



The Evolution of Banking in the UK

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The Grand History of Credit in the UK

All companies in the financial sector are **affected** when changes take place. **Although** we are a **short term lender**, we present to you a **concise overview** of the evolution of banking in the UK.

People have always **saved** or **hoarded assets** like **jewels** and **cash**. Banking began with **merchants** who **deposited** money into the **ancient temples** for **safekeeping**. In fact, the first real banks were started by the Romans, and one of the most famous old banking systems was **founded** by the Medici family in Venice in the fourteenth century. This was the largest bank of its time, and enabled the family to become one of the **wealthiest** in Europe. Banking then developed as a way to **pay** for **goods and services** in an **efficient** way all over the world.

Evolution of Banking in the UK

Short History of the Banking System in the UK

In England, **banknotes** were introduced in 1661. The **currency** was quickly followed by the **establishment** of the **Bank of England** in 1694. This was the first of the central banks and is still the banker for the English **government**. The BOE was **originally privately owned** but was **nationalised** in 1946 and **eventually** became an **independent** organisation in 1998. The BOE **issues** all banknotes for England and Wales and it is **responsible** for regulating bank notes issued by Scottish and Northern Irish banks. As the **forerunner** to the modern banking system of the UK, the BOE manages **monetary policy** and has its **headquarters** in the City of London. Known sometimes as the 'Old Lady of Threadneedle Street' the bank has become a **watchword** for **reliability** and **solvency**. The phrase 'safe as the Bank of England' is still often **quoted** to describe **solid and safe investments**.

Evolution of Banking in the UK

When banks first started issuing banknotes, the writing on the note was 'promised to pay the **bearer** the sum of **on demand**'. Banks were **deemed** to be safe, and to have enough in **gold reserves** to **cover** all the banknotes that were issued. In practice this could never have come to pass, but fortunately not everyone wanted their money at the same time. There were small commercial banks that issued their own banknotes. However, as these were **merged**, the **private** banknotes eventually **disappeared** and all currency was issued by the Bank of England. The only **exceptions** were banks in Scotland and Northern Ireland. Even today, these two countries issue their own notes. The Bank of England keeps safe all the gold reserves of the UK and that of some other countries. It is the largest **protector** of gold reserves in the world.

Evolution of Banking in the UK

Modern Banking

Banking in the UK as we know it today **evolved** after World War 1 when there were a series of takeovers of **private banks** that resulted in the 'Big Five'. These were Barclay's, Lloyd's, the Midland (now HSBC), the National and Provincial and the Westminster. In addition, there were local **building societies** and **mutual savings banks** that were being started. This was to help ordinary people save money to pay for a home of their own. During the 1960's, the Big Five became the Big Four by reason of **mergers** and **takeovers** of several regional banks like Martins and William Deacons. The government introduced the National Giro-bank and eventually the Post Office Savings Bank. All of these organisations were used for saving money and some of them issued **loans**.

Evolution of Banking in the UK

Bank managers during this period were **held in high regard** and if you wanted to **borrow** money or sometimes just open a **bank account** you had to be interviewed by the manager. Many banks demanded **references** before an account could be opened. In addition, you had to **prove** you were **creditworthy** just to get a **cheque book**. **Clearing cheques** was a **long winded process** but this **sped up** with the introduction of **MICR (magnetic ink character recognition)** which is used for all cheques around the world. Domestic banking grew swiftly after the Second World War, and there were different types of bank accounts **available**. These included **personal accounts**, **business accounts**, **current accounts** (with a cheque book), **deposit accounts** and **savings accounts**.

Evolution of Banking in the UK

The Age of Technology Begins

During the 1960's as the growth of banking took off. At last, the first **ATM's** (**automated teller machines**) were introduced into the UK. These were machines where you could **withdraw** cash by using a cash card issued by your bank. At this time, most people used cheques to pay for goods or for **bills**. As banking became more **mainstream**, many people started withdrawing cash using this method. However, cash cards would only allow you to withdraw money that you had in the bank (at this time there were very few **credit cards**) and not many people had **access** to **overdrafts**. But, soon there was the introduction of **debit cards** which could be used in place of a cheque to pay for many **items**. Large stores began to offer the option of paying by debit card in place of a cheque. Now we would consider the process as being quite **drawn out** with slips of paper being imprinted with card details, signed and copies being issued to the customer and the store as well as the issuing bank.

Evolution of Banking in the UK

SWIFT Payments

In 1973 the system of **SWIFT payments** was **established**. SWIFT stands for **Society For Worldwide Interbank Financial Telecommunication**. It is a **network** that banks use to send and receive **secure financial transactions** and financial messages around the world. This new system made it possible to **transfer funds** to anywhere around the globe and to know that they were safe. There are fundamental operating procedures that all banks adhere to. This system also provides a paper trail that can be followed to establish whether or not a **fraud** or **illegitimate** financial transaction has taken place.