

Composition payments to bankers

On 1st January 1970, when the National Westminster Bank Act 1969 took effect, there came to an end a series of annual payments made to bankers under the Bank Charter Act 1844 as compensation for relinquishing their right of note issue. Such payments were known at the time as 'composition'.

Before 1844 the Bank had already made arrangements with some bankers to relinquish their note issues, and to some of these composition was already payable. Section 23 of the Bank Charter Act provided that it was payable henceforth to the forty-three bankers listed in Schedule C of the Act who had come to such an arrangement. The Act fixed the rate and method by which composition payments should be calculated. Under the 1844 Act, composition payments were to cease in 1856, but the Bankers' Compositions Act of that year effectively extended such payments indefinitely.

One of the main objectives of the 1844 Act was to restrict as far as possible the note issues of banks in England and Wales other than the Bank of England. No new bank of issue was allowed; any banker ceasing to issue could not resume; and the note issue of any banker who elected to continue could not be increased. Section 24 of the Act encouraged bankers who had the right to issue notes to give up this privilege and to accept annual composition payments as compensation.

Although a number of private issuing bankers wished to continue issuing notes on grounds of profitability, prestige and useful advertisement, their issues had already started to decline before 1844 in the face of competition from joint stock banks newly authorised by the Country Bankers Act of 1826 – whose resources were mainly derived from the taking of deposits – and the Bank of England's own network of branches. In 1839 the note circulation of private bankers was £7.5 million; by 1844 it had declined to £4.8 million, compared with £3.2 million for the joint stock banks and £19 million for the Bank of England. The 1844 Act thus merely hastened a process that was already under way.

The Bank laid down three principles when agreeing to composition payments under the 1844 Act. First, they were not obliged to come to any agreement to pay composition: the Act merely stated that it was lawful for them to do so. Secondly, the Bank stressed that they were acting for H.M. Treasury in the matter and would abide by any direction given to them. Thirdly, composition would no longer be payable to any banker who did anything which, if he had still been issuing notes, would have caused him to forfeit the right of issue. A private bank would have forfeited the right of issue by acquiring more than six partners, by being converted into a joint stock bank or, of course, by ceasing to exist: a joint stock bank, by opening an office in London. (The Country Bankers Act 1826 laid down that joint stock banks must not issue notes in or within sixty-five miles of London, although the Bank of England Act 1833 did permit them to

have an office or agency in that area.) The forfeiture principle did not apply to bankers already in receipt of composition in 1844 and listed in Schedule C of the Act, who therefore ceased to receive these payments only when they went out of business.

The Bank entered into twenty-two additional composition agreements under the 1844 Act, the last agreement being in 1907. Meanwhile, as a result of amalgamations, failures, incorporations and dissolutions, the number of composition payments gradually dwindled. At its peak in the mid-nineteenth century, the amount of composition paid by the Bank was in the region of £20,000 a year; but by the end of the century, this had fallen to below £10,000. By 1920, only four payments, totalling less than £3,000, were being made – three to joint stock banks on the original list in Schedule C to the 1844 Act, and one to a private banker who had entered into a composition agreement immediately after the passing of the Act. One of the joint stock banks, the Union Bank of Manchester, was acquired by Barclays Bank in 1940; and Gunner & Co., the last surviving private country banker, was acquired by the same bank in 1953. This left only Martins Bank and District Bank which, under the names of the Bank of Liverpool and the Manchester and Liverpool District Banking Company, were listed in Schedule C to the Act. With the coming into effect of the Barclays Bank Act 1969 on 15th December 1969 and the National Westminster Bank Act 1969 about a fortnight later, no further payments are to be made to Martins Bank and District Bank, and 125 years of composition payments have come to an end.