# An Estimate of the Profits of Banking in Nortnern Ireland

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On the 26th July, 1965, the Minister of Finance, The Right Hon. H. V. Kirk, M.P., announced at Stormont that he was setting up a special committee "to study current overdraft and other credit facilities and services provided by the banks in Northern Ireland and to comment on any differences that may appear between Northern Ireland and other parts of the United Kingdom".

This special investigation had earlier been recommended in the report on "Economic Development in Northern Ireland",[1] prepared by Professor T. Wilson. The Government in their comments on this report said that: "The Government accepts that bank overdraft rates are a matter of public concern and is examining, whether, in such a confidential field it could usefully seek independent advice in the matter".[2]

The terms of reference of this special committee might be interpreted as being mainly directed towards the problems faced by businesses and other institutions who wish to make use of the credit facilities provided by the banks and whose activities might be curtailed because of any shortage of credit or because credit was, in some sense, too expensive. The committee is, however, unlikely to consider only the problems of the firms who wish to use credit facilities. It is possible that they will also be concerned to judge whether the volume of credit available and the "price" charged for this credit earns a "reasonable" rate of profit for the banks, or would earn a "reasonable" rate after implementing any proposals that might be made. This would be consistent with the comment by Professor Wilson that "Overdraft rates cannot be studied without reference to other rates and to the volume and composition of assets and liabilities".[3]

This paper is concerned only with the profitability of the banking system in Northern Ireland and, in the absence of adequate absolute standards, this is compared with the estimated profit of banks in Scotland and the London Clearing Banks. Questions about the demand for bank facilities

[1] Cmd. 479, January, 1965.
[2] Op. cit. Paragraph 64 of the Government Statement.
[3] Press statement issued on 29th January, 1965.

and the desirability of a change in the distribution of banking assets and liabilities are not considered on this occasion.

In the past, attempts have been made by writers to estimate the profitability of banking activities and, because of the dearth of published information from the banks themselves, these estimates have been expressed extremely cautiously. J. M. Keynes (later Lord Keynes) made an estimate of average earnings for a "typical" bank in his "Treatise on Money" published in 1930. He expressed earnings as a percentage of deposits and concluded that: "marginal net profits are 2.275% of its assets".[4]

In adjusting "marginal net profits" to "average net profits" he suggested that a deduction of about 1% should be made to cover overhead expenses.[5]

More recently, in the Bankers' Magazine, "Phaedra" has developed this technique and has published a series of annual estimates of the profits of the London Clearing Banks and the Scottish Banks—giving estimates for each bank.

This paper uses a similar technique to that adopted by both these writers and extends its coverage to banking activities in Northern Ireland. It must be emphasized that the results are, however, only approximate and are subject to numerous qualifications at each stage.

## THE ESTIMATED FINANCIAL RETURNS FROM COMMERCIAL BANKING

There are at least two major reasons why banking profits in Northern Ireland are difficult to assess. Firstly, special provisions have been made for banking companies under the Companies Act(s) (1948 in Great Britain and 1960 in Northern Ireland) which permit the banks to publish their profit and loss accounts commencing with a figure of: "Profit for the year, after providing for taxation, and after appropriations to the credit of Reserves for contingencies, out of which reserves provision has been made for any diminution in value of current assets".[6]

Thus, because of the uncertainty about "hidden" appropriations to reserves—as distinct from the appropriation to "published" reserves—no precise estimate of profits, either before or after tax, is available. The value of the figure of profits, as published, is therefore very limited. There is one ray of light on these figures, which was confirmed by the Chairman of Lloyds Bank in evidence to the Jenkins Committee.[7] This is that the London Clearing Banks have now adopted the convention that published profits should move, from year to year, in the same direction as actual profits. However, the convention does not appear to imply that these changes should be proportionate to changes in actual profits, nor is there any evidence that the convention is followed by the Scottish or Irish banks.

The second major difficulty in assessing the profits of Northern Ireland banking is that only one of the banks operating in Northern Ireland does

[4] "Treatise on Money", Vol. II, page 245.

[5] The estimates below indicate an average net profit of 2.3 per cent of gross deposits for the London Clearing Banks, in 1964.

[6] Westminster Bank, Annual Report, 1964.

[7] Company Law Committee; Chairman, Lord Jenkins, Cmd. 1749.

not also operate in the Republic of Ireland. As a result, the published accounts cover all activities, both North and South and, although different interest rates on deposits and advances are applied in each area, there is no easy method of identifying differences in profitability in the North and the South.

In an attempt to establish a general order of magnitude for banking profits in Northern Ireland, and to compare these with other areas, the published balance sheet figures of assets and liabilities have been used, in conjunction with an estimate of the appropriate rates of interest, to prepare an estimate of the main items in the profit and loss accounts of the banks. Although this procedure could be applied to individual banks,[8] in this paper, aggregate figures have been used for the London Clearing Banks, the Scottish Banks and banking activities in Northern Ireland.

Because of the number of implicit and explicit assumptions involved in these calculations, they cannot be expected to do more than give orders of magnitude for each area, but the results indicate differences which would be of interest even if the margin of error which may be contained therein is quite large. For example, because the balance sheet information which is used is compiled and dated in the middle of the week (usually Tuesdays in Northern Ireland, and Wednesdays in Great Britain) the analysis may tend to overstate deposits and the liquid assets ratio, while understating the average level of overdrafts. This has the implication for profit calculations, for example, that they may be slightly understated.

In order to give an indication of how banking financial returns have varied in recent years, the analysis is presented for two years—1959 and 1964. It would have been interesting to examine a number of years, but the indications are that this would not have significantly altered the conclusions. The year 1964 was chosen because, at the time of writing, this was the most recent year for which full information was available. The year 1959 was chosen for a number of different reasons:

(i) It had, in common with 1964, the absence of any call for Special Deposits in England, Wales and Scotland, and was a year when Government requests to the banks to follow new policies were conspicuous by their absence.

(ii) There were no variations in Bank Rate in 1959.

(iii) 1959 was the year when the liquidity ratio of the London clearing banks, which had been comfortably above the conventional minimum for most of the post-war years, but had been falling, fell to just above the conventional minimum; on average 32.8 %

(iv) Although in the 1950's, up to 1958, holdings of securities by the London Clearing Banks, as a proportion of deposits, had remained fairly stable (between 31 % and 36 %), in 1959 this ratio dropped by 6 points and was offset by a 7-point rise in the ratio of advances to deposits. This switch from securities to advances continued through until 1964, when investments represented 14 % of deposits and advances 51 % (36 % in 1959).

[8] See "Some figuring on British Bank Profits" by Phaedra, Bankers Magazine, August, 1961.

These factors point to 1959 as an interesting year for comparative purposes. The year 1959 was similar to 1964 (before the November Bank Rate changes) in that Government policy for the greater part of the year was relatively neutral towards bank advances, yet it was a year when banking assets began to change dramatically. It therefore gives an opportunity to examine the consequences of this change on banking profitability. Tables 1, 2 and 3, which follow, set out these comparisons for the London Clearing Banks, the Scottish Banks and banking in Northern Ireland.

TABLE 1

THE FINANCIAL RETURNS OF THE LONDON CLEARING BANKS

| | 1959 | | | 1964 | | |
|---|---|---|---|---|---|---|
| | Average holdings £'m | Earnings rate % | Earnings £'000 | Average holdings £'m | Earnings rate % | Earnings £'000 |
| *Assets* | | | | | | |
| Coin, notes and balances at the Bank of England ... | 565 | — | — | 696 | — | — |
| Money at call ... | 489 | $2\frac{7}{8}$ | 14,059 | 738 | 4.5 | 33,210 |
| Bills discounted | | | | | | |
| Treasury bills ... | 1,089 | 3.375 | 36,754 | 790 | 4.594 | 36,298 |
| Other bills ... ... | 134 | 3.625 | 4,858 | 365 | 4.875 | 17,794 |
| Investments ... ... | 1,836 | 4 | 73,440 | 1,220 | 4.7 | 57,340 |
| Advances and other accounts ... ... | 2,522 | 5 | 126,100 | 4,328 | 6 | 259,680 |
| Total financial assets/inflow ... ... | 6,635 | — | 255,211 | 8,137 | — | 404,322 |
| *Deposits* | | | | | | |
| Current deposits ... | 4,064 | — | — | 4,836 | — | — |
| Deposit accounts ... | 2,431 | 2 | −48,620 | 2,922 | $3\frac{1}{3}$ | −97,395 |
| Other accounts ... | 440 | — | — | 792 | — | — |
| Gross deposits ... | 6,935 | — | — | 8,550 | — | — |
| Net deposits ... ... | 6,499 | — | — | 7,891 | — | — |
| Items in transit ... | 536 | — | — | 659 | — | — |
| Financial returns ... | — | — | 206,591 | — | — | 306,927 |

SOURCES: (i) Assets and deposits—Financial Statistics, October 1965, Table 38.
(ii) Earnings rates—see Appendix I, attached to this paper.

TABLE 2

THE FINANCIAL RETURNS OF THE SCOTTISH BANKS

| | 1959 | | | 1964 | | |
|---|---|---|---|---|---|---|
| | Average holdings £'m | Earnings rate % | Earnings £'000 | Average holdings £'m | Earnings rate % | Earnings £'000 |
| *Assets* | | | | | | |
| Coin, notes and balances at the Bank of England... ... | 135.5 | — | — | 151.3 | — | — |
| Balances with other banks and items in transit[1] | | | | | | |
| (*a*) Earning balances | (35.0) | 2 | 700 | (40.0) | 3⅓ | 1,333 |
| (*b*) Non-earning ... | (51.6) | — | — | (70.7) | — | — |
| Money at call ... | 68.7 | 2⅞ | 1,975 | 81.3 | 4.5 | 3,657 |
| Bills discounted | | | | | | |
| Treasury bills ... | 21.1 | 3.375 | 712 | 18.9 | 4.594 | 868 |
| Other bills ... ... | 6.3 | 3.625 | 228 | 12.1 | 4.875 | 590 |
| Investments ... ... | 328.9 | 3.5 | 11,512 | 228.3 | 4.2 | 9,589 |
| Advances ... ... | 271.3 | 5.8 | 15,735 | 454.1 | 6.8 | 30,879 |
| Total financial assets/inflow ... ... | 918.4 | — | 30,862 | 1,056.7 | — | 46,916 |
| *Deposits* | | | | | | |
| Current deposits ... | 330.9 | — | — | 372.6 | — | — |
| Deposit accounts ... | 371.2 | 1½ | −5,568 | 392.4 | 2⅔ | —10,464 |
| Other accounts ... | 74.2 | — | — | 126.6 | — | — |
| Gross deposits ... | 776.4 | — | — | 891.6 | — | — |
| Net deposits ... ... | (731.4) | — | — | 828.2 | — | — |
| Own notes in circulation ... ... | 118.1 | — | — | 125.3 | — | — |
| Financial returns ... | — | — | 25,294 | — | — | 36,452 |

SOURCES: (i) Assets and deposits—Financial Statistics, October 1965, Table 39.
(ii) Earnings rates—see Appendix I attached to this paper.

[1] See explanatory note, overleaf.

TABLE 3

THE FINANCIAL RETURNS OF BANKING IN NORTHERN IRELAND

| | 1959 | | | 1964 | | |
|---|---|---|---|---|---|---|
| | Average holdings £'m | Earnings rate % | Earnings £'000 | Average holdings £'m | Earnings rate % | Earnings £'000 |
| *Assets* | | | | | | |
| Coin, notes and balances at the Bank of England... ... | 8.7 | — | — | 10.3 | — | — |
| Balances with other banks and transit items[1] | | | | | | |
| (*a*) Earning balances | (4.3) | 2 | 86 | (5.1) | $3\frac{1}{3}$ | 170 |
| (*b*) Non-earning ... | (10.8) | — | — | (12.6) | — | — |
| Money at call ... | 4.0 | $2\frac{7}{8}$ | 115 | 4.9 | 4.5 | 221 |
| Bills discounted | | | | | | |
| Treasury bills ... | 0.7 | 3.375 | 24 | 0.8 | 4.594 | 37 |
| Other bills ... ... | 0.6 | 3.625 | 22 | 1.6 | 4.875 | 78 |
| Investments ... ... | 55.0 | 3.5 | 1,925 | 53.4 | 4.2 | 2,243 |
| Advances ... ... | 67.9 | 6.25 | 4,244 | 105.9 | 7 | 7,413 |
| Total financial assets/inflow ... ... | 152.0 | — | 6,416 | 194.6 | — | 10,162 |
| *Deposits* | | | | | | |
| Current deposits ... | 80.7 | — | — | 103.7 | — | — |
| Deposit accounts ... | 48.5 | $1\frac{3}{4}$ | −849 | 56.4 | $2\frac{3}{4}$ | −1,551 |
| Other accounts ... | 13.7 | — | — | 20.4 | — | — |
| Gross deposits ... | 142.9 | — | — | 180.4 | — | — |
| Net deposits ... ... | 134.9 | — | — | 176.0 | — | — |
| Own notes in circulation ... ... | 8.9 | — | — | 6.5 | — | — |
| Financial returns ... | — | — | 5,567 | — | — | 8,611 |

SOURCES: (*a*) Assets and deposits—Financial Statistics, October 1965, Table 40.
(*b*) Earnings rate—see Appendix I, attached to this paper.

[1] See explanatory note overleaf.

Although the mechanics of Tables 1, 2 and 3 are self explanatory when they are read in conjunction with the appendix to this paper on the derivation of the rates of interest, two features require separate explanation. Firstly, in the tables relating to Scotland and Northern Ireland there is an asset item "Balances with other banks and items in transit". This has been divided into two parts to take account of the possibility that some part of the balances with other banks (usually parent banks?) is interest earning, whereas the remainder is a working balance to facilitate the day-to-day clearance of cheques, etc. This division has been made by examining the proportion of "balances with other banks and items in transit" to deposits in the London Clearing Banks. In 1959, this was 6.3% of gross deposits and in 1964 it was 7.7%. The figures in Scotland and Northern Ireland were—

| | 1959 | 1964 |
|---|---|---|
| | % | % |
| Scotland | 11.1 | 12.5 |
| Northern Ireland | 10.5 | 9.8 |

In Table 3, 3 per cent of gross deposits in Northern Ireland banks have been estimated to be "earning interest". In Table 2, 4½ per cent of gross deposits in Scotland have been estimated to be in the same category. Any error in these estimates would have a very small effect on the overall financial returns.

The second point for which some explanation is necessary is the use of the figure for "investments" as published in the table on Northern Ireland banking as representative of investments arising from Northern Ireland deposits. This figure in 1959 was in fact the book value of "total holdings of British Government and government guaranteed securities by all offices of the Northern Ireland banks, both in Northern Ireland and the Irish Republic . . ." (Notes and definitions: Financial Statistics, January, 1964).

This definition was thought to have been changed in the published series in April, 1963, and the 1964 figures "correctly" classified (for this paper). However, the change in definition does not appear to apply to "investments" and the explanations in the official publications may now be in error. If one compares the value of deposits in Northern Ireland plus an estimate of capital and reserves, with the assets which are held by Northern Ireland banks, excluding investments, the difference indicates that these investment figures might be accepted as approximately appropriate.

Tables 1, 2 and 3 have been designed only to show the returns accruing to the banks as a result of the employment of their deposits, and this is not necessarily a good guide to overall profitability of the banks involved. Other major items, such as bank charges, revenue from acceptances and administrative expenditure are, at this stage, excluded. A comparison of returns on financial assets (and liabilities) with net deposits (including "notes in circulation") gives the following results:

TABLE 4

FINANCIAL RETURNS AS A PERCENTAGE OF NET DEPOSITS

| | 1959 | 1964 | Increase 1959–64 |
|---|---|---|---|
| | % | % | % |
| London Clearing Banks ... | 3.18 | 3.89 | 22 |
| Scottish Banks ... ... ... | 2.98 | 3.82 | 28 |
| Northern Ireland banking ... | 3.87 | 4.72 | 22 |
| *Based on London*, 1959 = 100 | | | |
| London Clearing Banks ... | 100 | 122 | |
| Scottish Banks ... ... | 94 | 120 | |
| Northern Ireland Banks ... | 122 | 148 | |

The results, for Northern Ireland in Table 4 are significant but not unexpected. With a banking structure which may have a lower number of customers per branch, a higher volume of transactions in relation to deposits and a scale of bank charges[9] which differs from that in England, some advantage in financial returns may be necessary to offset the other disadvantages. The comparison with Scotland is more surprising, since many of the same disadvantages exist there as in Northern Ireland, so that if overall profitability in Scotland were to be comparable with the London Clearing Banks, a rather higher rate of "financial return" might have also been expected in Scotland.

In terms of "financial returns", Table 4 illustrates (*a*) the large increase in returns on assets in the period 1959–1964 in each area, (*b*) that Northern Ireland banking has maintained a differential of approximately 20 per cent over the London Clearing Banks in both 1959 and 1964, and (*c*) that the Scottish Banks may have increased their returns on assets slightly more quickly than the other two areas and in 1964 may have almost eliminated the difference between themselves and the London Clearing Banks.

## A DIGRESSION ON THE MEASUREMENT OF PROFITABILITY

The comparison in Table 4, of the net returns on assets and liabilities with the value of net deposits, including, in Scotland and Northern Ireland, the value of local notes in circulation, raises the rather important question of whether this is the most helpful basis on which to make comparisons. If our purpose is to examine the value of returns (or the level of profits (see below)) which are earned by the banks in the three areas so that a comparison can be made of the net income from each £1 of deposits, then this method would be appropriate.

The object of this paper is, however, to examine the profits of banking in the three areas and to go as far as possible in commenting on differences (if any) so that conclusions may be drawn regarding the "reasonableness"

[9] See the further discussion in Appendix 2.

of the policies being pursued in Northern Ireland when compared with the other two areas. Expressed more briefly, the object of the exercise is to ask "are the profits of the banks in Northern Ireland reasonable in comparison with the profits accruing in Scotland and England?

A more appropriate method of answering this question would be to compare profits with the capital employed in the banks. Profits (or financial returns) as a proportion of deposits would only be a good substitute measure if, in turn, deposits were in a fairly uniform ratio to capital employed. Because we have no first-hand information (i) on actual profits (as opposed to published profits) or (ii) on capital employed (as opposed to the published figures of the nominal value of share capital, plus the value of "published" reserves plus the balance carried forward from the profit and loss account), no conventional assessment of profitability is possible. The "unconventional" assessment of financial returns (above) as well as the other major items in the profit and loss account (below) does, however, provide an estimate of (i). An estimate of (ii) must also be sought.

The aim of this paper would be adequately fulfilled if it was possible to compare profitability only in relative terms. It would, therefore, suffice if an indicator of the amount of capital employed in banks in each of the three areas could be found. The easiest hypothesis to make is that the published figures of capital resources should be taken as indicative of total capital, including "hidden" reserves. These figures are given in Table 5 below, and compared with Net Deposits.

TABLE 5

CAPITAL RESOURCES OF THE BANKS AS PUBLISHED, 1964

| | Capital resources | | Deposits | | Capital resources as % oj deposits |
|---|---|---|---|---|---|
| | £'000 | % of London | £'m | % of London | |
| London Clearing Banks ... | 473,724[1] | 100 | 7,891 | 100 | 6.0 |
| Scottish Banks ... ... | 70,200[2] | 15 | 953.5 | 12 | 7.4 |
| Northern Ireland banking | 8,962[3] | 1.9 | 182.5 | 2.3 | 4.9 |

[1] Bankers Magazine, February, 1965.
[2] Gaskin, "The Scottish Banks, page 53—mainly end 1963 figures.
[3] Central Bank of Ireland Monthly Report and Belfast Banking Co. Report. Estimated from the Central Bank of Ireland figures in proportion to deposits after making allowance for the Belfast Banking Co. which does not operate in the Republic.

Unfortunately, the evidence to suggest that "published" capital resources are indicative of total capital is limited. Professor Gaskin points out that—". . . the published figures of their (the Scottish Banks) capital and reserves have traditionally stood in a much higher ratio to their deposits than those of the English banks, and it has usually been assumed that this does reflect the real position".[10] He then goes on to support

[10] Gaskin, The Scottish Banks, page 56.

this reasoning by comparing the position of the independent and affiliated banks and points out that this higher ratio is a result of higher ratios in all the banks but is more particularly a feature of the independent Scottish banks. Presumably, because they cannot rely on any parent company support in times of need, it is argued that they must have a larger proportion of their liabilities as capital and reserves and that this is reflected in published statements.

These observations about the Scottish banks are, however, in direct conflict with the published position of the Irish banks where, despite the influence of the independents (e.g., The Northern Bank, until its recent take-over by the Midland Bank), the ratio for capital plus reserves to deposits in 1964 was lower than in either Scotland or England—4.9% compared with 7.4% in Scotland and 6.0% in England. Also, of the three banks with the largest number of branches in Northern Ireland (the Belfast Banking Co., the Ulster Bank, and the Northern Bank), the independent Northern Bank had the lowest ratio of the three, at 4.1%, in 1964. (It is difficult to explain why this low ratio should apply to the Northern Bank when one considers how it contrasts with the Scottish independent banks.)

The suggestion that the smaller "or regional" banks may need to have greater capital resources at their disposal than their "larger" associates and that this is reflected in the published figures is not, however, inconsistent with the differences noted in the last paragraph, as is evidenced by the following table:

TABLE 6

RATIO OF PUBLISHED CAPITAL RESOURCES TO DEPOSITS

| | 1962 | 1963 | 1964 |
|---|---|---|---|
| | % | % | % |
| Northern Bank ... | 4.2 | 4.1 | 4.1 |
| Belfast Bank ... ... | 4.6 | 4.4 | 4.4 |
| Midland Bank ... ... | 4.1 | 3.9 | 4.6 |
| Ulster Bank ... ... | 6.8 | 6.7 | 6.3 |
| Westminster Bank ... | 5.1 | 4.5 | 5.8 |

SOURCE: Annual reports.

In Table 6, the Belfast and Ulster Banks are compared with their parent banks (the Midland and the Westminster banks) and, except in 1964 when the Midland bank raised new capital, the Northern Ireland banks tend to publish a higher ratio. The explanation of the lower published overall figures in Table 5 is that the Clearing Banks which own subsidiaries in Northern Ireland tend to be those who publish lower than average ratios in England.

The evidence of the relation between total capital resources and published capital resources is thus very sketchy. In both Scotland and Northern Ireland a tendency can be observed for subsidiaries to have higher published ratios of capital to deposits than their parent banks and this supports the general proposition that Scottish and Northern Ireland banks tend to operate with a higher ratio of total capital to deposits. Because, however, the figures published by the London Clearing Banks show significant variation between banks, in the ratio of *published* capital to deposits, and there is possibly no reason to expect any large *actual* variations, and because the subsidiaries of Clearing Banks in Northern Ireland tend to be those who publish lower ratios, the ratio of capital in Northern Ireland banking to that in the London Clearing Banks may be understated. To allow for this, the comparisons of profitability made below use two alternative assumptions for Northern Ireland. These are that:

(*a*) the published capital ratios (as estimated) are appropriate;

(*b*) the published capital ratio for Northern Ireland banking should be raised by 50 per cent to allow for the apparent bias in the published figures.[11]

The following ratios have been used as indicative of the total capital employed in both 1959 and 1964:

| | |
|---|---|
| London Clearing Banks | 100 |
| Scottish Banks | 14.8 |
| Northern Ireland Banking | |
| (i) As "published" | 1.9 |
| (ii) As "estimated" | 2.8 |

## FINANCIAL RETURNS AND CAPITAL EMPLOYED

After this digression, on the problems of measuring the relative values of capital resources employed in banking in the three areas, the discussion of the main items in the profit and loss accounts is resumed. Table 4 is recast to show financial returns in proportion to the estimated capital employed.

TABLE 7

FINANCIAL RETURNS ON CAPITAL EMPLOYED (EXPRESSED AS AN INDEX ON THE LONDON CLEARING BANKS = 100)

| | 1959 | 1964 |
|---|---|---|
| London Clearing Banks ... | 100 | 100 |
| Scottish Banks ... ... ... | 83 | 80 |
| Northern Ireland banking | | |
| (i) On "published" capital ... | 142 | 148 |
| (ii) On "estimated" capital ... | 96 | 100 |

[11] This might be regarded as slightly larger than is necessary since it implies that the ratio of "capital" to deposits is the same in Scotland, thus profits, so derived might be lower then could be expected.

Table 7 is calculated on the above assumptions about the distribution of banking capital although, because no estimate of the absolute change in the value of capital from 1959 to 1964 has been attempted, it is not possible to indicate whether the 1964 figures represent larger or smaller proportionate returns than in 1959. Taking the financial returns to the London Clearing Banks as a "standard", the indications are that the Scottish Banks may have fallen slightly further behind and the banks in Northern Ireland may have gained slightly. If the "estimated" capital in Northern Ireland is used, the financial returns to banks in Northern Ireland are seen to be comparable with the London Clearing Banks and significantly larger than the Scottish banks.

## PROFITS

The sources and methods of estimation used to move from the calculations of financial returns (in Tables 1, 2 and 3) to an estimate of the Net Profits of banks—before allowing for taxation and depreciation—are shown in Appendix 2. To the "financial returns" are added the other main forms of income, i.e., acceptance and endorsement charges, foreign exchange earnings and bank charges. Income from subsidiary or affiliated companies and income from property is *not* included.[12] From this total is then deducted an estimate to cover directors' fees, staff salaries and wages and other operating expenses. The results are shown in detail in Appendix 2 and are summarized in the following table:

TABLE 8

ESTIMATED PROFITS OF COMMERCIAL BANKING

| | Financial Returns £'000 | Other Income £'000 | Expenses £'000 | Profit £'000 |
|---|---|---|---|---|
| London Clearing Banks | | | | |
| 1959 ... ... ... ... ... | 206,591 | 35,257 | 121,708 | 120,140 |
| 1964 ... ... ... ... ... | 306,927 | 41,072 | 151,488 | 196,511 |
| Scottish Banks | | | | |
| 1959 ... ... ... ... ... | 25,294 | 6,834 | 14,156 | 17,972 |
| 1964 ... ... ... ... ... | 36,452 | 5,459 | 17,608 | 24,303 |
| Northern Ireland Banking | | | | |
| 1959 ... ... ... ... ... | 5,567 | 553 | 3,175 | 2,945 |
| 1964 ... ... ... ... ... | 8,613 | 876 | 3,950 | 5,537 |

The estimated profits can now be compared both with the distribution of net deposits and the assumed distribution of capital employed.

[12] The inclusion of income from affiliates and subsidiaries would increase the profits of the London Clearing Banks by about 2 per cent. This is higher than the effect in Scotland or Northern Ireland and would lower the index of profits in relation to capital, in Table 10, slightly, for Northern Ireland and Scotland if this income was included.

TABLE 9

ESTIMATED PROFITS AS A PERCENTAGE OF NET DEPOSITS

| | 1959 | 1964 | Increase |
|---|---|---|---|
| | % | % | % |
| London Clearing Banks ... ... ... | 1.85 | 2.49 | 35 |
| Scottish Banks ... ... ... ... ... | 2.12 | 2.55 | 20 |
| Northern Ireland Banking ... ... ... | 2.05 | 3.03 | 48 |
| *Based on London*, 1959 = 100 | | | |
| London Clearing Banks ... ... ... | 100 | 135 | |
| Scottish Banks ... ... ... ... | 115 | 138 | |
| Northern Ireland Banking ... ... ... | 111 | 164 | |

The general increase in profits, in relation to net deposits, has depended largely on the changing structure of all interest rates—higher in 1964 than in 1959—and the changing assets structure of the banks. All three areas have allocated a larger proportion of their assets as advances and a lower proportion in securities. The extent of these changes varies between the different areas, but the major explanation for the different rates of change are, in Scotland, the reduction in bank charges in 1961 and in Northern Ireland, the increase in bank charges in the middle of 1964. Northern Ireland banks probably had the advantage of higher interest rates on advances than either the Scottish or London banks and also may now be charging, on average, more for each current account than the London banks.

Profits are expressed below in terms of the amount of capital employed in each area—using the relative distribution derived in Section B, above.

TABLE 10

AN INDEX OF PROFITS IN RELATION TO CAPITAL EMPLOYED (LONDON = 100 IN BOTH 1959 AND 1964)

| | 1959 | 1964 |
|---|---|---|
| London Clearing Banks ... | 100 | 100 |
| Scottish Banks ... ... ... | 101 | 84 |
| Northern Ireland Banks | | |
| (i) "Published" capital ... | 129 | 149 |
| (ii) "Estimated" capital ... | 88 | 101 |

As in Table 7, no estimate has been made of the change in profits in relation to capital employed between 1959 and 1964, because of the absence of any measure, in absolute terms, of the amount of capital employed at both dates. However, in terms of a comparison with the London clearing banks, who themselves probably increased their profitability quite significantly over this period, the banks in Scotland appear to have lost their relatively advantageous position and may have been making somewhat lower profits in 1964 than the London banks, while banking in Northern Ireland improved on the 1959 position, and even, in terms of the "estimated" (and possibly overstated) figures for capital employed, was earning profits proportionately higher than either of the other two areas.

### THE EFFECT ON PROFITS OF HIGHER OPERATING COSTS IN SCOTLAND AND NORTHERN IRELAND

One of the major arguments in favour of higher interest rates on overdrafts or higher bank charges is that the banks in Scotland and Northern Ireland have to operate in less favourable conditions than the London Clearing Banks. With a less concentrated and smaller population from which to draw their customers and lower average personal incomes it is argued that more branches are necessary (that is, a lower number of customers per branch) and average deposits, per account, will be lower.

The following table illustrates the significance of the former factor:

TABLE 11

BRANCHES, GROSS DEPOSITS PER BRANCH, AND POPULATION PER BRANCH

| | Bank Branches | Deposits per Branch[3] £'000 | Population per Branch |
|---|---|---|---|
| England and Wales | 11,006[1] | 776 | 4,307 |
| Scotland ... ... | 1,713[1] | 520 | 3,039 |
| Northern Ireland ... | 420[2] | 430 | 3,471 |

[1] *Economist*, 19th June, 1963. Figures refer to December, 1962.
[2] Mid-1965.
[3] Average gross deposits, 1964.

The interesting contrast revealed by this table is that, although deposits per Branch (including sub-offices) in Northern Ireland are lower than in Scotland or England and Wales, in population terms Northern Ireland is not so "over-banked" as Scotland.[13]

In order to remove the effect of these factors, which may increase the costs of a bank's operations, the estimates of profits in 1964 (Table 8) have been recalculated using, for Scottish and Northern Irish banking,

[13] With the recent take-over of the Northern Bank by the Midland Bank, which already owns the Belfast Bank, the number of branches in Northern Ireland could be reduced without any significant loss of service to the public. Outside Belfast, the Northern Bank has 48 branches or sub-branches in towns where the Belfast Bank also has representation.

the ratio of operating costs to gross deposits as implied for the London Clearing Banks.

TABLE 12

PROFITS; ON OPERATING COSTS AS ESTIMATED AND ON "STANDARD" COSTS, 1964

| | Profits, as estimated £'000 | Profits, on standard Costs £'000 | Difference % |
|---|---|---|---|
| London Clearing Banks ... | 196,511 | 196,511 | — |
| Scottish Banks ... ... ... | 24,303 | 26,130 | 8 |
| Northern Ireland banking ... | 5,537 | 6,294 | 14 |

Table 12 implies that, if relative profitability expressed in relation to the profit of the London Clearing Banks is (see Table 10)—

| | |
|---|---|
| London Clearing Banks | 100 |
| Scottish Banks | 84 |
| Northern Ireland banking | 101-149[14] |

then the removal of the higher costs of operation in Scottish and Irish banks, through the calculation of "standard costs" for each £1 of gross deposits, would change this distribution to the following

| | |
|---|---|
| London Clearing Banks | 100 |
| Scottish Banks | 90 |
| Northern Ireland banking | 114-168[14] |

## CONCLUSIONS—AND FURTHER PROBLEMS

The question which provoked the exploration of this paper was one of "the level of banking profits in Northern Ireland". There now appear to be some indications that banks in Northern Ireland—on average—have a slightly higher level of profit, in terms of a return to capital employed, than either the London Clearing Banks or the Scottish Banks and that this position has improved since 1959 when the rapid expansion of advances (and contraction of investments) began.

If the "actual" profits of London Clearing Banks are (say) 20 per cent on the capital employed, then the implication of Table 10 is that the appropriate comparable (1964) figures would be 17 per cent in Scotland and between 20 and 30 per cent in Northern Ireland (calculated on both estimates of the value of capital employed). However, if the higher estimate of profit were correct in terms of interest rates, if all other rates were held constant while overdraft rates were lowered, this would imply that overdraft rates could be lowered by 1.5 per cent without profitability falling below the level of the London Clearing Banks. Alternatively, if all other rates were unchanged this could mean a rise of

[14] Using the figures of profits calculated from both estimates of capital employed.

3 per cent in the rates on deposit accounts which might be a very successful way of increasing deposits by attracting savings from other financial institutions.

It should be recalled that these calculations, based on 1964, take no account of the increase in profits from a full year of the new bank charges in Northern Ireland (they were imposed on 1st July, 1964). If these charges had been in force for the whole of 1964, these estimates of profits in Northern Ireland would have increased by over 4 per cent.

Two major questions remain which pose wider problems. The first is that this discussion of profitability rests on the assumption that the London Clearing Banks form a suitable yardstick for comparative purposes. It might be argued that profits should also be compared with profits in other types of businesses outside the banking sector. The second is that no comment has been made on the scope for the Northern Ireland banks to increase their profits by a change in their banking customs. One might argue that the banks' assets are allocated in a conservative manner, with too low a proportion used as advances. Also, the powers of local note issue have been (mistakenly?) not used to full advantage. In note issue policy, the behaviour of the banks in Northern Ireland contrasts oddly with the Scottish banks and one wonders how this different conclusion on the desirability of local note issues has arisen.

Since this paper was prepared the United Kingdom Government has introduced a new Companies Bill at Westminster which makes it possible (though not probable) that banks in Great Britain will have to disclose more information about their "true" profits in future. If this provision is made at Westminster then it will probably be followed by Stormont and the need for these roundabout calculations would be removed. Since the dangers of a lack of busines confidence in the commercial banks arising from such disclosure are probably negligible, the release of such information, either voluntarily or compulsorily, has much to commend it, especially in view of the privileged and unique position of the commercial banks in the economy.

## APPENDIX I

### SOURCES OF DATA USED IN THE CALCULATION OF FINANCIAL RETURNS

In Tables 1, 2 and 3 of the paper various rates of return on different types of financial assets and liabilities have been used in order to calculate the gross flow of money to and from the banks in Northern Ireland, in Scotland and the London Clearing Banks.[1] Many of these rates of return have been obtained from published sources, but for others some degree of estimation has been necessary. The sources of these figures are outlined below.

[1] The National Bank is included as a London Clearing Bank and is not included in the Northern Ireland banking figures.

## DEPOSIT ACCOUNTS

The earnings of deposit accounts in England (which is used in this context as an abbreviation for, "the London Clearing Banks") have been taken as 2 per cent below current Bank Rate and averaged by weighing the various rates by the length of time for which they were operative in any given year.

In Scotland the figures published by the Committee of Scottish Bank General Managers have been used—although no allowance has been made for the small difference on the first £500 in savings accounts.

In Northern Ireland, the unweighted average of the rates applicable to accounts of under £25,000 and over £25,000 has been used. In the tables, the following deposit account rates have therefore been used:

| | 1959 | 1964 |
|---|---|---|
| | % | % |
| England ... ... | 2 | $3\frac{1}{3}$ |
| Scotland ... ... | $1\frac{1}{2}$ | $2\frac{2}{3}$ |
| Northern Ireland... | $1\frac{3}{4}$ | $2\frac{3}{4}$ |

The Northern Ireland banks who hold (what have been called) "earning balances" with English banks have been presumed to earn the rate paid on deposit accounts by the English banks.

## MONEY AT CALL

The only published information over the period of this analysis is limited to that on the "Minimum rate of interest charged for loans to the discount market".[2] From a study of the daily fluctuations in call money rates on estimate of the divergence between minimum and average rates might be made. Some estimates of this nature have been prepared by a correspondent of the Bankers Magazine.[3] In 1959, for example, he suggests that although the minimum rate for call money was $2\frac{3}{8}$ per cent, an average of $2\frac{7}{8}$ per cent would be more appropriate. This difference between minimum and average rates probably fluctuates slightly from year to year depending on money market conditions. In 1964 a figure of 4.5 per cent has been used.[4] For "call money" the same rates have been used for all three areas.

## TREASURY BILLS

Because of the unitary nature of the United Kingdom discount market the rates used for the three areas are the same. For 91 day Treasury bills the Bank of England publishes an annual average rate of discount.[5] In

[2] See "Financial Statistics" (H.M.S.O.), October, 1965, Table 75.

[3] Bankers Magazine, August, 1961, "Some Figuring on British Bank Profits" by Phaedra.

[4] See Bankers Magazine, June, 1965, "The Profits of London Banks" by Phaedra.

[5] See "Financial Statistics", October, 1965, Table 16.

1959 this was 3.375 per cent per annum and in 1964 4.594 per cent per annum. These figures may slightly overstate the returns to the Scottish and Northern Ireland banks but the difference would be small as this is an asset which represents a very small proportion of total banking assets in Scotland and Northern Ireland.

### OTHER BILLS

In 1959, Phaedra[6] suggests that in estimating returns on "Other Bills" an addition of ¼ per cent should be made to the rate applicable to Treasury Bills. Hence in 1959 a rate of 3.632 per cent is used. This allowance of ¼ per cent over Treasury Bill rates seems appropriate when compared with an average of the rates which were ruling at that time on Bank and Trade bills. By 1964 it would seem that the appropriate margin had increased very slightly and a rate of 4.875 per cent has been used.

### INVESTMENTS

Rates of return on investments, which consist mainly of British Government Securities, are more difficult to estimate. In 1959 the earnings accruing to liquid funds were relatively low (Bank Rate was unchanged at 4 per cent during the year). It is probably a reasonable assumption that earnings on investments in England were higher than those on more liquid assets but lower than those obtainable from advances. This suggests a lower level of 4 per cent and an upper level of about 4½ per cent. Since a significant proportion of these investments may have been purchased at the higher prices associated with the lower interest rates of previous years and may still be shown at "Book Value" the lower figure has been used.[7] By 1964 the large reduction (except in Norther Ireland) of holdings of investments by the banking sector had probably increased the profitability of investments. It has been assumed that English banks shared in the general rise in yields on "Short" and "Medium" Government securities,[8] although the yield earned by the banks is still assumed to be below the average for all holders of Government securities. In 1964 a rate of 4.7 per cent has been used.

For Scotland and Northern Ireland, the English rates are probably too high. The Scottish banks, in evidence to the Radcliffe Committee,[9] suggested that in 1958 their investments were yielding under 3 per cent on cost. With the change in the time of distribution of their assets between 1958 and 1959, Phaedra[10] suggests that a yield of 3½ per cent in 1959 might be appropriate. By 1964 it has been assumed that the Scottish banks had increased this yield as much as the English banks and a yield as much as the English banks and a yield of 4.2 per cent has been used. In the absence of evidence to the contrary, it has been assumed that the Northern Ireland banks obtain similar returns to those obtained by the Scottish banks.

[6] Bankers Magazine, August, 1961.

[7] No allowance has been made here or in the other tables for capital losses on the realization of Government securities not held until maturity.

[8] "Financial Statistics", October, 1965, Table 73.

[9] Question 4792, Radcliffe Committee oral evidence.

[10] Bankers Magazine, August, 1961.

## ADVANCES

Each of the areas has its own method of determining the rates which are charged on advances. In England, although there may be a "spread" of rates, it has been assumed that 1 per cent above Bank Rate would be a representative figure.[11]

In Scotland, where advances fall into two main categories ("cash accounts" and "overdrafts"), in the ratio of approximately 2 to 3, the rates published by the Scottish banks have been averaged over the year and between the two types of advances. In Northern Ireland the published (or recommended) overdraft rate has been used.[12]

The rates on advances which have been used are:

| | 1959 | 1964 |
|---|---|---|
| | % | % |
| England ... ... | 5 | 6 |
| Scotland ... ... | 5.8 | 6.8 |
| Northern Ireland... | 6.25 | 7 |

## APPENDIX II

### CALCULATION OF ESTIMATED PROFITS

The various assumptions and estimates involved in the calculation of profits in banking are set out below. The results are summarized in the following table:

ESTIMATED BANKING PROFITS

| | London Banks | | Scottish Banks | | Northern Ireland Banking | |
|---|---|---|---|---|---|---|
| | 1959 | 1964 | 1959 | 1964 | 1959 | 1964 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 1. Financial returns ... | 206,591 | 306,927 | 25,294 | 36,452 | 5,567 | 8,613 |
| 2. Acceptance charges... | 7,512 | 5,683 | 775 | 887 | 11 | 16 |
| 3. Foreign exchange earnings ... ... | 3,325 | 4,371 | 359 | 472 | 72 | 95 |
| 4. Bank charges ... | 24,420 | 31,018 | 5,700 | 4,100 | 470 | 765 |
| 5. Staff costs ... ... | 83,517 | 103,868 | 9,680 | 12,040 | 2,170 | 2,700 |
| 6. Other expenses ... | 37,584 | 46,741 | 4,476 | 5,568 | 1,005 | 1,250 |
| 7. Directors' earnings ... | 607 | 879 | | | | |
| 8. Profit ... ... | 120,140 | 196,511 | 17,972 | 24,303 | 2,945 | 5,537 |

[11] Phaedra, Bankers Magazine, August, 1961 also uses this assumption.

[12] This procedure makes now allowance for advances at lower rates, except in so far as these are compensated by advances at higher rates. Even if the error were to overstate earnings slightly this would not be very significant in the results.

1. The value of *financial returns* is transferred from Tables 1, 2 and 3 in the main section of the paper.

2. The income frrom *acceptances* and endorsements, etc., is derived by applying, in the case of the London and Scottish banks, a rate of $1\frac{1}{4}$ per cent per annum on the average amount outstanding during the year, which is taken from the Annual Abstract of Statistics, 1964. At the time of writing the 1965 Annual Abstract, containing the 1964 data was not available and 1963 figures have been used as an estimate for 1964. In Northern Ireland a rate of $\frac{3}{4}$ per cent per annum has been used in conjunction with data on the annual average from (*a*) in 1959, the Radcliffe Committee Memoranda, Vol. II, Table 4, p. 209 and (*b*) in 1964, the Central Bank of Ireland Report, January 1965, Table VI, p. 84.

3. *Foreign exchange* earnings have been calculated on the basis suggested by Phaedra in the Bankers Magazine, April 1963, where he estimates total foreign exchange earnings on the basis of 1 per mille of the value of external trade and divides this, pro rata, on the value of deposits in the three areas. In 1962 he estimated foreign exchange earnings as:

| | |
|---|---|
| London Clearing Banks | £3,736,000 |
| Scottish Banks | £403,000 |
| Northern Ireland Banking | £81,000 |

These estimates are admittedly very crude and, in relative terms, may overstate the earnings in Northern Ireland. In the table, above, the 1959 and 1964 figures have been calculated on an index of the value of external trade from 1959 to 1962 and 1962 to 1964.

4. The estimates of *bank charges* have been compiled by bringing together an estimate of (i) the number of current accounts and (ii) the average charges per current account.

(i) *Bank Accounts*

An estimate of the number of current accounts in England and Wales, Scotland and Northern Ireland has been prepared from the 104th and 106th Annual Reports of the Commissioners of Inland Revenue. Both contain information relating to 1959/60 which has been interpreted as appropriate for 1959. As a first approximation, it was assumed that the following categories of taxpayers would probably hold a current account; (*a*) those whose personal incomes exceeded £700, (*b*) those who paid tax as companies or unincorporated enterprises under Schedule D and (*c*) a margin of about 5 per cent to cover accounts held by charitable organisations, etc.[13] This procedure gives the following results.

[13] This procedure has its obvious limitations. For the purposes of this discussion it is assumed that the "cut-off" point in personal incomes is low enough to allow for households with more than one account. Also, the existence of multiple accounts in businesses is assumed to offset the double counting of small firms where the personal account of the owner is not separately identified.

| 1959 | England and Wales | Scotland | Northern Ireland |
|---|---|---|---|
| | (000) | (000) | (000) |
| (*a*) Personal incomes "£700+" ... | 7,686 | 602 | 104 |
| (*b*) Schedule D incomes ... ... | 2,900 | 316 | 99 |
| (*c*) Others ... ... ... ... | 514 | 32 | 12 |
| Total ... ... ... ... | 11,100 | 950 | 215 |
| Implied average current account | £366 | £348 | £375 |

The figure of 7,686,000 current personal accounts in England and Wales is reasonably consistent with the statement by the Assistant Postmaster General[14] that 15 per cent of the population have accounts with the commercial banks.

Although, in total, these figures probably give a reasonable estimate, the figures indicate that this method probably understates the number of personal accounts in Northern Ireland. This may have arisen because of the use of a uniform (and arbitrary) minimum of £700 income as an approximation to the possibility of holding a current account. This compares with the results of a survey by the Midland Bank in 1964[15] which showed that: "The annual income of over one-half of the new customers were £750 or less".

In 1959 values, this would be nearer to £650 so that a cut-off at £700 would be reasonably consistent with this. However, for Northern Ireland, the use of a figure of £700 as indicator gives the following comparison:

| 1959 | Population (1) | Incomes over £700 (2) | (2) as % of (1) |
|---|---|---|---|
| England and Wales ... ... ... | 45,386,000 | 7,686,000 | 17 |
| Scotland ... ... ... ... | 5,162,000 | 602,000 | 12 |
| Northern Ireland ... ... ... | 1,408,000 | 104,000 | 7 |

If the ratio of personal accounts to population between England and Wales and Scotland is taken as an indication of the effects of lower average incomes then the 7 per cent figure for Northern Ireland is probably too low. In other words, the cut-off at £700 per annum in Great Britain may be too high for Northern Ireland. If this were lowered to £650 this would imply that 9 per cent of the population had personal accounts and would seem to be more consistent with the lower percentage in

[14] See the *Economist*, 29th June, 1963.
[15] See the Statement by the Chairman which accompanied their Annual Report.

Scotland and would result in an implied average amount in each current account of £343 which is also more consistent with the Scottish figures.

In the calculations the 9 per cent ratio has been used in Northern Ireland and in order to estimate the number of accounts in all the areas in 1964, the 1959 figures have been increased by allowances for

(i) population increase
(ii) the extension of the "banking habit"
(iii) higher standards of real income
(iv) the growth of business accounts.

In total, a per annum increase of 2.6 per cent for personal accounts and 1 per cent in business accounts has been allowed. The numbers of current accounts used in the calculations were:

| | 1959 | 1964 |
|---|---|---|
| England and Wales[16] ... | 11,100,000 | 11,930,000 |
| Scotland ... ... ... | 950,000 | 1,025,000 |
| Northern Ireland[17] ... ... | 235,000 | 255,000 |

(ii) *Bank Charges*

In Northern Ireland charges before July, 1964 were based on a fee of 10/6d. for 50 entries, or part thereof, per half year. This was subject to a maximum of £15 15s. 0d. per half year. Only a small proportion of accounts would have incurred the maximum charge and a large number of personal accounts would not have borne charges significantly above the minimum. On an annual basis, average charges for 1959 have been estimated at £2 per current account.

In July, 1964 new charges of £1 per 50 entries per half year were introduced (including provisions for "bringing forward" any "part thereof" from a previous period) with a maximum of £50 per half year. On an annual basis, average charges for a full year have been estimated at £4 per current account. For the year 1964, average charges of £3 have been used. (This may tend to overstate the actual position because it ignores the complex initial effect of the "carry-over" provision.)

In *England and Wales* average charges are almost impossible to estimate. *The Banker*, March, 1964 (p. 143), draws attention to the increasing standardization of charges among the London Clearing Banks:

> "The banks have explicitly set out the basis on which such accounts (those which lost some privileges which were formerly granted) are to be charged ........... a charge of 10/- per half year will be made per-

[16] The total number of accounts in Great Britain in 1965, as estimated by the National Opinion Poll, is consistent with these figures.

[17] If the average amount in deposit accounts in Northern Ireland is (say) 50 per cent greater than in current accounts, this implies that Northern Ireland banks were handling about 365,000 accounts in 1964.

mitting up to 30 drawings in the period; this charge will, however, be reduced to 5/- where a minimum balance of £50 is maintained and eliminated altogether where the minimum balance is £100".

These provisions about minimum charges are apparently without parallel in Northern Ireland and would produce lower charges on accounts with a small number of transactions and a minimum level of deposits. At the other end of the scale, accounts with a large number of transactions are not safeguarded by a maximum charge and charges running into hundreds of pounds per annum can occur. Thus a large number of accounts may incur lower charges, but a few may be much more expensive. Where the charge is solely governed by transactions the charge of 10/- per 30 entries is slightly lower than the charge of £1 per 50 entries in Northern Ireland.

The assumption is made that accounts incur annual charges as in the distribution below, and an estimate of the average annual charges on current accounts is derived.

| Charge | Personal accounts | Business accounts |
|---|---|---|
| | % | % |
| Free ... ... ... ... | 20 | — |
| −£1 ... ... ... | 40 | 5 |
| £1 up to £2 ... ... | 35 | 20 |
| £2 up to £3 ... ... | 2 | 20 |
| £3 up to £4 ... ... | 1 | 20 |
| £4 up to £5 ... ... | 1 | 15 |
| £5 up to £10 ... ... | 1 | 15 |
| £10 up to £100 ... ... | — | 4 |
| £100+ (average £200) ... | — | 1 |

This gives an annual average charge of £2.6 per current account. In comparison with Northern Ireland, this may seem to be rather low, but it contrasts (in the opposite direction) with the estimates made by Phaedra in the Bankers Magazine.[18] This figure of £2.6 has been used in 1964 and, in order to allow for the trend towards higher average charges in recent years, a figure of £2.2 has been used in 1959.

In *Scotland* bank charges have varied more, in recent years, than in the other areas. In 1958 a standard charge of 30/- for 40 entries was introduced, with a minimum of 12/6d. per half year. Also the monthly allowance on minimum credit balances was raised to 9d. per £100.[19] This made the charge per entry almost double the 1964 level in Northern Ireland, but was offset, to some extent, by the remission on minimum blances. For this paper, an annual average charge of £6 per current account has been assumed in 1959.

[18] Bankers Magazine, June, 1965, page 416. Working on some American data which indicates charges as 0.15 per cent of deposits, Phaedra's calculations would make annual average charges about £1 per current account.

[19] M. Gaskin, The Scottish Banks, page 176.

In 1961 the Scottish banks lowered their charges for cheque clearings to 6d. per entry and eliminated charges on lodgements and the system of minimum charges.[20] This would imply a new average for current accounts of approximately £4 per annum.[21]

5. In *England and Wales* the estimates for *Staff costs* are those used by Phaedra, Bankers Magazine, August, 1961 and June, 1965 and are the results of estimates obtained "with the help of an official of the National Union of Bank Employees". Directors' remuneration is taken from the published accounts and "other expenses" is taken as 45 per cent of "staff costs". This is arbitrary and may be slightly generous (to the banks) when compared with the evidence which Phaedra cites for overseas banks.

In *Northern Ireland* staff costs have been based on the information enclosed with the wage award given in arbitration between the Northern Ireland Banks Committee and the Irish Bank Officials Association, issued in January, 1965. Allowing for the lower salaries paid before 1st October, 1964, the total salary bill is estimated at £2.3 million to which has been added a notional £200,000 to allow for National Insurance and Pension contributions from the employers and £200,000 to allow for "industrial" employees. The 1959 estimate was derived by assuming that staff costs had risen by the same proportion as in England and Wales. In order to allow for the smaller average size of branches, "other expenses" and Directors' remuneration have been taken as 50 per cent of staff costs.

Staff costs in *Scotland* have been estimated by comparing the ratio of staff costs to gross deposits in England and Northern Ireland in 1964. This is set out below:

| | Staff costs | Gross deposits | Ratio |
|---|---|---|---|
| | £'000 | £'m | % |
| England and Wales ... ... | 103,868 | 8,550.0 | 1.21 |
| Northern Ireland ... ... | 2,700 | 180.4 | 1.50 |
| Scotland ... ... ... | (12,040) | 891.6 | (1.35) |

From this 1964 estimate, 1959 has been derived on the same basis as in Northern Ireland.[22] To allow for the smaller size of branches in Scotland, than in England, "other expenses" and Directors' fees have been estimated at 48 per cent of staff costs.

[20] Professor Gaskin (op. cit.) points out that this was said to be a consequence of the introduction of a standard charge of 6d. per item for credit transfers in Great Britain. However, the concessions on lodgements and minimum charges cannot be directly related to this scheme. He regards this as an attempt to tap new sources of deposits (page 178).

[21] These charges are probably an overstatement. Even with this overstatement, the out-turn is less than for the other two areas!

[22] These estimates are slightly higher than those used by Phaedra but, as Professor Gaskin has pointed out (op. cit., page 60), these estimates seemed "to be on the low side when compared with the Clearing Banks".