

# **STUDY OF ORIGIN AND DEVELOPMENT OF BANKING SYSTEM IN CANADA AND UK**

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## **ABSTRACT**

The banking sector is the engine that powers any economy. It is essential to the growth and prosperity of the country. It's necessary for releasing riches, creating possibilities, creating jobs, and facilitating trade. People and corporations can engage in the globalized trade thanks to it. Crucially, when banks fulfil their obligations effectively, they give their clients a stake in a stable and secure society. Then will the banking system be capable of fulfilling its core functions, such as providing a safe place for public assets and a mechanism for investing those money in productive loans to aid the economy's growth. A good financial system, then, contributes to a nation's growth not only in terms of what it accomplishes, but also in terms of what it requires. This article covers the evolution and development of the banking sector in the United Kingdom and Canada, which is a crucial component of the financial system in both countries, and shows how several incidents have impacted banking economics in both countries.

## INTRODUCTION

Since the first coins were minted—possibly even before that—banking has been in some form or another. Currency, primarily coins, arose as a result of taxation. As empires evolved, it became vital to develop practical mechanisms for collecting taxes and transferring riches. Banking institutions were created to make loans to the general people. Temples, which were once occupied by priests and served as a haven for the wealthy, are said to be the first type of banking. The seizure of land as a substitute for debtors' and creditors' loan payments was allowed in the early Roman laws. Adam Smith, a well-known economist, suggested in the 18th century that an automated economy, dubbed "the invisible hand," would allow markets to achieve equilibrium. The fall of two brokerage businesses sparked the panic of 1907, resulting in a recession with insufficient liquidity. As a result, the Federal Reserve Bank was founded.

In Canada, the colonial government controlled the initial system of banking. During the early eighteenth century, banking in its most diluted form arose to address the wealth drain caused by mercantilist theory. The wealth drain resulted in the colonies having no gold or silver bullion, as well as no means of economic exchange or payment. The British government awarded Montreal bankers a charter in 1817 to operate Canada's first professional bank. The Bank of Montreal was the name of the institution. As part of its charter, the Bank of Montreal was granted a domination. Due to its monopolistic advantages, the Bank of Montreal effectively acted as the central bank for both Upper and Lower Canada. Following 1817, Britain gave a slew of new bank licences, one of which went to the somewhat Bank of Kingston, which sought to compete with the Bank of Montreal in Upper Canada. Under the provisions of their licences, the newly licenced banks were compelled to recognise each other's currencies, permitting lengthy trading to flourish within British North America Banking, on the other hand, remained in the hands of private individuals, implying that currency was generated at the will of private bankers.

Whereas, In the 17th century, the Kingdom of England is thought to have launched banking in the United Kingdom. Following Henry VIII's destruction of English monasteries, goldsmiths collected considerable gold stockpiles, which subsequently became known as banking. The Bank of England has always been fascinated by the financial system's structure. Consumers and businesses rely on financial services, and the cost and availability of those services can have an impact on their financial stability. The UK banking sector is made up of over 340

commercial banks, with the Bank of England, the country's central bank, at its top. The British government has adopted a number of banking sector changes since the 1970s in an effort to protect and enhance the banking sector. By any measure, the United Kingdom now boasts one of the most advanced financial systems in the world.

In this study we will be discussing the origin and development of banking system in Canada and UK in more depth.

## REVIEW OF LITERATURE

### 1. Evolution of Canadian banking

By, C.A Curtis.

The article explains the entire history of evolution of banking system in Canada with details reasons and explanation of the events that led to the formation of current banking system in Canada.

### 2. Evolution of Banking System in India since 1900

By, O.P Chawla

Highlights both the positive and negative repercussions of the government's control and ownership of a large portion of the banking sector, as well as the route forward for further changes. The author tells the storey of strong demands for banking nationalisation dating back to before India's independence, as well as opposition from inside the Indian political system, until the bank's revolutionary nationalisation in 1969.

### 3. Banking Sector in India: A review

By, Vijay Kumar Sarabu

Explains the vital significance of Indian banking in the growth of rural banking, as well as the country's ongoing economic progress. It goes over crucial policy, structural, regulatory, and legislative changes that have shaped the background and springboard of banks' operations, as well as a full study of the key financials. It reveals the most significant events and advances in scheduled commercial banking over the last 117 years, as the industry has evolved from a tiny, unorganised system to a technology-driven, regulated sector.

#### 4. The Canadian Banking System

By; Charles Freedman

The majority of countries have agreed on four broad principles of CBA, according to the report. In the field of banking supervision, where many central banks have retained a vital role, there are significant disparities.

#### 5. The Role of a Banking System in Nation-Building

By; John L. Douglas

The banking sector is the engine that powers any economy. It is essential to the growth and prosperity of the country. It's necessary for releasing riches, creating possibilities, creating jobs, and facilitating trade. People and corporations can engage in the globalized trade thanks to it. Crucially, when banks fulfil their obligations effectively, they give their clients a stake in a stable and secure society. Furthermore, when banks perform their responsibilities properly, they allow their employees to have a strong interest in a stable and safe society.

#### 6. History And Evolution of England Banking System

By: R.M.D.H Rathnayake

This article explores the history of the banking sector in the United Kingdom, demonstrating how technology has altered banking economics and how deregulation in the late 1970s and early 1980s enabled banks to capitalise on growth opportunities created by globalisation and economic ingenuity.

## RESEARCH METHODOLOGY

For the purpose of this paper, the research methodologies employed are analytical research methodology and doctrinal research methodology. The employment of the analytical research method allows us to critically analyse the different approaches, the key principles, the guidelines laid down by these states to further the objective. The analytical method will enable us to understand the reason behind the urgency and development of the Banking system and its effect on the overall development of countries.

Furthermore, doctrinal research will be used because the fundamental goal of doctrinal legal study is to enhance a significant part of the law, which could lead to the achievement of the broader goal of regulation. Justice, not legal procedures, documents, or jargon, is the ultimate objective of the law. As a result, doctrinal legal study is frequently used in enriching legal materials, coding, and even interpreting legal statutes, which is exactly what we're attempting to do here. Doctrinal legal research is highly intellectual, with the goal of developing new concepts, gaining new knowledge, and laying the groundwork for further research to resolve the issue at hand.

In this case, we're essentially determining the development of banking system in the context of a changing society. It will begin with one or more legal hypotheses as a starting point to prove the validity of that hypothesis throughout the inquiry. It simply entails researching and analysing many legal documents and cases before deducing a thorough response to the query posed at the outset.

Additionally, data from secondary sources are used to establish the origin and development of banking system in UK as well as in Canada.

## RESEARCH QUESTIONS

1. How did banking system originated and evolved in UK?
2. How did banking system originated and evolved in Canada?

## CHAPTER ONE: ORIGIN AND DEVELOPMENT OF BANKING SYSTEM IN UK

We can describe the evolution of the English banking system during the last four decades as follows:

- 17th Century

Following Charles I's confiscation of money held at the Royal Mint inside the Tower of London, numerous goldsmiths offered their services to the nobility and aristocrats, as the Royal Mint was no longer be considered a secure place to hold gold. Because they collected gold in return for a voucher and documented instructions to send money back to third parties, goldsmiths were termed "keepers of running currency." The present banknote or check was predicted by this directive. Around 1650, a cloth merchant named Thomas Smith founded the first provincial bank in Nottingham. In 1694, the Bank of England was created. The Governor and Company of the Bank of Scotland were created by an Act of the Scottish Parliament on July 17, 1695, entitled "An Act for Constructing a Bank in Scotland," and began operations in February 1696.

- 18th century

Throughout this time, the range of bank services grew. Security investments, overdraft protections, and clearing houses have all been implemented. Parliament passed a legislation in 1708 prohibiting banks with more than 6 partners from printing paper currency. As a result, private banks have remained small partnerships. Joint stock financial companies were widely established by this time, but joint stock banks would not emerge till the following century. The number of banks increased dramatically as a result of the Industrial Revolution and increased international trade, particularly in London. By taking advantage of England's growing dominance in seaborne trade, these new "commercial banks" aided trade expansion. In the late 18th century, two newcomers, the Rothschild and Baring families, formed commercial bank enterprises in London, and Over the next hundred years, they grew to dominate global banking.

- 19th century

On October 23, 1826, the Lancaster Banking Company, a new joint stock bank, was established. The Bristol Old Bank, on the other hand, had recently changed its status from private to joint stock, creating it the country's earliest joint stock bank. The Manchester & Liverpool District Banking Company and the National Provincial Bank were among the first to follow suit. The With twenty locations throughout England and Wales, Nationwide Provincial Bank was the first totally national bank. The Bank Charter Act, which controlled the issuance of bank notes, was passed by the government in 1844. The industry's reputation was tainted by two banks collapses, one in 1866 and the other in 1878, but record keeping and accounting improved as a result. As a result, massive bureaucracies arose, complete with a management board, top executive, secretary, and force of accounting staffers.

- 20th century

When World War II broke out, war financing exploded, and the so-called "Big Five" began a series of takeovers and mergers. The government eventually took over Westminster, Provincial, Barclays, Lloyds, and Midland. Between the wars, there was a decline that matched to the general economic downturn of the time. Banks, on the other hand, pushed back by launching modest savings programmes and taking attempts to recruit fewer wealthy consumers.

Since 2007, the banking sector in the United Kingdom has been returning to the model that had previously served it well. The Bank of England is once again in charge of bank supervision, and it recognises that stability cannot be taken for granted. Demutualized building associations have all but vanished. Santander, a Spanish bank, acquired Abbey National, Alliance, and Leicester, as well as Bradford and Bingley's retail assets, while Virgin Money acquired Northern Rock. As a result, there are presently only a handful big banks in the United Kingdom. Each one is one-of-a-kind. Santander is a subsidiary of a Spanish bank that is headquartered outside of Madrid. It is establishing a significant retail operation in the United Kingdom. Lloyds/HBOS is a large retail bank in the United Kingdom that is being compelled to liquidate branches in order to diminish its market dominance. Following its rescue, the government now owns 40% of the company. Through the purchase of Lehman Brothers' Wall Street operation after its fall, Barclays has transformed itself into a universal bank, merging commercial and investment banking. HSBC is a global bank headquartered in London and Hong Kong with a strong Asian concentration. Standard Chartered is a London-based bank that only does business in emerging markets.

Since then, each of these organisations has developed a strategy for dealing with the difficulties and opportunities that a rapidly changing world brings. Others have decided to expand worldwide, while others believe that focusing on UK financial services is the way to go. With the light of hindsight, it is clear that a majority of British banks created business strategies that can only succeed in the context of ongoing economic expansion and credit growth in the ten years leading up to 2007. Such a climate could not last forever, and when it did, these business practices were revealed to be severely defective.

## CHAPTER TWO: ORIGIN AND DEVELOPMENT OF BANKING SYSTEM IN CANADA

Barter was the predominant form of commerce in the early days of French settlement in Canada because there was no native currency. The majority of coins and merchandise transported from France were returned to France to be used to purchase imports. When a shipment didn't arrive one year, Intendant François Bigot created inscribed playing cards that could be swapped for coins and other goods, and the colonists were obliged to take them as currency. By 1760, the colony owed 80 million francs, the majority of which was due to Bigot's inadequate limitations. Following the Conquest, the British paid their men in Mexican, Spanish, Portuguese, French, and German cash, which eventually became the realm's currency when paired with trade products.

The Canada Banking Company, created in 1792 by nine Montréal industrialists, failed due to a lack of a bank note issuing licence, as did two more similar attempts in 1807 and 1808. During the War of 1812, the governor issued "army bills," which earned interest and could be exchanged for cash, government bills of exchange in London, or more army bills. Although its charter was not authorised until 1822, the Bank of Montreal (a joint-stock company with 289 owners) opened its doors in Canada in 1817. Around this time, the Bank of New Brunswick (1820) and the Bank of Upper Canada (1820) were both established (1821). The Family Accord dominated the Bank of Upper Canada, and the legislature declined to provide charters to just about any organization except at least part of its founders were aristocratic members.

Francis Hincks, who went on to become the prime minister of the Province of Canada and then the finance minister of Sir John A. Macdonald, formed another bank, the Bank of the People. After ensuring the approval of Canada's first bank act, he was finally named president of the



Consolidated Bank (1871). (He also was tried and found guilty of a variety of other offences, including forgery, but his conviction was reversed on review.)

Many of Canada's early bankers, such as Samuel Zimmerman, who was involved in the Great Southern Railway hoax, were not exactly saints, and banks in the country were notoriously unstable until the 1920s. Canadian banks failed at a rate of 36 percent between 1867 and 1914, compared to 22.5 percent in the US, losing Canadian stockholders 31.2 times what American stockholders lost. During this time, Nineteen of such twenty-six failures ended in federal charges being brought against bank officials or staff. Improvements in bank surveillance have resulted in only two bank failures in Canada since 1923, compared to approximately 17,000 in the US.

The Canadian banks were built on the English model, which allowed for an indefinite number of branches — a concept that was inadequate for supporting the colony's industrial development. The growth of the region was also impacted. By 1912, only five cents of every dollar invested in a bank in one section of the Maritimes had been loaned locally, while 95 cents had been moved to central Canada.

Furthermore, the number of businesses in Quebec was limited due to stringent financial regulations and moneyed interests allied with politicians. Westerners' ambitions to form their own bank were foiled by the Canadian Bankers' Association, which was founded in 1901. As a consequence, the Canadian banking system was recognised for building a few dominant banks with various divisions, as opposed to the US approach of supporting the formation of several smaller banks while limiting or prohibiting branch establishment.

Until 1867, bank charters were granted first by Upper and Lower Canada, then by the federal government. By 1886, thirtyeight banks had been chartered, a number that stayed constant until the First World War, when it dropped to just eight, five of which were nationally prominent.

This trend was reversed by legislative improvements and the West's economic prosperity.

In 2014, the Office of the Superintendent of Financial Institutions reported 32 domestic banks, 23 foreign bank subsidiaries, 28 full-service foreign bank branches, and four foreign bank lending offices operating in Canada.

Throughout the nineteenth century, banking practises and financial institutions altered and evolved as the economy progressed. Banks used to print their own bills, which were accepted as legal cash at the time, but governments eventually took away this power, until only the Bank

of Canada had the authority to do so. Grain loans backed by invoices raised, oil loans covered by proven reserves in the ground, and real estate mortgages have moved beyond the traditional banking role of making commercial loans that were self-liquidating after a year.

### CHAPTER THREE: COMPARATIVE ANALYSIS OF BOTH SYSTEM

Over the last two decades, the Bank's departmental organisation and, within several of the departments, the activities of the numerous offices, have undergone significant modifications. These adjustments did not reflect any fundamental shift in the Bank's functions, though they were linked to a broader understanding of those functions. New processes to help the Bank run better, the shift of activity from one division to another to maximize productivity, and the influence of developments in other organizations on the Bank all prompted organisational changes. The country's banking structure was largely unaffected by two world wars. The post-World War II mergers were the culmination of a protracted period of structural change. The past's piecemeal development resulted in a massive branch banking organisation. Today's bankers, like their forefathers a century before, want to expand their business in whatever way they can, gaining expertise in areas such as foreign exchange, foreign trade finance, trustee and executor work, and so on.

The scale of the UK banking system has expanded considerably over the last 40 years, and it is expected to continue to increase fast under plausible assumptions. Banks in the United Kingdom have upgraded their offerings in recent years, with the majority offering nearly identical services that differ only in terms of interest rates. Moreover, a latest development has been to avoid publicising borrowing costs because this relieves banks of the obligation to offer comparable terms to a minimum 60% of their customers. The Bank of England published its three-year Strategic Plan to improve how we operate in March 2014. The plan gave the Bank a new mission: "to promote the good of the people of the United Kingdom by ensuring monetary and financial stability."

Credit institutions have been focusing on off-balance-sheet business and charge revenue in recent years, in accordance with shifts in other significant banks throughout the world. "Other income" increased from around 18% of total revenues in 1984 to 38% in 1996 for the sixth largest Canadian banks. While this category includes earnings from a variety of sources, the provision of services to businesses accounts for a sizable portion. Banks have grown

increasingly involved in corporate customers' flotations of equities and bonds, as well as the provision of backing financing on the sale of corporate debt (Via their securities companies). Following their transformation into full-fledged financial conglomerates, Canada's big banks are now establishing strategies for the next decade or two. Rapid technological advancements presently affecting the banking industry, continuing changes in demographics, greater competition from the unregulated sector in certain activities, feasibly increased competition from foreign banking firms, and substantial lack of certainty about what the financial services sector will appear like in ten or twenty years are just a few of the challenges that must be overcome. 39 They will have to make decisions regarding the amount and speed with which they participate in electronic banking, the level of their global engagement, the industries in which they will focus their efforts, and possible future mergers and acquisitions. In the coming years, there will likely be more significant changes in banking and the financial sector as a whole.

## CONCLUSION / RECOMMENDATIONS

The banking system has been there for the longest of time in the world, but if we take particular countries, the journey from origination to the current banking system varies from one to another. Here we are studied Canada and UK in specific. From Years to situations differs from country to country as every country has evolved from some different kind of problems; therefore, the timeline varies, but that's not all that makes their current banking system what it is. It's the also the ways of development that they have adopted through the years. This research aimed to study and analyse the history of banking in Canada and the UK. And also, to explain how it evolved to what it is today, what all situations led to the formation of the system in both countries.

Hence it could be said that this research has the provided in depth study about the system of banking in the above stated countries. The hypothesis stands corrected that both the countries that are Canada and UK, have substantially created a very sound banking system through the years. Both systems are considered as one of the best banking systems in the world. They have developed an efficient, technological driven, profit-making system that has contributed a lot to the development of individual economies.

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