
- A further problem lies in the fact that banks don't tend to regard low-income individuals as prized (or even desirable) customers.
- Additionally, high street banks would not normally be possessed of the relevant background knowledge necessary to offer an appropriate level of support and advice to those suffering the range of problems stemming from disadvantage and poverty, not to mention homelessness, addiction problems, etc. *Grand Central Savings has specific experience working with the vulnerable and can help customers to manage their money on a day to day basis, helping them to stabilise often chaotic lifestyles and help them build their financial capacity.*

The Post Office card scheme suffers the major disadvantage that benefit claimants often withdraw their entire cash payment in one go and have no opportunity to pay money back into their account, thereby risking theft and reducing their ability to manage their money and save. Wages cannot be paid to this account if the customer starts work, thereby reducing the chance of gaining paid employment. An unfortunate side effect of the inability by many to access mainstream banking is that they are often forced to resort to using cheque point centres, in the process losing around 10% of what little they have got in commission charges.

WHAT WE WANT TO DO

Having successfully established the first GCS branch in Glasgow and opened our second in Greenock, Inverclyde, it is our objective over the next three years to see the model replicated in areas of greatest need throughout Scotland, with further expansion to other areas of deprivation and poverty across the UK. It is intended that this will be achieved by offering the service through local partners (in some cases, the local Financial Inclusion Partnership) operating on a “partnership” basis.

The target is to open at least three new branches over the three-year period, and for the groundwork to have been undertaken for the opening of a further three branches. The development of a network of Grand Central Savings branches, working with the most financially excluded in communities is a real, cost effective and not for profit solution to the problem of high unbanked numbers in the country. Access to a bank account is a fundamental right and the financial rock upon which an individual’s financial capability is based.

GCS seeks to be the provider of choice for the unbanked, vulnerable and financially excluded. Rev Henry Duncan saw a real social problem 200 years ago – and from the first Saving bank branch in Ruthwell grew the savings bank movement that revolutionized banking and opened up saving and money management for the poor.

Today’s social problems are different, but the need is the same....a place where the financially excluded and economically vulnerable can keep their money safe, maximize the money that they have in their pocket and feel welcome and supported. GRAND CENTRAL SAVINGS provides that to its customers...and like the Savings Bank movement - with our customers always at our core - we will expand our branch network and work with those who need our help...like Henry Duncan 200 years ago.

Henry Duncan's vision was for the financially excluded, and this is precisely whom Grand Central Savings is meant to serve. Our customers are the invisible. They have no access to mainstream banks, and are often even ineligible for credit union membership.

Grand Central Savings was created out the Big Issue Foundation, as a means to provide savings options for the homeless. Glasgow City Council helped with funding for a small branch, which was supposed to serve around 200 customers for a 3-4 year period. But there are now 1,400 members of the Glasgow branch! We have homeless persons, pensioners, and asylum seekers among our members. Members often need an account because the government requires one to receive benefits, and because they need to avoid the high charges at check-cashing cashing stores.

Two years ago Grand Central Savings separated from the Big Issue Foundation, and began to look for more funding and help. Lloyds TSB has provided valuable advice and support. Grand Central is now established as a charity and has a board. We focus on the unbanked and other excluded persons, identifying “red spot” areas that need banking services. We do not sell products—we are not a bank or a credit union. We are the bottom step of banking services, only requiring a national insurance number for membership. We train clients to manage their money, and encourage them to move on to credit unions and banks.

Q. *Ms Feeney*: How is the model sustainable, given that it is not self-financing?

R. *Ms Cropper*: By helping our clients, we contribute to the community economy. We will never charge customers, as the entire point of Grand Central is to serve those who cannot afford to pay.

Q. *Rev Dr Blount*: Should the model be exported?

R. *Ms Cropper*: There are currently branches in Glasgow and Greenock. We are not planning to open another branch, though we are discussing possibilities in Aberdeen. We have been requested to carry out feasibility studies in various communities throughout the UK, but we will only expand if necessary.

Q. *Mr Thompson*: What does having access to an account mean for the customer?

R. *Ms Cropper*: It gives them the security of knowing their money is safe, as well as having a place to pay wages into.

Summary of Presentation by Dr Karl Dayson, Executive Director, Community Finance Solutions, University of Salford

Today I'm going to talk about Community Development Financial Institutions (CDFIs). CDFIs have different origins from credit unions, which were mainly begun for moral purposes. CDFIs began in the US, and still only exist there and here in the UK. In the US they primarily provide enterprise lending and equity investments. In the UK they were a reaction to soft loan funds, which were abandoned after 3 years, as no effort was made to recollect the money. CDFIs are independent, so have to search for funding. Some CDFIs are focused on traditional enterprise, some on social enterprise, and some on personal finance.

There are 70 CDFIs in the UK, though only two are making a profit. Why haven't CDFIs broken through in the banking market? Research shows that they are socially successful, providing needed lending services to women, minorities, and in excluded areas. But financially, they have not been so successful. For the most part, CDFIs are not able to offer a loan until a bank has rejected the loan application. At that point, the CDFI typically has to rewrite the business plan to make the loan feasible—this is an expensive process that mostly goes unremunerated. There are fixed costs, regardless of the size of the loan, so processing a loan application is still expensive. CDFIs which focus on the poor are hit hard. A further challenge is that state business agencies are not providing many referrals.

A sustainable model for CDFIs needs cross subsidy: it needs either funding for loans, or the ability to charge for them. There is a consensus forming that our culture of welfare dependence means clients need face-to-face help. For instance, Profit Financial has seen enormous growth, largely through their door-to-door operations. Does social inclusion require new institutions, or adaptations of what we already have? Either way, someone has to pay.

Q. *Rev Dr Blount:* The Community Reinvestment Act in the US gives citizens the ability to pressure financial institutions to serve their communities—does the UK need something like this?

R. *Dr Dayson:* We actually need a European-wide CRA. There are worries about the expense, but if the CRA were based on the US model, we could adopt the already-existing computer software and go through international banks. The CRA is an excellent way for banks to help communities and build their reputations.

Q. *Mr Thompson:* Who should pay for CDFIs?

R. *Dr Dayson:* The client should pay something. Credit unions are hobbled by fee limitations. There are simply costs that cannot be avoided and need to be placed onto the client. State funding is also an important resource, and guaranteed funds are good ways to attract state support.

Q. *Ms Feeney:* Few CDFIs loan to individuals, ScotCash being one of the few, as these loans are very expensive. How do CDFIs expand their individual loan services?

R. *Dr Dayson:* Successful CDFIs in this area have eliminated overhead as far as possible: minimal staff, minimal office facilities.

Summary of Presentation by Zaheem Ahmed, Glasgow Caledonian University

“Grameen” means village. The bank was started in 1976 during a particularly difficult time in the history of Bangladesh, while there was fighting throughout the country. In Bangladesh, Grameen doesn't challenge or compete with the existing banks, as it works with the poorest, and mainly with women who save for the family unit. 70% of Grameen borrowers in Bangladesh cross the poverty line. Furthermore, it has changed the role of women in a traditionally Muslim country, and can be viewed as a catalyst of “bottom-up” modernization. It has restored dignity across Bangladeshi society.

Grameen is now an international movement, a start-up initiative to empower individuals, families, and communities. With a 19.7% return rate, it is a highly efficient model. It has spread to 40 countries, and there are 145 banks. The initiatives come from the communities themselves. Grameen is owned and managed by the borrowers, it is the bank of the poor.

Now we will see if the model works in Glasgow, where the welfare system provides a challenge. We need to help people out of welfare, but the state keeps them in it. A conference on 4 July in Glasgow will address these topics.

Q. *Mr Thompson*: Which aspects of the Grameen model will work in Glasgow? What are the challenges?

R. *Dr Ahmed*: The welfare issue is the biggest challenge, but this cannot be changed. Funding is an issue, though the university is connecting us with donors. As for the basic model, we will target both men and women as borrowers, and are still convinced the small borrowing groups will work.

Q. *Ms Feeney*: What about the criticisms of Grameen that it does not actually tackle poverty? Will it work here?

R. *Dr Ahmed*: Yes, the model is working in the United States, and it will work here. We will start small and grow as able.

Q. *Rev Dr Blount*: Trust is central to the model, but in Scotland trust has widely eroded. How will Grameen function without community trust?

R. *Dr Ahmed*: Grameen can help to rebuild trust. It is a savings and borrowing model that requires trust to function.

Audience Q&A

Q. *Robbie Marwick*: What could the government do to help these organizations?

R. *Dr Dayson*: The long-term future is in private sector finance with state guarantees. For example, the Blackburn CDFI raised £640,000 privately and changed welfare practices there.

R. *Ms Cropper*: The government must recognize that the poor exist!

R. *Ms Shiels*: We need legislation that expands the area of operations for credit unions.

R. *Dr Ahmed*: Matching funds for low-income job earners and support for community initiatives (gardens, cafes, etc.) are very helpful.

Q. *Alison Daly*: How can credit unions be more involved in the Savings Gateway?

R. *Ms Shiels*: We need to combat the misconception that it is expensive. It is only designed as a first step, and there is ambiguity about costs and resources. More clarity about how credit unions can be involved should increase participation.

R. *Ms Feeney*: Savings Gateway provides resources, marketing materials, and training—but it does not fund the credit unions. Maybe the Scottish Government can help here?

Q. *Ms Daly*: It is a helpful initiative, but who will pay?

R. *Dr Dayson*: NGOs and the social sector tends to pay—the government probably will not help here.

R. *Rev Dr Blount*: I will follow up with Scottish Government contacts about this possibility.

Banking Beyond 2010

Lady Susan Rice

I'm really pleased to be part of your celebration today of a man, and a heritage, that mean so much to banking, to religion, to education, and to Scotland. I'm sure the name Henry Duncan will now trip off many more tongues than ever before, and his *legacy* will be better understood. And so it should be.

I hope these 2010 celebrations – here at the General Assembly Hall today and tomorrow at the ESGC conference – which mark the bicentenary of the founding of his savings bank at Ruthwell in rural Scotland, help give Reverend Henry Duncan his rightful place amongst the great Scottish pioneers. Now, banking history will have been well covered by Professor Charles Munn and others this morning. As has the swathe of finance provision offered by credit unions, micro-finance and other initiatives from the session we just heard.

Some of the stories this afternoon really resonated with me. Without wanting to be overly autobiographical, I was the sole banker around the table – over ten years ago – with the group of people who put Social Investment Scotland in place. Similarly, I was on the Treasury's PAT 14 which introduced the basic bank account – a product created by the Bank of Scotland here which I put on the table; and on the Financial Inclusion Taskforce since its inception, and a founder trustee of the Charity Bank.

But I'm also a mainstream banker by day. And it's with that broad brush that I intend, this afternoon, to look ahead – Beyond 2010.

I'd like to share *my* vision for banking in the future – and not just how the industry might be *shaped* or re-shaped, but also the way I think it should *operate*. *What* we do certainly matters, but *how* we do it matters perhaps even more.

Certainly, over the last two years, it's been an interesting time to be a banker. I recently found myself reluctant to admit to being a banker when asked by a taxi driver, and I thought about why anyone should feel awkward about saying they're a banker ... after all, society needs bankers.

And I thought about the current focus on processes and rules in banking – and wondered if there would be an abundance of the *what*, and not enough about the *how*. There's so much discussion going on about structures, about different types of financial provision – all quite useful.

But it's a lot harder to talk about *how* banking is done, to talk about *behaviours*; and *that's* what I'd like to focus on.

I speak not as a representative of any one institution, but as a representative of an industry. I speak as a banker, one who cares deeply about the future of banks, and the banking profession. In part, that is because I care deeply about the health of society, and one doesn't happen without the other.

You may or may not agree with this statement, but I think the last couple of years have demonstrated just how fundamental banking is, to the way society operates. For better or worse, as Rev Duncan might have said.

In Henry Duncan's day, his savings bank was a lifeline to his parishioners, a service which helped them through the lean times. Banking today helps businesses start up and flourish; it allows people to own their homes; it enables us to plan for the future – and save for a rainy day.

The industry is a significant employer, and a major contributor to GDP as well. In fact, such a significant contributor that financial services here in Scotland has been regarded as one of the country's leading sectors – flourishing locally and engaging globally.

This owed, in part, to the longevity of the industry – which, as we know, dates back over 300 years in Scotland. But it also derived from how people *regarded* the industry.

Financial services was known, from its beginnings here, as an industry which could be *trusted* – one which acted with *integrity* and *probity*. Three words – trust, integrity and probity – they form a common understanding of how people perceived financial services in Scotland, and helped ensure its success.

The Scots renown for thrift and prudence also played a part. I've read that banks founded by Scots across the world – in Australia, Canada, Hong Kong, the United States and many other countries – consciously followed, and I quote: 'explicit Scottish principles', by which they meant thrift and prudence.

And I shall mention these and similar words again, because the way we *talk* – the words themselves that we choose to use – have a deep influence on what we think.

So, we had an industry *here* that was esteemed, important here, and demonstrating leadership beyond our borders. But the financial crisis has profoundly changed the way we talk about the industry now.

And, while that's not just the case in Scotland in isolation, those of us who work in the industry *here*, and care about its long-term success, feel some responsibility to help rebuild it - to reclaim the *language*, of success and leadership.

To set the context, let me *briefly* discuss the crisis.

We know it wasn't caused by any one factor or event. It was a confluence of macroeconomic, financial, regulatory and management issues that brought the financial system - quite literally - to its knees.

In short, the crisis stemmed from global account imbalances – a savings deficit in the United States and excess savings in Asia. There was excessive leverage throughout the financial system as well and some of it was distributed inappropriately, as in door-step sub-prime lending in the US.

Many parties right around the world - whether some industry players, some regulators and supervisors, some customers - all failed to acknowledge the inherent dangers.

And in management terms, there was a widespread disregard, in my view, of the most basic of economic principles – that the economy moves in cycles. Bust follows boom, but in the 'golden decade', there was a sense that the good times could never end.

Also, if we look back at the last few years, it's apparent that more and more banks came to look the same, operating to a similar model and all tied up with each other. The capital of one bank was far

too often the capital of other *financial* institutions, rather than capital derived from the market itself.

And then there were decisions made, but the timing was wrong. Whether having to do with the timing of a major acquisition, or over-reliance on wholesale funding. Timing, as well as the particular models that banks operate, can make a big difference.

For those banks that were strictly transaction-based, the impact will have been deeper and sharper than it might otherwise have been.

My own bank – Lloyds TSB as was, Lloyds Banking Group now – operates a through-the-cycle model, focussed on relationship banking. While some banks were lending for a transaction today with the fee alongside it, and then looking for the next transaction tomorrow, banks like Lloyds TSB lend against cash-flow, against the expectation that the customer has a viable business down the line. And because of that approach, Lloyds TSB used to be seen as the ‘pipe and slippers’ of the banking industry, not racing to take on the next new thing until it was understood.

We made respectable, not eye-watering profits in the good times, but were much better equipped to get through the bad times.

Now it can be argued that neither model – through-the-cycle nor transactional – is good nor bad in itself; they are simply different and perhaps suited to different markets or different points in the cycle. And decisions made at the top of an economic cycle can look very different in a downturn.

As we know, hindsight is common, but foresight is a rare gift indeed. And now that we can see what went so catastrophically wrong in the financial markets, and in many financial institutions, there’s a real imperative to put things right.

Indeed, a lot of consultation has been going on for some time now – with the G20, in Europe, the Treasury, UKFI, the FSA; all have a role and say in the future shape and scale of financial services in the UK, and indeed beyond.

We have to look outwards to organisations such as these, and to the wider global context, but we have to look to ourselves as well. I say that because, much as we will have new frameworks imposed on our industry, as I’ve said, what matters every bit as much, and maybe even more, is *how* we do banking.

It’s our behaviours, our mind-set, our approach, our judgments. I believe we have to change behaviours and attitudes in the industry as *well* as structures.

While the private sector is measured and rated on how good it is at driving the bottom line, at creating value, I wonder whether, alongside that rigorous focus on value, part of what went wrong is that we lost sight of our values – with an ‘s’. Values such as trust, integrity and probity.

I think that the future of banking – beyond 2010 – lies, in part, in recapturing those three words. And let me be clear, it’s not that they don’t exist in banking today – I see them in colleagues and counterparts every day. But they need to be *universal*.

I believe that if we operate to high standards, to a set of values – with an ‘s’ – *all* the time, we’ll be more likely not only to create financial value, but to create *sustained* value.

So how do we do that?

Well, as I say, the world is telling us it's through controls (new regulation), through a different approach to competition, and perhaps changes in compensation regimes as well – we might call them the three 'C's.

What sort of impact will all that have? Forced competition will create more banks for the moment, or at least more brands, which it's intended to do. But if they still all operate to roughly the same model at the same time, if they're all in synchrony, they're all interdependent, have we *really* fixed the underlying problem? If something goes wrong at one, then they're all affected because they're all so linked.

Isn't what we really need - not simply *more* banks, but different *types* of banks and other financial entities co-existing? One person's view on competition.

Compensation – new regimes are coming in and they will have *some* effect, but not totally and not all the time. So they'll help, but not do the entire job.

And then there are controls - regulation. Whether to do with lending practices, or capital and liquidity management or whatever, new rules come about when the regulator decides banking should be done differently - in order to strengthen an activity, to protect the consumer, or for the sake of consistency.

But the *nature* of the regulation matters greatly. If that regulation proscribes too much, and tries to anticipate every possible situation, then there must be a question mark over whether it can succeed. We've seen, over the last few years, how *overly complex* decision models made it nigh on impossible for the banker on the street to exercise independent judgment, about a transaction or a client. We will fail to realise the benefits of a strong banking system if we find ourselves with overly complex, or overly proscriptive, regulation.

Complexity feeds on itself, takes on a life of its own. The one thing we mustn't take *away* from bankers is their ability to make *judgements*. When you don't exercise judgment, you don't take responsibility – and surely that's what we need more of, not less. Regulation prompts compliance to be sure, but it's only *good* regulation that prompts responsibility as well.

The three C's are all necessary areas of focus just now. They're a form of engineering that will undoubtedly reshape the *industry* for the future - but not necessarily the *values*, which I think must be at the core of who we are and what we do.

So, I believe that something else is required, in addition to the three 'C's.

We need something which derives from values – with an 's' – to help us move forward.

And as we celebrate the bicentenary of the founding of Henry Duncan's savings bank in Ruthwell, I wonder whether we can look to *his* model, to help us consider banking beyond 2010.

The transformational element of the Ruthwell savings bank was that it identified a new market – particular groups of people not served at all by the commercial banks of the day. The Ruthwell savings bank (and others which followed it) attracted deposits from tradesmen, artisans, shop workers, farm workers, domestic servants, and from women and children – who were encouraged and at times *required* to put their money into a savings account.

So, the bank was established to serve a particular community – an excluded community at the time – and by doing that, it changed the meaning of the word ‘unbankable’.

We’ve heard about several organisations today which do exactly the same thing, only in a modern context. And values – with an ‘s’ – play a significant role with each of them, as they did in the Ruthwell model.

As we know, Reverend Duncan started his savings bank out of a charitable belief that the poor should be given the opportunity to help themselves. By saving for times of ill health, old age, unemployment, or hardship. He may also have had a more Godly motive, in wanting to save his parishioners from *themselves*.

I quote from our savings bank archive, from one of his letters:

“It is distressing to think how much money is thrown away by young women on dress unsuitable to their station ... and by young men on the debauchery of the ale house ... and in other extravagant and demoralising practices ... for no other reason ... than no safe place is open to them for laying up their superfluous earnings.”

Henry Duncan certainly knew his parishioners – warts and all. He was interested in their welfare, and not just in the near-term term, but in the longer-term as well.

And therein lies another lesson. Bankers ought genuinely to know their customers and markets, just as Henry Duncan did. As bankers, we can only do that by building *relationships* with our customers – by looking *always* to the long-term. The kind of approach to banking that I want to see dominate in the future is one where we work for customers through the cycle – in the good times *and* bad.

Where we set out to build long and lasting relationships, to take the time to understand the future plans of an individual or a business. Where we give guidance and not just sell products.

Because banking isn’t just about selling a product *today*. It’s about knowing how it’ll be used over time. Banking isn’t just about profit or a deal today; it’s about those things, but *only* if they’re delivered within a framework of responsibility and fair play. If bankers genuinely understand their business, their customers and their markets, they will *earn* the attributes of trust, integrity and probity.

So ... the *way* we do business matters greatly, as does the way the industry projects itself.

It’s widely acknowledged that the industry as a whole needs to work to restore its image, and there are lots of ways to do that. One initiative that really resonates with me and hopefully with all of you here today, concerns professional standards.

The Chartered Institute of Bankers in Scotland, one of the sponsors of today’s conference, is the body concerned with the ongoing professional development of bankers, and reaches well beyond Scotland. It’s also the oldest banking institute in the world, and just now, the Institute is creating a new and unique Professional Standards Board.

As someone who cares about this industry and its future, I was very pleased to be asked to chair it. The rationale of the Professional Standards Board is that, while qualifications exist within banking, they’re a point of entry. There are no *benchmarks* today against which bankers or customers can measure professional capability. The identification of standards in banking will, we hope, enshrine a sense of professionalism, and enhance both the reputation of the industry and customer confidence

and trust.

That's a critical step towards regaining the status and reputation of banking and something we will deliver from here in Scotland, something where we can lead once again.

A lot of what I've just talked about has to do with the people within the industry: how bankers conduct themselves and their business, how well they know customers and markets, how they achieve professional standards.

But what about the institutions themselves? If I think about banking in the future, I see a small number of extremely large bank holding companies, sitting over a wide swathe of banking offers. These huge companies will be relatively few in number and truly global in their service.

Alongside these banking behemoths, I see any number of small, simpler banking institutions. These institutions will often be based on a community – whether that's a geographic community, an electronic community, a community of interest, whatever. These smaller institutions will be nimble. They're the ones that will have the ability to innovate and adapt quickly in response to changes in their operating environment.

This is exactly what I see in so many of the *new* forms of finance developed over the last decade or two - just what we've heard about this afternoon.

As I step down from my term as Honorary President of CDFAs this summer – that's the umbrella organisation for the CDFAs we've just heard about – I have to say just how impressed I've been by *their* ability to adapt, and shape their enterprises to the local need.

And we've heard the same this afternoon about other types of organisations – credit unions as they develop and mature; Grand Central Savings, which I see as the modern, urban image, the exact reflection of Henry Duncan's first savings bank. We've heard how they're reaching out into new territory and increasing their impact.

Organisations on that scale don't compete head-on with the banking giants, but like the bigger institutions, they form part of a rich tapestry of financial provision. And I think it's vital that we *have* that tapestry made up of financial service providers operating at *all* levels within the market.

I spoke earlier about the problem of too many financial firms operating to a similar model, and that their capital was too often tied up with that of other banks, rather than capital derived from the market. A healthy financial landscape needs to be varied, in touch with the *market*, and meeting need wherever and however it manifests itself.

A robust financial landscape should have institutions and individuals, as well, who keep a constant eye out for *new* markets altogether, for *new* ways to serve. Just as Henry Duncan did 200 years ago.

And we need to do that sustainably – creating profit – and professionally, *respecting* our markets and our customers.

Creating value – inspired by a set of values ... with an 's'.

Doing God's Work ?

Celebrating the Bicentenary

No doubt Lloyd Blankfein (Chairman of Goldman Sachs) had his tongue firmly in his cheek when he reportedly described himself as "just a banker, doing God's work". Yet, at a time when banking struggles to claim the high moral ground, there is a good Scottish pedigree for seeing banking as "God's work".

In 1810, Rev Henry Duncan, a Church of Scotland parish minister in Ruthwell near Dumfries, founded a savings bank in his church hall as a way of addressing the poverty of his parishioners; as the idea caught on, he was recognised as the father of the Savings Bank movement. Such was the impact of Duncan's work that, only five years later, the Edinburgh Review was claiming that the spread of Savings Banks "is of far more importance and far more likely to increase the happiness and even the greatness of the nation than the most brilliant success of its arms or the most stupendous improvements of its trade or its agriculture" (though the editor did admit it would be hard to persuade either rulers or people that this was so, especially in the month of victory at Waterloo)³⁸.

A century after the opening of Ruthwell Savings Bank, in June 1910, an impressive gathering of the great and the good came together over three days in Edinburgh to celebrate the "centenary of savings banks". That event arose from an invitation by Edinburgh Savings Bank – whose Actuary, Alexander Cargill, apparently provided the energy behind the project as well as the editing of the papers – to the Trustee Savings Bank Association, to hold its annual meeting in Edinburgh in recognition of Rev Henry Duncan's founding of Ruthwell Savings Bank in 1810. In an introduction to the papers, Cargill credits the Church with "the honour ... of having been the instrument that introduced these beneficent institutions, in England and Scotland at all events".

After various receptions, banquets and excursions, an International Conference on Thrift (in the General Assembly Hall of the United Free Church of Scotland) heard papers on the history of savings banks in the UK, USA, Australia, France and Belgium. Significantly, the Centenary fell just weeks after the final passing into law of Lloyd George's "People's Budget", said to be the first legislative attempt to tackle poverty by redistribution of wealth; a range of new social provisions, including old age pensions, were to be funded by progressive taxation of incomes. Several speakers expressed their views on how these measures related to Henry Duncan's values and the institutions he founded.

Thomas Jaffrey of Aberdeen Savings Bank claimed that

"(Savings Banks) have taught the mass of the people the salutary lesson of self-help, and have delivered from poverty and distress thousands who, had they never existed, would have had to invoke the aid of the State. They have also spared the State untold burdens. Still I perceive certain legislative perils in front of us which threaten to impair their future usefulness if not to jeopardise their continued existence."

Alexander Cargill was more blunt in his resistance to this new "socialism", for which he offered "a new and original definition, set forth for the first time in simple print : 'A Socialist is a person who has no Savings Bank account, but would like one gifted, say by the State!'" . But there was wide

³⁸ Horne, p50

agreement with the view of the Archbishop of Canterbury, who was prevented from attending by the untimely death of the King; in his letter of apology he said

"Intelligent appreciation of the work which was set on foot one hundred years ago, by those whose doings you commemorate, brings us face to face with some of the great problems of to-day. And it will be found, I am certain, that those pioneers were wise and far-seeing men. We do not nowadays work exactly as they did, and I suppose that the nation or the State, as such, has taken over some at least of the responsibilities which at that time were left wholly in voluntary or charitable hands. All the more ought we to show our recognition of and our gratitude to the people who set us on the right way."³⁹

A hundred years later, it was Alexander Cargill's successor, Lady Susan Rice as (then) chief executive of Lloyds TSB Scotland who invited the European Savings Bank Group and World Savings Bank International to hold their annual meeting in Edinburgh to mark the bicentenary of Duncan's pioneering work. A partnership was formed with The Church of Scotland, the Chartered Institute of Bankers and Edinburgh University (through the Centre for Theology and Public Issues), and what emerged was again a three day programme, with a day conference in the Kirk's General Assembly Hall (organised by CTPI) entitled "How a Scottish Minister Changed the Financial Landscape" followed by an ESG/WSBI conference on "200 Years of Savings Banks", and finally an excursion by delegates to Ruthwell.

Again the conference came at a time of upheaval in national finances; banking was (as the conference handout said) "in some turmoil, and very much in the public eye". After years of boom in financial institutions, the UK Government (and others around the world) had to intervene to prevent the collapse of major banks. In Scotland, the state became the major shareholder in RBS, and HBOS merged with Lloyds TSB into Lloyds Banking Group (also with state aid, and with the by-product of the disappearance – for the time being at least – of the Savings Bank name). That questioning of what had seemed an unstoppable economic success story provided a powerful context for marking the bicentenary with similar "intelligent appreciation" to the centenary event. As Lady Rice said "I think the last couple of years have demonstrated just how fundamental banking is, to the way society operates. For better or worse, as Rev Duncan might have said".⁴⁰

This afterword aims to draw some threads of the first day's conference together, with some further reflection on the themes.

Roots and Beginnings

Ruthwell – 200 years ago and today – is a small, sleepy-looking rural village in the south of Scotland. It is not Wall Street, nor even the imposing Bank of Scotland building that competes with the Castle and General Assembly buildings to dominate the Edinburgh skyline (symbolising the dominant powers of the crown, of church and education, and of finance). Ruthwell has none of the trappings of any kind of power, nor does it seem a likely stage for financial revolution.

As the 18th century ended, Henry Duncan became minister of this parish. It did not look auspicious, as he had followed his father into ministry after a short, unsuccessful career in commercial banking; in his letter seeking his father's support to leave banking he wrote: "My disposition is entirely

³⁹ Cargill, p84

⁴⁰ Rice (Conference Lecture, above) p42

different from what a merchant's ought to be. A merchant in general thinks of nothing but money"⁴¹. His "calling" seems to have had more to do with the scope it offered him to pursue his many other interests than with any religious zeal (though that was to change). His son's memoir says that he was "altogether a stranger" to God's glory or the good of souls in his motivation - "there seems to have been nothing spiritual even mingled with his motives"; in ministry he sought space to write plus "the opportunities sure to arise of usefulness to his fellow men, and the means he hoped to find of indulging the philanthropy of a heart which God had made susceptible of the most generous impulses, were evidently his chief inducements"⁴².

Stewart J Brown's contribution to the conference outlined the formative influence of Duncan's years at Glasgow and Edinburgh Universities, imbuing him with the values of the Scottish Enlightenment. This was allied with the civic humanist tradition which "included the veneration of disinterested virtue, the ideal of the armed citizen, the duty of participation in public life, a stoic emphasis on moderating the passions, the rejection of luxuries and the corruption that accompanied a love of luxuries, the belief in gradual improvement, and the elevation of individual independence and a love of freedom"⁴³.

Oliver Horne has also noted that both universities "were still strongly impregnated with the Adam Smith tradition of sturdy individualism", but adds that Duncan's "kindly nature tempered the harshness of the laissez-faire school without destroying the encouraging view of the greatness of the individual when left to work out his own salvation"⁴⁴. In his Memoir of his father, Duncan's son notes that "the principles of Adam Smith had early commended themselves to his mind"⁴⁵, and we find these principles expressed - in terms which would be appreciated by a modern advocate of free trade – in the closing lines of a poem of Henry Duncan's (quoted in the Memoir):

"May Commerce, released from her old swaddling bands
Burst forth in her strength and with freedom join hands"⁴⁶

Alongside the influence of Smith and the Enlightenment, Brown also noted the growing impact of Duncan's membership of the Evangelical movement in the Church of Scotland, which "sought to reshape Scotland through Christian social teachings, rational philanthropy, engagement with new thought in the social and natural sciences, and a revived national Church"⁴⁷.

The economic context for Duncan's early years in his first (and only) parish of Ruthwell was one in which the rural economy was in poor shape (partly through the impact of war with France) and there was wide concern locally and nationally about apparently growing poverty.

It was a time of "social upheaval fracturing social relationships"⁴⁸. Duncan's son puts it this way: "generally successful in their appeals, the poor learned to *demand as a right* that assistance which

⁴¹ G Duncan, p24

⁴² G Duncan, p25

⁴³ Brown (Conference Lecture, above), p9.

⁴⁴ Horne, p40

⁴⁵ G Duncan, p184

⁴⁶ G Duncan, Appendix

⁴⁷ Brown, p8

⁴⁸ Moss & Slave (with Watt), p1

formerly they received with gratitude. Relations lost their high sense of the obligations of kindred"⁴⁹. Alongside genuine concern for those in poverty, there was a widespread fear of political revolution being imported from France, fuelled by a sense of old stratified orders breaking down. Duncan was no supporter of the French revolutionary model, but formed and led a local militia to deter or resist Napoleonic invasion (the Captain Mainwaring image from Dad's Army inevitably comes to mind, but Duncan was no bumbling fool). Within the parish, he quickly proved a major social entrepreneur, initiating job creation schemes, importing Indian corn (with help from his brothers still in commercial banking) and reselling it locally at cost, and importing flax for local women to spin.

While economists like Ricardo and Malthus, as well as Christian social thinkers like Wilberforce, grappled with the "problem of poverty", for Duncan as a parish minister, this was more than an interest of his "kindly nature"; it was part of his daily work, for the church had retained responsibility for the system of poor or parish relief, and this was clearly overstretched (as Brown set out in his conference paper).

Much of the received wisdom of the time was deeply concerned about what is now called benefit dependency. Malthus (the English clergyman and economist) commended the voluntary Scottish poor relief on the ground that its limited benefits and the stigma attached caused ordinary people "to make very considerable exertions to avoid the necessity of applying for such a scanty and precarious relief"⁵⁰. Like most of his ministerial colleagues in Scotland, Duncan vigorously resisted the idea of any compulsory levy or tax to alleviate poverty, and the very idea of handouts to the poor seemed to him to be "a bribe to the industrious to become idle"⁵¹.

He did inherit a local friendly society which had become moribund, and breathed new life into it, seeing the need for a new structure and regulations to ensure its effectiveness while also giving it a social as well as a financial function (persuading a local landowner to provide a "society hall"). But he knew it was fundamentally an insurance scheme, with the added drawback that "failure to keep up with the regular payments would lead to the loss of the entire accumulated balance"⁵²; he recognised that this was not enough to address the poverty of his parishioners.

He therefore set about establishing Ruthwell Savings Bank. Encouraging even those of meagre income, who were particularly subject to the impact of a poor harvest, to save was not an original idea of Duncan's. He borrowed ideas from elsewhere, notably a scheme proposed by John Bone in London for gradually abolishing poor rates in England, which he found too complicated but which included "erection of an economical bank for the savings of the industrious" to avoid dependency on poor law subsidies⁵³.

It is therefore not difficult to see Duncan's efforts as primarily oriented towards avoiding the imposition of compulsory poor rates (and therefore anything resembling the modern welfare system, for which the innovations of the People's Budget that coincided with the centenary

⁴⁹ G Duncan, p167

⁵⁰ Moss (1994), p14

⁵¹ Cited by Moss & Slave (with Watt), p7

⁵² Brown, p12

⁵³ G Duncan, p96

celebrations of 1910 paved the way). His own son says that his main motivation was to avoid the introduction of poor rates⁵⁴.

Underpinning this was the strong moral sense of the dignity of the independent individual. So, in his history of Airdrie Savings Bank, Charles Munn cites Burns:

To catch Dame Fortune's golden smile,
Assiduous wait upon her;
And gather gear by ev'ry wile,
That's justified by Honour,
Not for to hide it in a hedge,
Nor for a train-attendant;
But for the glorious privilege
Of being independent.
(Epistle to a Young Friend, Stanza VII)

Munn adds that "this verse and the call to independence were to become the leitmotiv of the Savings Bank movement"⁵⁵. So hard work and thrift were seen as the solutions to the problem of poverty, and the story of savings banks is seen as a "triumph of thrift" (defined as "the right usage of all wealth"⁵⁶); Kay Watt quotes Rudyard Kipling's Rectorial Address at St Andrew's University as starting with the tribute: "At first sight, it may seem superfluous to speak of thrift and independence to men of your race, and in a university that produced Duncan of Ruthwell"⁵⁷.

Just before the bicentenary conference Michael Moss argued that the savings bank movement was in its philosophy close "to the 'welfare to work' policies associated with neo-liberalism"⁵⁸. Indeed, Duncan's own comments on money squandered on clothes and ale by people in poverty (quoted twice in the conference with a sense of their quaintness) have their echoes in today's tabloid headlines on the lifestyles of people living on benefits.

It therefore seems that Knox's more than sympathetic history of Airdrie Savings Bank (written in 1927) probably goes too far in describing the savings bank movement as "the first bold organised challenge ever made to poverty – humanity's relentless scourge"; yet he has real grounds for adding that "it was the poverty of the masses of the people of Europe that brought savings banks into being"⁵⁹. Resistance to the "imposition" of poor rates, on the high moral ground of ensuring individual independence, may have been convenient to those who would have to pay any such rates (and whose support Duncan needed to get his bank started), but there was also – in Duncan and others – a genuine concern for the people he met daily in his parish. Indeed Duncan complains that a lack of resident heritors made it hard to persuade them of the realities of life in his parish: "it is impossible, as you know from experience, to live among so much distress without feeling one's self

⁵⁴ G Duncan p95

⁵⁵ Munn (2010), p3

⁵⁶ Knox, book title and p2

⁵⁷ Watt

⁵⁸ Moss (2010)

⁵⁹ Knox, p1

called on to afford relief to an extent which those who reside at a distance could scarcely believe to be necessary"⁶⁰ (even then the poor were not really "with" many of "us").

Cynicism about Duncan's motivations is no more likely to get at the truth than hagiography, and I think it is hard to deny his passion to help those he saw struggling to make ends meet or (in his son's words) "obliged to strain every nerve for a bare subsistence"⁶¹. Yet the attempt to draw on his achievement in translating that passion into today's context must recognise some of its limitations.

Brown commented that "For all his interest in social reform, Duncan did not seem to have grasped the horrendous poverty experienced by large numbers of industrial and agricultural workers in early nineteenth-century Scotland, or the precarious nature of working-class employment in a the fluctuating economy".⁶² In Duncan's own time, Cobbett was not alone in criticising the movement (for which, he complained, the clergy were the chief agents of coaxing) on the ground that the poor had no surplus money to save. Previewing the conference, Michael Moss picked up on this with his point that (then and now) the poor need to borrow not save⁶³, but borrowing can lead to the kind of exploitation of the poor practised by lenders charging interest rates exceeding 150% APR. Access to small amounts of affordable credit may today be an important tool of financial inclusion but the lack of marginal propensity to save limited the anti-poverty impact of savings banks rather than undermining it completely (and the model may have more relevance to those affected by the fluctuations in the agricultural economy).

Financial Inclusion Then and Now

What is clear is that this was financial inclusion before the term was coined. At a time when it required £10 (a significant sum) to open an account in one of the existing banks (in which Scotland also had been a pioneer), sixpence was sufficient in Ruthwell Savings Bank. Lady Susan Rice was right to point out that the bank "was established to serve a particular community – an excluded community at the time – and by doing that, it changed the meaning of the word 'unbankable'". As the UK's recent Banking Commission emphasised at an Edinburgh consultation in 2010, access is crucial; and the WSBI website highlights that "recent research has noted that, while access to micro-credit is important, access to general financial services such as savings accounts is also instrumental in alleviating poverty and stimulating economic growth".

The conference heard about several organisations today which do exactly the same thing in a modern context – credit unions, Grand Central Savings, Grameen Bank, and community development finance institutions (CDFIs). While there were clearly different strategies involved in each of these, Lady Rice was right to point out that "values – with an 's' – play a significant role with each of them, as they did in the Ruthwell model"⁶⁴; they are driven by similar passions.

Grand Central Savings was perhaps the closest to the Ruthwell model, aiming to offer basic banking services to a group unable to access what is on offer in the mainstream financial institutions. Credit unions seem in many ways a 20th century version of Duncan's model, focussed on encouraging

⁶⁰ Letter cited G Duncan. p164

⁶¹ G Duncan p97

⁶² Brown, p17

⁶³ Moss (2010)

⁶⁴ Rice, p45

saving amongst people who are less attractive as customers to mainstream banks. Marlene Shiels told the conference that "Credit Unions share his philosophy to this day, as financial co-operatives one of our core principles is to provide access to quality financial services, regardless of economic circumstances"⁶⁵. Yet there is resistance within the movement to their depiction as "poor men's banks" as credit unions recognise a 21st century need to broaden the customer base, seeking to expand their market share and move away from restrictions on lending. Time will tell whether they can hold on to the core principles while expanding, or replicate the story of savings banks in Scotland in the 20th century (see further below).

CDFIs have begun to be recognised as significant engines of regeneration, with an emphasis on the excluded, but many are focussed on social enterprises rather than individuals and all emphasise lending rather than saving. Grameen Bank is seen by many as the dynamic modern equivalent to savings banks: it shares Duncan's recognition that "the most effective way to tackle poverty is from the bottom up, using a local, relational, people-orientated strategy", in which (Peter Heslam has argued) lies the genius of savings banks⁶⁶. Yet it is clearly focussed on micro-credit, ie lending small amounts of money to people in such extreme poverty that saving is initially impossible for them. Opportunity International (who were initially invited to contribute to that section of the conference) have much in common with Grameen but also encourage savings: their vision of "a world in which all people have the opportunity to provide for their families and build a fulfilling life"⁶⁷, seems very much in the Duncan mould.

The crucial question, of course, is not about strict loyalty to the Henry Duncan tradition but about effectiveness in tackling financial exclusion and poverty. All of these modern models have significant parts to play in advancing what was at least a significant dimension of Henry Duncan's agenda.

Before leaving these practical alternative financial models, it is worth noting the thinking of Phillip Blond, the theologically-rooted "Red Tory" who was invited but unable to attend the conference. He calls for a "revival of earlier versions of a conservatism for the poor, together with a restoration of the social and family structures that alone can empower the impoverished and disadvantaged"⁶⁸, and argues for transforming the current pension system into "the foundation for a truly just savings culture (and) "a genuinely progressive matched savings programme that favours asset-creation for the poor rather than asset-augmentation for the rich". The banking crisis, he believes, creates a window of opportunity for a "seriously radical re-capitalisation of the poor" through promoting savings and relocalising finance⁶⁹. While very different from much of what was proposed in the afternoon of the conference, this too sounds very like a modern translation of some of Duncan's thinking; Trustee Savings Banks may well be an ingredient of the "Big Society".

A Banking Revolution ?

In the early 19th century, savings banks were clearly an idea whose time had come. Duncan was neither unique as a pioneer, nor the first. His widely accepted claim to be the "father of savings banks) rests on the fact that, although there were other such banks in the UK, his was the first

⁶⁵ Shiels, p31

⁶⁶ Heslam

⁶⁷ <http://www.opportunity.org/about/#.Tg4tM1tQDTo>, accessed 1 July 2011

⁶⁸ Blond, p35

⁶⁹ Blond, p211ff

effective working model which could be (and was) widely replicated elsewhere. Kay Watt's paper (circulated at the ESG/WSBI conference) notes that "None had the critical ingredients of the Duncan model: its operation could be universally adopted; it was based on business principles; its founder had a flair for publicity; and it had mass appeal". Despite his early doubts about commercial banking, Duncan was critical of other models which were of "eleemosynary rather than independent character" and stressed the importance of "self-sustaining institutions"⁷⁰.

Two things are worth noting here. First, Duncan's energy also went into encouraging and supporting others, thereby quickly establishing a network of savings banks. This was mainly through local churches, with their ability to bring rich and poor together, as Duncan recognised the need for early more wealthy depositors to get the banks going. Watt also notes Duncan's "wide and illustrious circle of friends including Sir Robert Owen, Sir David Brewster, Thomas Carlyle and James Hogg".

Despite his affinity for free trade, Duncan also saw the need for an appropriate regulatory structure to protect the banks and their depositors. His son's Memoir particularly notes his insistence that legislation was needed to safeguard the position of Scottish Savings Bank after legislation was passed to suit the English context (not unheard of in current contexts)⁷¹. He therefore lobbied hard for legislation, and substantially drafted it himself (an early example – perhaps more positive than recent history – of banking hand in glove with government). Regulation matters, especially when regulators have a clear vision of who and what it is for (in contrast with what Joseph Stiglitz has recently described as the tendency of US and UK governments to appoint as regulators people who do not believe in regulation)⁷².

As Brown highlighted, Duncan's organisational model was less patronising of the poor and allowed for more participation by depositors than the other Scottish model (Edinburgh); while he cannot be claimed as a pioneer of the Poverty Truth Commission principle that "nothing about us without us is for us", Duncan went further than others in trusting the people his bank was intended to help. Yet the Ruthwell model was of its time; especially so in terms of governance, which was, to modern eyes, quite paternalistic with Duncan and his church elders having key roles. So is it best left as a quaint relic? There were many present at the bicentenary conferences (and in the European Savings Bank Group and World Savings Bank International) who would deny that, pointing to an ongoing international success story of relationship-centred, locally-based banking – a highly successful alternative banking model whose distinctive contribution is to be valued all the more in the light of the events of the past five years.

Perhaps we should set alongside this good news story a cautionary tale from Scotland. As already noted, before the end of the 19th century Ruthwell Savings Bank had amalgamated with Annan (a larger nearby town) for a more secure future. The 20th century saw this process gain momentum, with the formation of regional Scottish savings banks, then the Trustee Savings Bank, then Lloyds TSB; and in this century the name has disappeared into Lloyds Banking Group, with only Airdrie Savings Bank remaining as an independent remnant of the tradition.

⁷⁰ G Duncan, p98 and 108

⁷¹ G Duncan, p118

⁷² Talk at Edinburgh Book Festival August 2010

It is a moot point whether any distinctive model survives in Scotland beyond Airdrie. Certainly, the idea of a "poor people's bank" is currently resisted within the credit union movement which shares Duncan's recognition of the need to attract richer as well as poorer depositors. Too many people still feel (often from experience) that mainstream banking is "no' for the likes of us" and these people do not appear to constitute a niche market profitable enough to attract mainstream banking investment in appropriate products. Recent CAB evidence found that 10% of people in Scotland did not have a bank account, while two-thirds of those without had attempted to open one⁷³.

Beyond 2010 : Value and Values

So what of the future? Is a diversity possible, with banks of a distinctive kind not drawn into the apparent commercial logic that makes all behave in much the same way? At the conference, Lady Rice said she had found banks founded by Scots across the world consciously following "'explicit Scottish principles', by which they mean thrift and prudence"⁷⁴. She spoke about values such as trust, integrity and probity, saying

"I think that the future of banking – beyond 2010 – lies, in part, in recapturing those three words. And let me be clear, it's not that they don't exist in banking today – I see them in colleagues and counterparts every day. But they need to be *universal*." Banks, she said should be "creating value – inspired by a set of values". And she concluded that "what we really need (is) not simply *more* banks, but different *types* of banks and other financial entities co-existing".

Similarly, in his dialogue with John Miller, Jim Lindsay emphasised people's motivations for entering banking. His own motivation, and that of most branch workers, was to serve customers, while banking has been damaged by the drive for profitability as the key motivation. In more blunt language, the Secretary of State for Business, Innovation and Skills, Vince Cable, has spoken of the "spivs and gamblers who did more harm to the British economy than Bob Crow could achieve in his wildest Trotskyist fantasies, while paying themselves outrageous bonuses underwritten by the taxpayer"⁷⁵.

Lady Rice argued that this is as much about "how" banks go about their business as "what" they do - our behaviours, our mind-set, our approach, our judgments - and this is where values must come in, and where behaviours and attitudes must change as well as structures⁷⁶. Yet it has been said of an institution like Goldman Sachs that "what it does, it does well". What do we mean by doing things "well"? What are our core values – beyond the mantra of "shareholder value" trumping all other dimensions – and how can they be nurtured and perhaps even incentivised?

Dirk Smet highlighted the contrast between the exclusive focus on shareholder value in much of the financial world and the practice of banks in the Henry Duncan tradition: The savings and retail banks that are members of WSBI focus on stakeholder value instead⁷⁷. Lady Rice spoke of "sustained value" as well as financial value. What, then, about the question "why", as well as "what" or "how"? Why

⁷³ Citizens Advice Scotland Briefing Paper 47, *Banking on the Basics* (2010)

⁷⁴ Rice, p43

⁷⁵ Speech to Liberal Democrat Conference 22 June 2010

⁷⁶ Rice, p44

⁷⁷ Smet, p29

do we need banks, and what, or who, are banks for? Surely that is somehow about servicing or even serving the real economy, and real communities?

If we do not succeed in embedding financial services and markets in communities and values by responding to the challenges of asking who and what they are for, we will embed our communities and our values in the virtual logic of financial markets with the disastrous results we have seen in the last three years, and for which we are currently paying (with the most vulnerable paying the highest price). Vince Cable has spoken of the Coalition Government's determination to reform the structure of banking: "our agenda can be summed in seven words: make them safe and make them lend"⁷⁸. Yet that sounds much more like part of the move back to business as usual that has dominated political and financial agendas for the past eighteen months when something more radical than trusting to competitive markets is needed, both to prevent repetition of the crash and to ensure financial services serve the most vulnerable.

[Writing in *Chartered Banker*, Gillian Tett paints a fascinating picture of the situation before the recent banking crisis:

"the general population was like the congregation in a medieval church, in which the bankers, the high priests, were conducting the service in Latin and the congregation hadn't the foggiest idea of what was happening but they were getting the blessing, so they were happy to just sit there and tolerate it"⁷⁹

We may see the pressure for a return to business as usual as the congregation not so much practising forgiveness as telling the priests to get on with giving the blessing.]

A Theological Dimension ?

So is the answer to go back to Henry Duncan and put today's ministers or priests in charge, letting theology guide banking practice? Perhaps not, although some of the most interesting current challenges to banking "business as usual" may be coming from Islamic banking, which shares the Christian rejection - until Calvin's Geneva - of usury (ie lending money at interest). Moeen Yaseen has recently described Islam as the "last bastion of opposition to the interest-based fractional reserve banking system"⁸⁰, and it is perhaps disappointing to find no critique in Duncan's work of interest-based financial systems. Indeed, one of the reasons he gave for the potential for success of savings banks in Scotland in contrast to England was the availability of commercial banks paying interest on savings. He also recognised the need to incentivise saving in quite sophisticated ways though payment of interest. In this, Duncan may be seen as very much within the Calvinist tradition in his approach to the economy⁸¹, not least the emphasis on right usage of wealth rather than its distribution. Despite Calvin's denunciation of money-lenders exploiting the poor, his contribution still opened a crucial crack in the blanket hostility to interest that had been the witness of the Church for 15 centuries. It is not just coincidence that the two countries most influenced by Calvin – Switzerland and Scotland – have substantial, distinctive traditions in banking.

⁷⁸ Speech to Liberal Democrat Conference 22 June 2010

⁷⁹ Tett, p17

⁸⁰ *Sunday Herald* 25 July 2010

⁸¹ Church of Scotland report on Justice and Markets 8.2

http://www.churchofscotland.org.uk/_data/assets/pdf_file/0006/3858/justice_markets_ga09.pdf accessed 1 July 2011

In light of the potential for radical faith-based challenge to financial systems, it is interesting to note this discussion during the Treasury Select Committee's questioning of Bob Diamond as Chief Executive of Barclays Bank:

Q574 John Mann: Can I ask you a philosophical question? Why is it easier for a camel to pass through the eye of a needle than a rich man to enter the Kingdom of Heaven?

Bob Diamond: Do you have another question? ...

Q581 John Mann: Let me finally ask you the question I asked before. Why is it easier for a camel to pass through the eye of a needle than a rich man to enter the Kingdom of Heaven?

Bob Diamond: I'm still stuck on that one.

John Mann: We call it business ethics.

Chair: People have been stuck on that one for many thousands of years now.⁸²

If this is more than a harmless piece of political sparring, it might say something discouraging about a disjunction between two worlds, and a reluctance to get into Lady Rice's questions of values.

Duncan offered no radical economic critique of the society in which poverty was becoming endemic. In fact, in his son's words:

"his object was to make (his parishioners) feel their own dignity and importance in the scale of society that they might be induced to fit themselves for occupying the sphere in which God had placed them with credit and usefulness – not as serfs of the rich and noble ... but as freemen with souls as precious and minds as strong ... as could be found among the higher ranks of his countrymen"⁸³

Duncan himself, in the passage cited by Brown, says

"A love of order naturally leads his affections to the 'God of order'. A habit of reflecting on the changes of life teaches him to repose with confidence on the wisdom and goodness of that Being by whose will these changes are regulated"⁸⁴

Perhaps Duncan is limited here by the cultural and theological stress on the independent individual, when a theological starting point in human dependence on God might have opened up a sense of mutual dependence, and a more relational understanding might have better underpinned the relationship banking which Lady Rice championed for his tradition.

A recent Church of Scotland response to the welfare reforms that we have already recognised as reflecting some of Duncan's thinking on individual responsibility took a different line: "We share the aspiration for a welfare system that is dignified, supportive, well-resourced and suitable for taking forward a joined-up approach to tackling poverty. The present proposals take the system in quite a different direction". The response went on to challenge the assumptions of the Government:

"'Dependency' is not a sin for which sanctions are necessary in order to spur people into laying it aside. Dependency is a fact of life, for us all; we depend on each other, rich or poor, disabled or able-bodied. Perpetuating the myth that only those in receipt of benefits are dependent – and

⁸² 11 January 2011, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/uc612-vi/uc61201.htm> accessed 1 July 2011

⁸³ G Duncan, p69/70

⁸⁴ H Duncan (1815), p21

using that as a basis for policy – is divisive and undermines the social cohesion which the Government seeks to foster”⁸⁵.

As was glimpsed in 1910, the rhetoric and ethic of the welfare state, currently under significant challenge, represents an approach and basis quite different from Duncan's, and it may be symptomatic that the regulations of the welfare state have frustrated attempts by Grameen Bank to work in the UK.

Henry Duncan's savings bank model was not the magic silver bullet to end poverty, not even the rural poverty bound up with agricultural ups and downs, far less the chronic urban poverty of today. But unless those customers who are less attractive to mainstream banks find the financial products they need (which may not be those the banks want to sell them), any escape from poverty is likely to be fragile and temporary. And there is an increasing awareness that the hugely expanded inequalities of wealth (most dramatically in the UK and US but also across much of Europe) are destructive of wellbeing, including ultimately economic wellbeing.

If banker-bashing has quickly gone out of fashion, perhaps we should look back much further than Henry Duncan. The Jewish revolt of the first century had as its key strategic target the *archeia* (the public registry of debt); they burned it, and suddenly no-one was in debt any longer. The modern equivalent effect might be achieved by a virus in bank computers. But Duncan's way was much more constructive.

As Doug Gay pointed out at another 2010 conference on "Banking on Justice", we can learn from the picture in Mark 12 of Jesus sitting down at the treasury and watching (what George MacLeod called "watching the money men"); from such watching can come prophetic critique in words and actions. But the real answer may come – like all really subversive change – from below. Not from Wall Street or the World Bank, but from Ruthwell, from community credit unions in Scotland today, or from Muhammad Yunus's founding of Grameen Bank in Bangla Desh. The Savings Bank model is about the power of saving and of thrift to lift people out of poverty, while micro-credit is more about enabling people to lift themselves out of poverty through personal enterprise. Yet there are common threads in seeking to empower people, in encouraging personal responsibility and rewarding hard work, and in offering a challenge to more "mainstream" banking which fails the poor. Both of these models from different cultures represent successful attempts to show that there are alternatives which can work; underpinning them lies the same passionate determination to make a difference through getting finance to work for people and not against them.

It was good to celebrate that in 2010.

Graham K Blount

⁸⁵ Consultation response to the Green Paper "No one written off: reforming welfare to reward responsibility". 2009 (editor's copy)

Further Reading and References

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