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Should the Munster Bank have been saved?

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SHOULD THE MUNSTER BANK HAVE BEEN SAVED?[1]

Cormac Ó Gráda

> No event in Dublin in recent years, except the Phoenix Park murders, has caused such a sensation.
>
> *Cork Examiner*, 16 July 1885

In the century and a half since Sir Robert Peel s Bank Act of 1845 only two major Irish banks have failed. The Tipperary Bank, which folded in February 1856, was one of the swindles perpetrated by John Sadleir M.P.[2] Less drastic in terms of losses to shareholders but more interesting as banking history is the collapse of the much bigger Munster Bank in July 1885. Though the problems which led to its demise were largely self-inflicted, several observers felt at the time that it could, or should, have been rescued. Some even accused Ireland s then quasi-central bank, the Bank of Ireland, of allowing it to sink. Was this an example of the Bank of Ireland failing to discharge its unofficial responsibility as the Irish banking system s lender of last resort (LLR)? Or was it a case of the Old Lady of College Green acting so as to minimise the moral hazard inherent in that function?

The Bank of Ireland had been chartered in 1783. Though most of its remaining privileges had been removed by the Bankers (Ireland) Act of 1845, in the 1880s it was still by far the country s biggest bank as measured by note issue, though no longer so as measured by branch network. It was also still the government s banker in Ireland, and guarantor of the Irish banking system. Unionist in ethos and in hiring practices, it had always attracted a degree of suspicion from nationalists. It had exercised its unofficial LLR function for the first time in the late 1790s, and on several occasions subsequently had bailed out individual banks or groups of banks.[3] In July 1885, however, it decided not to rescue the Munster Bank.

The Bank of Ireland s actions would seem to offer a good case study in the dilemma highlighted by economist Charles Goodhart: given the potential conflict of interest facing a commercial banking institution such as the Bank of Ireland, can it also efficiently discharge

its duties as LLR? Its obligations to its shareholders may dictate weakening or destroying a rival institution, rather than assisting it. In the case at hand, the Munster s ex-chairman complained that the Bank of Ireland s action was only in keeping with the attitude which [it] had assumed towards them, not yesterday, but for a considerable time .[4] Goodhart models such conflict as grounds for central banks being state-owned institutions, as the Bank of England ultimately became and all central banks since have been.[5]

The lack of records and the nature of its demise mean that almost certainly the full story of the Munster Bank s failure can never be told. The more modest aim of this paper is to describe, with the aid mainly of press accounts and a few archival sources, the main features of the failure, and the efforts made to prevent it and to repair the damage done. We begin with a potted history of the bank (Part 1). An account of the suspension of payments to depositors in July 1885 and of the Bank of Ireland s role follows (Parts 2 and 3). Part 4 is about Robert Farquharson, the Munster s chief representative in Dublin, who absconded a fortnight after the suspension. Part 5 describes the voluntary liquidation of the old bank and its replacement by the new Munster and Leinster Bank. Part 6 returns to the issues raised above and concludes.

1. *THE MUNSTER BANK 1864-1885:*

The Munster Bank was founded in 1864 and grew very rapidly. In 1867 it purchased some of the branches of the unsuccessful Union Bank of Ireland, and three years later acquired the long-established private bank of David La Touche & Son.[6] Its original nominal capital of £1 million (in one hundred thousand £10 shares) was increased to £1.5 million in 1880; £525,000 (or £3 10s per share) had been paid up at the time of suspension. The bank s promoters were a cross-section of leading Cork businessmen, acting on a general feeling [in the south of Ireland] that many towns that could support a bank that had not the advantage of one . The bank s southern ethos and focus were always important: shareholders and customers were predominantly from the southern province.[7] The Munster formed branches in several places previously without a banking presence. By 1875 these included Bantry, Dunmanway, Newmarket, and Kinsale (in County Cork), Kilmallock and Kilfinane (Limerick), Cahirciveen, Kenmare, and Tarbert (Kerry), Ennistymon and Kildysart

(Clare), Baltinglass and Dunlavin (Wicklow), Tallow (Waterford), Mountrath (Queen s), and Naas (Kildare), as well as Fethard (Tipperary) which it inherited from the Union Bank. In Bruff, also previously belonging to the Union Bank, it faced competition from the National Bank. Some of these were very small places indeed; in the 1870s only five of them contained more than two thousand people (see Appendix 1). Later the bank s management would be criticised for the netting of the rural districts with small branches .[8] In the mid-1880s the National Bank still had the most extensive branch network in the country as a whole. In the province of Munster it was closely followed by the Munster Bank, with the Provincial and the Bank of Ireland a long way behind.

Appendix 1 provides some sense of branch size, based on lists of Munster Bank depositors with dividend payments still unclaimed in October 1888.[9] For example, forty-eight account holders in the head office in Cork were still owed money, with account numbers ranging between 63 and 1,812. The relatively small average interval between the numbers suggests that the total did not greatly exceed 1,812. There is more room for uncertainty where the number of remaining account holders was very small. For example, only two account holders of Clonmel branch (Nos. 63 and 142) had sums unclaimed. Finding the best guess at the associated total is a variant of the well-known tank number problem . During World War II both Allied and German intelligence sought to infer enemy weapons production from serial numbers on captured materiel.[10] Suppose the tank population is 1, 2, 3, ..., N, where N is unknown. The problem then is to estimate N from a random sample of $X_1, X_2, X_3,..., X_n$, of size n. There are several plausible estimates of N but the best (in the sense of being unbiased and minimum variance) turns out to be $[(n+1)/n]\ X_n$. It follows that our best guesses at the total number of accounts in head office and in Clonmel are 1,853 and 212, respectively. Estimates for all branches are given in Appendix 1. The estimated total 14,031 is quite close to the fifteen thousand creditors mentioned in the report of the bank s liquidators.[11]

The Munster Bank aggressively entered the market for savings by allowing the London rate of interest on both large and small deposits. Other Irish banks had no choice but to follow, and in late 1864 after much agonizing the Bank of Ireland was forced to pay interest on deposits for the first time.[12] At the time of its failure the Munster had forty-one branches as well as two big offices on Cork s South Mall and Dublin s Dame Street. Some

sense of its size may be obtained from the liquidators disclosure that when it failed it had twenty-seven thousand debtors, fifteen thousand creditors, and 3,800 shareholders.[13]

Unlike its main competitors the Munster Bank had no note-issuing rights. In 1875 its managing director James H. Belton complained that in many cases competitors with note-issuing privileges had opened branches beside us in towns where there never was a bank until we went there, and they have followed us , adding that in 1864 the Bank of Ireland had only twenty-nine branches throughout Ireland, but had forty-nine by 1875 (and five more about to open). For decades the Bank of Ireland s branch policy had been to let sleeping dogs lie. Before the Famine other joint stock banks were excluded from branch banking within fifty Irish miles (about sixty-four statute miles) of Dublin, and the result was that this exclusion zone remained the most under-banked region in the country. Th Bank of Ireland, however, had always reacted to new competitors by expanding its number of branches. Thus in 1825 (in the wake of the creation of the Provincial Bank) it opened seven new branches, while in 1834-6 (after the foundation of the National Bank) it opened ten more. It did not confront the Munster in quite the same direct manner, but its branch network expanded far more rapidly in the first decade of the Munster s existence than in any other during the nineteenth century. The Munster Bank resented the Bank of Ireland opening branches in smallish towns... where there were banks before pretty well established .[14] Admittedly, many of the Bank of Ireland s new agencies were not within the Munster s chosen turf, but enough were to instill a degree of bitterness. These included branches in Thurles (1867), Clonakilty and Listowel (1870), Mitchelstown (1874), Charleville (1876), and Mallow and Skibbereen (1877). The Bank of Ireland also opened several associated sub-branches in these years; Clonakilty had one in Rosscarbery, Mitchelstown in Ballylanders, Charleville in Kilmallock, and Skibbereen in Drimoleague.[15] Post-famine prosperity surely accounts for only part of the expansion of the Bank of Ireland s branch network. The sense that it was not just a banker s bank like the Bank of England was not lost on the Munster Bank. Managing director Belton made it plain to a parliamentary select committee in 1875 that the Bank of Ireland was a competitor of ours in almost all the business .[16] The other main bank to respond to the Munster was the National Bank: in the early 1880s in many towns both banks had a presence. The Provincial did not expand its network in this period, and the northern banks kept their business north of Dublin, by and large.

TABLE 1: BANK OF IRELAND NEW BRANCHES OPENED 1825-1904

Period	*Branches*	*Sub-offices*	*Total*
1825-34	16	4	20
1835-44	7	5	12
1845-54	1	1	2
1855-64	6	3	9
1865-74	19	18	37
1875-84	10	6	16
1885-94	0	0	0
1895-1904	8	2	10

Source: derived from Hall, *Bank of Ireland*, 405-8.

There had been complaints about the management of the Munster Bank in editorials in *The Irish Banker* from 1876 onward. That relatively short-lived journal repeatedly criticised it for over-extending its credit and for inadequate reserves. The complaints were about carelessness and imprudence rather than fraud, however.[17] Louis Cullen has highlighted the aggressive and rather foolhardy lending policy of the Munster Bank in the late 1870s and early 1880s. For bank loans (in this case advances and bills discounted) to exceed deposits was not unheard of, but striking for a bank concentrated on a largely agricultural region. Moreover, the Munster failed to respond to the downturn in agriculture after 1878: a fall in deposits, as in mid-1880 or at the end of 1884, left the Munster dangerously exposed, and with too little margin of safety to cope with a real crisis [18]. At the end of 1881 its balance sheet (see Table 2) revealed a bank that was sailing rather close to the wind, with the value of loans and bills discounted exceeding the value of deposits and current accounts by £0.5 million. This situation changed little in the following years.[19] The bank's over-extended branch network also increased its vulnerability.

TABLE 2: THE MUNSTER BANK S BALANCE SHEET, END 1881

LIABILITIES	*£1,000s*	*ASSETS*	*£1,000s*
Capital	525.0	Cash	265.5
Deposits, current accounts	2562.4	Advances	542.4
Seven day bills	26.7	Bills	2525.0
Reserve fund	275.0	Premises	100.0
Other	16.7		
Net profits	27.1		
Total	3432.9		3432.9

TABLE 3: AVERAGE VALUE OF BANK STOCKS 1872-1885

Year	*Bank of Ireland*	*National*	*Provincial*	*Munster*
1872	263.75	52.62	94.08	9.05
1873	292.18	57.18	93.74	9.69
1874	303.04	57.33	94.83	8.81
1875	299.15	67.22	87.76	9.00
1876	303.95	73.52	89.86	8.75
1877	311.69	74.13	83.11	9.45
1878	308.93	73.94	80.92	9.79
1879	309.69	66.95	67.56	7.98
1880	301.20	60.06	67.30	7.38
1881	308.88	67.00	58.19	6.94
1882	313.86	69.80	55.23	7.09
1883	317.73	72.23	57.94	6.97
1884	326.43	74.29	64.03	6.48
1885	332.94	73.77	60.53	5.72

Source: National Archives, DUB77/2/2, DUB77/2/3.

Note: average value in January-February in each year.

Table 3 describes trends in the value of the stock of the Munster Bank and three of its main competitors between the early 1870s and the year of the Munster s demise. The rise in

the National Bank s stock to 1878 reflects the recovery in its fortunes after the scandal surrounding its managing director and several co-directors in the 1860s, while the poor performance of Provincial shares reflects that bank s declining market share in this period and its close identification with an ailing agricultural sector.[20] In early 1878 Munster shares were worth nearly three times their par value of £3.5. Thereafter they were affected by the agricultural downturn, but they continued to slide after 1880. While Bank of Ireland stock rose by 10.5 per cent between early 1880 and early 1885 and National Bank by 22.8 per cent, Provincial shares fell back by ten per cent, and the Munster s by a whopping 22.5 per cent. Still, even then they were trading at a hefty premium over par value.

The bad debts of farmers would indeed prove part of the Munster s undoing, but there was much more to it. In 1882 rumours began to spread in Dublin that some directors had breached one of the bank s rules that no loans be made to directors except on adequate security. That rule (Resolution E) had stood since 1866. The rumours prompted a group of Dublin investors, led by Sir Robert Jackson, Thomas Fitzgerald, John McSheehy (law agent to Dublin corporation), and Hugh Tarpey, to form a shareholders committee. Notice of the 25 January 1883 half-yearly meeting of the Munster arrived too late for them to submit resolutions, but shortly before the meeting they were assured that all was in order, and that there would be no objection to an audit of the records. At the meeting Chairman William Shaw M.P. referred to the very stringent rule in our articles of association to the effect that no director is to get an advance from the bank on his mere personal security; there must be adequate other security as well . Shaw, briefly leader of the Irish nationalist party in Westminster and a well-known Cork businessman[21], expressed his belief that this is in all cases carried out, and I must say that none of us are very speculative. You know all about us . In a brazen declaration for which he would be heavily criticised later, Shaw declared, I never in my life bought £500 worth of speculative security; anything I have ever bought I bought to keep . In time it would emerge that Shaw s borrowings from the bank were more than double those of all the other directors combined.[22]

The shareholders group prevailed on the Munster s two non-Cork directors, Edward Dease and Robert La Touche, to assess the situation, and in July 1883 they reported their unhappiness with the securities for several directors overdrafts to McSheehy and Fitzgerald. Subsequent investigation by shareholders representatives suggested that sums to a very large

amount had been lent to directors on inadequate security. On 7 November 1883 Tarpey received a letter from Belton stating that the directors intended to seek an amendment to the clause prohibiting insider lending on personal security only. The draft amendment proposed that such loans not be granted unless the Board, without a division, by an entry in their minutes sanction such advance or credit. Belton's move prompted the shareholders to seek an injunction against the bank in the court of vice-chancellor Hedges Eyre Chatterton.[23]

The proceedings in the vice-chancellor's court would culminate in a sensational judgement, highly critical of several bank directors, on Friday 26 June 1885. The directors were found guilty of insider lending on a grand scale. The vice-chancellor held the defendant directors, with the exception of Robert La Touche, all liable for advances made in direct contravention of the articles of association, and found that there had been systematic and fraudulent appropriation of the property of the bank, extending over a period of years. The vice-chancellor decreed that Shaw should pay the sums of £119,848 4s 10d and £1,666 14s 10d, with interest of 5 per cent from 10 July 1884; Belton, ex-managing director of the bank, a £20,675 16s 11d; and Nicholas D. Murphy, another director, a further sum of £23,013 16s 1d. In the case Shaw, Belton, or Murphy defaulting, directors Joseph McMullen, William Perrier, and Edward G. Dease were deemed liable for the debt. No personal advances had been made to McMullen, Perrier, Dease, or La Touche but loans had been made to firms in which the first two were partners, and Dease was deemed liable for his failure to remonstrate with fellow directors when appraised of the facts. Dease, of Rath House in Queen's County (and M.P. for that county until 1880)[24], pleaded that his responsibility was overseeing the bank's Dublin business and that he therefore was not to blame for the unfolding scandal in Cork. The court, however, judged against him for ignoring a complaint from Thomas Fitzgerald, one of the plaintiffs, in 1883 and argued that his attendance in Cork might have prevented the disaster from taking place.[25]

The Tory *Dublin Evening Mail* held that if the Munster's head office had been located in Dublin, the nefarious system, as the Vice Chancellor justly termed the misappropriation of the property of the bank, would never have occurred. The *Mail* could not contain its contempt for William Shaw, once a minister of the Gospel, and at one time leader of the so-called National party in this country and his band of brothers on the Cork board. Shaw, who was in the habit of ranting against such evildoers as bailiffs or process servers, had no

scruples about denying the rumours about directors overdrafts, while at that very moment his own account was actually overdrawn nearly £100,000'. Shaw had been absent from the vice-chancellor s court owing to an engagement elsewhere , but he defended himself in the *Cork Examiner*, declaring that both his own assets and those of the companies in which he had an interest were fully secured. The questions involved in this suit , he declared, cannot be decided by narrow legal rules, but on broad business principles . The *Mail* was more sympathetic to Dease, who simply lacked the courage to expose the doings of the Southern ring , while it absolved La Touche of all blame.

Despite these revelations the *Mail* held that the Munster was in an excellent position and deserving of the entire confidence of investors , while conceding that it would have been better to resolve the dispute behind closed doors.[26] The *Freeman s Journal* also sought to talk up the Munster s fortunes, deeming it untouched and its future unaffected by the outcome of the suit . On 29 June the joint managers of the Munster s Dame Street branch issued a circular declaring that the court s assessments of Shaw s and Murphy s net liabilities were inflated, but adding that while the verdict must lead to a careful avoidance of the grave mistakes made in the past it placed the bank in a strong position to face the future.[27] Yet in reality this was the beginning of the end. In the wake of the subsequent collapse the *Limerick Reporter* (17 July) dubbed the vice-chancellor s judgement the death-warrant of the institution . The *Freeman* (15 July) also referred to the judgement, pronouncing it somewhat too vehement in its language , and exaggerated in its criticism of the bank s misdeeds and their consequences. The judgement certainly fuelled a decline in deposits which helped bring down the bank.

The directors flouting of Resolution E was facilitated by their solution to clients desire for confidentiality. Being vetted by a board consisting of mainly of local, and quite possibly rival, businessmen was unlikely to attract potential borrowers. The board accordingly left the vetting of applications from Cork traders to William Shaw himself and Robert Lambkin, a well-known tobacco manufacturer, as the two directors least connected with the local traders .[28] The trouble so the *Freeman* claimed seems to have begun some time after Lambkin s death in 1873 and his replacement on the eight-man board by the bank s then managing director, James Belton.

2. *THE MUNSTER STOPS PAYMENTS*:

In the wake of the Munster s suspension on 14 July 1885, sources inside the bank conceded that it had been under intermittent pressure for the previous six months, and that some heavy accounts had been quietly transferred to other banks. The week following the vice-chancellor s verdict had been a particularly difficult one, with great pressure from branches in rural districts, especially in west Cork, and withdrawals in some branches reaching £8,000 in a single day.[29] Confidence in the bank then seemed to recover, however, with the growing belief that the legal proceedings had placed it on a firmer basis than before.

Moreover, a noteworthy feature, remarked on at the time, is that the vice-chancellor s confirmation of insider lending had little immediate adverse effect on the price of Munster Bank shares: indeed they rose from £4.75 to £5.5 in the week or so after the judgement. The last half-yearly meeting chaired by Shaw (on 31 July 1884) had set aside £75,000 of the £275,000 in the bank s reserve fund to meet bad or doubtful debts, while shareholders at next meeting in 29 January 1885 had been informed that the ongoing legal proceedings had to some extent produced the depression from which they had suffered during the preceding half year. The half-yearly dividend was cut from ten to eight per cent. Thus though the proceedings of Chatterton s court were conducted in private, the verdict seems to have been anticipated and already discounted.[30] The value of Munster shares fell from £5.8 in January to £4.75 in late June 1885. During those months the market in the bank s shares were more active than that in any other Irish bank share, the National Bank excepted. Munster shares were traded on most days and on several days more than one price was recorded. At times in 1885, as in mid-January and in March, they seemed to reflect the course of negotations with the Bank of Ireland.

The closing price on the last day in Dublin also suggests that the end came as a surprise to many shareholders. During June 1885 Munster Bank shares typically had fetched £4 or £4 . On 30 June, three days after the news of the vice-chancellor s verdict broke, they rose to £5 in Dublin and again to £5 on 2 and 3 July. On 7 July the rises of previous days attracted profit-takers, and two days later Munster Bank shares were being traded in volume at £5. On 13 July they dropped by £ . On 14 July, the day it suspended payments, the feature was the anxiety shown to sell Munster, which at one time fell to £3 ,

a fall of £1 on the day, and of £1 within the past fortnight. Before the close of business the price rallied feebly to £3 . Despite the decline of £1.5 in the last week the *Cork Constitution* pointed to the price paid for the bank s shares even on the morning of the suspension as evidence of how unexpected the failure was. In Dublin, indeed, shares were exchanged shortly before the close at £4 and after hours at £3.5, or par value, showing how unlooked for was the catastrophe.[31]

Press reports in the wake of the suspension blamed adverse rumours about the Munster Bank s impending dividend announcement and news of the bankruptcy of a major building contractor in Cork (on which more below) for the sharp fall in the value of Munster shares in Dublin in the final hours. Rumours of the impending closure almost certainly also played a part. The *Bankers Magazine* claimed that earlier on Monday large cheques had been dishonoured, and that in the Chamber of Commerce and elsewhere rumours of an impending suspension were rife. The *Cork Constitution* stated that the difficulties of the Munster Bank were known by almost every man in the Bank of Ireland since Monday last, and moreover... this knowledge was not confined even to them, for many persons who evidently had obtained a timely warning of the impending crash within the last week, quietly withdrew their money and sold out their shares.[32] Thus although the full story of what had transpired between Dame Street and College Green over the weekend was kept a secret until the announcement at 2.30 p.m. that the bank was suspending payments, rumours of serious trouble were probably responsible for the big drop fall in Munster shares on 13th.

In Cork, where there was a general impression that the directors had got on top of the bank s bad debt problem, the suspension also came like a bolt from the blue. Most account-holders and shareholders found out about it in the following day s newspapers. Though the bank s branches in Dublin had closed half an hour early Cork head office continued to pay out until closing time at 3 p.m. and the officers of the bank left for home unconscious of the fact. It was not until some time after 3 p.m. that the rumour that it had suspended payment broke in Cork. The bank s staff were summoned back when the news broke and worked till a late hour.

According to the *Cork Constitution*, many who had been holidaying by the seaside when the news broke hastened to Cork by early train, easily identifiable among the

passengers by the grief and alarm depicted in their countenances. Groups congregated outside the bank's head office on the South Mall, which was open as usual, with staff seeking to reassure depositors that their money was completely safe. Some female shareholders left the premises in tears. There was a police presence, but it was needed only to maintain a free passage on the street. For the *Constitution* all that remained for the board was to ensure that the shareholders' assets realised the best terms possible. Elsewhere the suspension also seems to have taken everybody by surprise. Depositors milled around the doors of branches, but only in Kildysart, where they seemed determined on forcing their way in, was there any threat of violence.[33]

On the following morning officials of the Munster Bank informed the press that depositors were unlikely to suffer, and that shareholders and the bank's customers would be the only losers. Moreover, they believed that if all the bank's assets were realised the call on shareholders would be a small one. At half past twelve the bank's head office closed its doors, and no one but officials were admitted on any pretext.[34] Many ignorant persons came to Cork out of fear that all their savings had been lost and there was a run lasting a few hours on other banks by small, timid depositors. The share values of the other banks were virtually unaffected. The Ulster Bank feared contagion and transferred funds to some of its southern and western branches. The precaution was unnecessary, the only unusual incident being the withdrawal of £950 in one sum to a depositor in Carrickmacross.[35] A week after the suspension there was talk in the stock exchange about Munster shares, but no actual trades. There were offers to take on the risk of £6 10s. a share, but sellers sought in vain for some consideration for the £3 10s. already paid.[36]

On Tuesday 14 July, the day the bank suspended payments, Commendatore John Delany, a major building contractor in Cork and a member of the ruling coalition on that city's corporation, appeared before the Court of Bankruptcy in Dublin. As Delany's fate became known that afternoon, the run on the Munster Bank's two Dublin branches intensified. The bank would have failed regardless, but Delany's appearance in the bankruptcy court may explain why it suspended operations in Dublin half an hour earlier than normal, though the Cork head office stayed open till the usual closing time. The case is also interesting for the light it throws on the Munster's lending practices. Delany's

bankruptcy, it seems, had been prompted by big losses on a contract in Queenstown. He had been one of Cork s biggest employers, paying out as much as £300 in wages weekly, and successful enough to win the contract to build the structure that housed the Cork Exhibition in 1883. He had lived in some style, owning a house in suburban Monkstown and a yacht which had cost him £4,000, but which he later sold for half that. Nevertheless he claimed in court that he never kept even a pass-book and did not know what a mortgage was. In evidence he stated that when he first obtained the protection of the court he had sworn an affadavit putting his liabilities to unsecured creditors at £6,000 and his debts to the Munster Bank at £12,000. He did not know then that his indebtedness to the Munster when he stopped payment on 9 June was he should say, £20,000, he would not swear it was not £30,000 , against securities he was positive... were worth... about £5,000 . Those securities were presumably the premises and houses he owned in the city and in Monkstown. At first, he claimed, the bank could not tell him how much he owed it, but when the books were made up it was revealed to be over £20,000, and it has since been increasing . In court it emerged that the balance against him at the Munster was £32,900. The bank had no security from third parties or otherwise. The bankrupt s claims were disputed by the Munster s ex-managing director, James Belton, who testified that Delany had pass books which he was in the habit of checking. Nevertheless, the case highlighted the sloppiness of the bank s conduct. Delany s account had been managed by Shaw and Belton, who seem to have let him draw as he liked. In the course of heated exchanges at a post-suspension shareholders meeting one shareholder berated a foreign nobleman [who] had only to walk into the bank in Cork and get what he wanted . This was greeted with cries of Delany! and Hear! Hear! . A measure of Delany s fall was his confession in court that shortly before stopping payment he had removed some property from his premises to the rear of a house where he had been working on a contract. A day or two later this property was his security against an advance of £40 from Abraham Wolfe, a pawnbroker on Lavitt s Quay. According to the *Constitution* s reporter news about Delany led to a considerable fall in the Munster s shares on the Dublin stock exchange, before any news of the impending suspension.[37]

3. *THE BANK OF IRELAND S ROLE*:

In the wake of suspension Munster Bank officials claimed that another £25,000 on Tuesday would have enabled the bank to tide over its difficulties and avoid suspension. Aggrieved creditors of the Munster Bank and their supporters were quick to accuse the Bank of Ireland of 'a treacherous desire to grasp at the business of a rival concern'.[38] The nationalist press began to raise questions about the Bank of Ireland's privileges and duties and about whether it had done its utmost to save the Munster. An example is the *Limerick Reporter*, which instanced 'the refusal of the usual supplies by the Bank of Ireland just when they were wanted to prevent the catastrophe.'[39]

The first intimation in the board minute books that the Bank of Ireland was becoming suspicious of the Munster Bank is in a letter conveyed to Michael Dillon and Robert Farquharson, joint managers in Dublin, on Christmas Eve 1884, stating that it had 'somewhat exceeded its agreed overdraft for some days past', and asking it to restore the correct balance.[40] At this juncture the Bank of Ireland held as security from the Munster government stock worth £200,000 as well as £80,000 in bills, which it valued at £40,000. The Munster's line of credit therefore was £240,000. Deducting from this sum the aggregate drawings allowed on the Bank of Ireland at Munster branches over two days (£57,000) and the present overdraft of about £197,000, meant that the Munster was £14,000 over its overdraft limit.

On 15th January 1885 the Court considered a reply from Farquharson to another query about his bank's overdraft. Farquharson, who would represent the Munster in subsequent negotiations, stated that 'the account was expected to run down from this date forward, and to be brought within the authorised limit within a very short time'. The Bank of Ireland warned that further advances on the security of bills were out of the question, and insisted that the combined daily drawing power of six Munster Bank branches be reduced by £9,000. The branches in question were those in Cork, Bandon, Limerick, Skibbereen, Midleton, and Drogheda. It was surely more than a coincidence that the Bank of Ireland had branches in all these towns; indeed two Midleton (1876) and Skibbereen (1877) had been opened to challenge the Munster Bank.

Five days later (20 January) a special Court meeting considered a letter from Farquharson declaring that an authorised credit of £0.3 million would be enough to tide the Munster over and 'allow time to quietly collect its available resources without inconvenience

to its customers. The Bank of Ireland reluctantly acceded under the peculiar circumstances of your Bank, with the addendum that should the overdraft exceed the stipulated limit, the power to draw at the Branches and at Dublin will be immediately withdrawn. Two months later (19 March 1885) the state of the Munster's account was again giving cause for concern, and a five-man delegation was appointed to meet Farquharson. This delegation noted that the limit agreed in January had been exceeded by about £40,000, and that with every desire to give the Munster Bank all reasonable accommodation the Directors of the Bank of Ireland felt the limit of the accommodation had now been reached.

But it did not end there. On 27 March another special Court meeting considered the letter from Farquharson and the representations made by the Munster to the governor and a group of Bank of Ireland directors, and agreed to allow the Munster an added credit of £30,000, making a total overdraft of £330,000 together with the contingent two days drawings in the country of £40,000. This credit was to be secured by £0.2 million of government stock and approved Irish bills, such bills to be submitted for approval one week previous to being taken into account.[41]

Less than two months later the Munster was in deep trouble again with the Bank of Ireland. On 19 May another special Court was convened to consider the large overdraft on its account. This resulted in a warning that the account would be closed unless it was brought within the permitted limit by the following Saturday. Four days later a special meeting of the Court considered the latest figures from the Munster and a letter from Belton asking the Bank to reconsider its decision in so far as allowing an extension of the time for complying with their requirements, should we not be able to do so by Saturday next. Belton assured the Court that the Munster was doing its utmost to reduce their account with the Bank of Ireland, consistently with the preservation of their business. He added that the uneasiness among depositors following the vice-chancellor's decision to investigate the bank, which had led to the creation of the bulk of our debt, has entirely ceased for a considerable time past, and that none of the recent withdrawals were due to anxiety on the part of customers, but were the product of seasonal demands, intensified by low stock prices and the consequent reluctance of farmers to sell. All banks in rural areas were subject to the same pressures. Such demands were tapering off, however, and the Munster's deposit and current accounts had risen in the previous two weeks. Belton expected the rise to continue and begged

indulgence until 30 June. The Bank of Ireland s reply noted the reduction in the balance due and agreed to the extension proposed by Belton, but added that under no circumstances will the limit named (say £330,000) be permitted to be exceeded .

On 2 July 1885, however, the Court was faced with a letter from three directors of the Munster bearing the bad news that the vice-chancellor s verdict had led to some disturbance of confidence in the Bank in the South of Ireland, and consequent withdrawals of deposits . This meant that further assistance would be required. The letter mentioned the price of Munster Bank shares as evidence that confidence was returning, but asked for a further £70,000 in authorised accommodation, to bring the total to £0.4 million. As security for the extra sum they offered (a) securities held from Shaw, valued by the vice-chancellor s chief clerk at £41,000; (b) £20,000 worth of debenture stock in Lane s brewery in Cork, plus another four thousand ordinary shares in the same company, worth about £10 each; (c) title deeds of former La Touche property in Dublin, bought by the Munster Bank and consisting entirely of ground rents amounting to about £1,100 a year, valued at £10,000; and (d) a promissory note from Lord and Lady Castletown for £10,000. In addition the Munster offered to deposit with the Bank of Ireland a much larger amount of our own Irish bills as general cover , as well as insurance policies for about £20,000 . Finally, the Munster undertook to issue fresh shares in November if the balance outstanding was not to the satisfaction of the Bank of Ireland, adding that only the assent of a shareholders meeting would be needed for such an issue.

The Court informed the Munster s directors that if they presented the Lane debentures, the La Touche deeds, and sufficient additional bills to cover £10,000 , outstanding cheques of the Munster Bank would not be returned that evening, but that a special Court of Directors would be convened for following morning to determine what course to take. That meeting resolved to extend the Munster s credit to £0.4 million, but understanding most distinctly that under no circumstances whatever will the amount be permitted to exceed that sum.

In the following days the Court met almost daily to discuss the Munster s plight. On 4 July there was a letter from Farquharson stating that a heavy and busy day in Cork meant that drafts on the Dublin branch by Cork were £10,000 instead of £5,000 as usual , and asking for forbearance in Skibbereen to the extent of an extra £1,000, a sum required to pay

for fish . The Bank of Ireland agreed only if Farquharson paid in a sum of at least £3,000. On 9 July, after scrutiny of its latest accounts, the Munster Bank was sent a letter pointing to that morning s overdraft of £402,802, in excess of the outside limit... which the Governors and Directors distinctly stated they would not, *under any circumstances,* permit to be exceeded . There followed an ultimatum that unless the overdraft was brought within previously agreed limits forthwith the Bank of Ireland would withdraw its credits.

Another special meeting was held on the 10th, when a letter was sent to Belton demanding whether you have any proposition to lay before my Board which has adjourned till 12.30 o clock this day . The reconvened meeting had before it a letter from Farquharson stating that three Munster directors would be in Dublin on the following day. Farquharson had wired those travelling from Cork to bring up the title deeds of the bank s premises on the South Mall in Cork, which cost £120,000', with the view of depositing them with the Bank of Ireland as further security. He also promised to forward a promissory note for £7,500 from Mr La Touche of Harristown as immediate cover for any increase in our balance on today s operations , anticipating no large increase in our account at the close of this day s workings .

The Bank of Ireland s Court met three times on the following day, a Saturday. At the second meeting the directors met the three Munster Bank directors and allowed them time to confer with Farquharson. The Court ended its deliberations by deciding that it had gone as far as it ought on the securities held . Its credits in favour of the Munster were accordingly withdrawn. So ended the Bank of Ireland s efforts to save the Munster.

Comparing the balance sheets in Tables 2 and 4 gives a sense of the burdens facing the Munster in its final months. Between the end of 1881 and mid-1885 deposits and current accounts had fallen from £2.56 million to £2.12 million, while advances and bills discounted fell from £3.07 million to £2.74 million. Not only had the ratio of loans to deposits risen, the quality of the debt also deteriorated. Moreover, at suspension the Munster owed the Bank of Ireland £0.4 million and the Union Bank of London £0.1 million.

4. *FARQUHARSON S DEFALCATION*:

On Friday 24 July a Cork accountant hired by the shareholders discovered an

anomaly in the accounts of the Munster s Dame Street branch. On the following Monday an agent of Quilter, Ball, and Co. quickly found several falsified entries in the same accounts.[42] The discoveries prompted Robert Farquharson to abscond from his Dublin home on the following afternoon. A warrant for his arrest was issued on the same day. These developments put a new complexion on the Munster s fate.

Farquharson, a batchelor in his early forties and native of Blairgowrie in Perthshire, had been headhunted by the Munster eighteen years previously from his job as a clerk for the Provincial Bank in Cork. Though nominally co-manager, he virtually ran the Dublin branch and it was he who conducted negotiations with the Bank of Ireland in the final months. The remarkably hospitable Farquharson had recently acquired a most elegantly furnished house at Dromana, 57 Leeson Park, which he shared with an elderly domestic servant and a gardener, and where hosted dinners for twenty to thirty people several times a week, and this of late almost nightly .[43] In the wake of his disappearance *Hue and Cry* described him as about 40 years old, 5 feet 9 inches high, dark hair, dark beard, whiskers and moustache, slightly tinged with gray, dark fresh complexion, good dark sparkling eyes, prominent teeth, average build, walks with a stoop, dressed in a gentlemanly style, generally wears a silk hat . A reflection of his status in the banking community was that Charles Mc Carthy Collins had dedicated his *Law and Practice of Banking in Ireland* (Dublin, 1880) to him. In addition to his £800 salary from the Munster, Farquharson earned £600 per annum as Dublin agent of the Royal Exchange insurance company. He was reputed to have a rich collection of jewellery and to be a major speculator on the stock exchange, where he operated under the name of a well-known Dublin merchant. After his flight the *Freeman s* predicted that his losses would be smartly felt by some brokers.[44]

Farquharson was last spotted in Dublin on the platform of Amiens Street railway station. A friend who saw him there said that he travelled third class, and was wearing a low, shabby, jerry hat . Stories of subsequent sightings conflicted; in one version he took the Belfast train but alighted at Dunleer near Dundalk; in another he made for Tralee to board a sailing ship bound for Baltimore in the United States, in another he had been traced to Ardrossan, in yet another he was arrested in Queenstown. Several travellers on Wednesday s Drogheda-Liverpool steamer spoke of a strange gentleman with only of a brown paper parcel for luggage. Spain was mentioned as one of his likely destinations, but another

rumour had him reaching Amsterdam in early August, and converting most of his money into diamonds there. In either place he would have been safe from extradition proceedings. The offer of a reward of £500 for his arrest proved of no avail; in Ireland he was never seen again.[45]

Farquharson had built up a strong support base in Dublin, and it was claimed after the collapse that he had connived with disaffected Dublin shareholders against the directorate in Cork. In the immediate aftermath of the suspension he sought the bank s liquidation rather than its resuscitation, and canvassed the support of Dublin shareholders in his quest to be appointed a friendly liquidator.[46] It later emerged that he had been swindling the bank since 1878, though most of his plundering was done in the last few months. He may have been responsible for the theft of gold worth nearly £5,000 from the Munster s Dublin branch in 1883: nobody was charged at the time and Farquharson and his co-manager in Dublin escaped liability. When he disappeared the Munster owed the Union Bank of London £100,000 instead of the £30,000 entered in its books.[47] To what extent were the pressures faced by the Munster in the first half of 1885 his doing? The disgraced William Shaw claimed that Farquharson s scheming had prevented the Bank of Ireland from rescuing the Munster.[48] It is true that Farquharson s £70,000 or so represented a significant fraction of the rise in the Munster s overdraft in the final months. Moreover, the movements in the Munster s share price in the weeks and even hours before suspension suggest that the market did not consider that Shaw and his co-directors had not delivered the bank a mortal blow.

That Farquharson was able to get away with his fraud was a further indication of carelessness on the part of the bank s management. One shareholder acidly referred to how one director slept while the other plundered the bank.[49] One of the first actions of the liquidators was to have the fugitive declared a bankrupt. Upon investigation it was found that the loss from Farquharson s frauds had amounted to not less than £84,000, of which the liquidators retrieved only £13,063 4s 11d from his estate, plus a further £2,500 obtained from the bankers Guarantee and Trust Fund.

5. *LIQUIDATION AND RE-INCARNATION*:

The weeks following July 14 were worrying ones for the Munster s shareholders who were liable for the bank s uncalled capital of £975,000. Account holders may have been reassured to find that some businesses accepted their cheques, but their worries were reflected in the offer from The Assets Realisation Company of 28 Westmoreland Street to buy up deposit and current accounts with the Munster at a discount of twenty five per cent.[50] It was evident from the start that the shareholders best hopes lay in the recreation of the bank under another form and title. At first the London accounting firm employed by the directors, Quilter, Ball, and Co., believed that a significant call on the shareholders capital would avoid costly liquidation proceedings. The strategy of a voluntary liquidation combined with a take-over of the Munster s assets and liabilities by a new institution soon emerged as the best strategy, however.

In the wake of suspension, meetings of shareholders were organised in most towns with a Munster Bank presence, expressing great anxiety for the resuscitation of the bank.[51] In Cork shareholders began their campaign for a rescue with the lord mayor, himself a major shareholder, seeking help from local parliamentary representatives. A few days later Charles Stuart Parnell, M.P. for Cork city and leader of the Irish parliamentary party, put questions about the Munster Bank to the Chief Secretary and to Sir Michael Hicks-Beach, Chancellor the Exchequer. These provoked a statement from the Chancellor about the Bank of Ireland s duties and responsibilities.[52] In reply a special meeting of Bank of Ireland s directors on 22 July reasoned that their conduct was consistent with their first duty to their own Proprietors and the public at large. Their reply enclosed a copy of the correspondence between themselves and the Munster Bank. It also noted that the Bank of Ireland was at this moment under a very heavy responsibility undertaken in support of another Irish bank, meaning the Hibernian. The bank s explanation crossed with an implicitly critical letter from Hicks-Beach, but its offer to send a delegation to London to confer with the Chancellor was accepted, and the delegation apparently satisfied Hicks-Beach that the Bank of Ireland had done what it could.

Meanwhile on 21 July a special meeting of the Court agreed to meet a delegation from the Munster s shareholders committee, requesting a meeting. The shareholders delegation consisted of Cork s lord mayor and several prominent Cork businessmen; they

were accompanied by Farquharson. A request from the Bank of Ireland for a written proposal produced a letter asking for an open credit of £0.5 million for a limited period in order to enable the bank to resume business. The committee reported encouraging reports from customers and written undertakings from our depositors to allow their money to remain undisturbed for at least six months. As security the committee offered Irish bills valued at £630,000, William Shaw s securities (£40,000), bank premises (£100,000), a property valued at £20,000, and sundry smaller securities valued at £50,000. The Bank s reply stated that an advance of £0.5 million to the Munster Bank on the security offered would be worthless without a binding agreement from depositors not to withdraw their money for six months. However, if the committee could get the depositors to enter into such an undertaking and the bank s shareholders came forward and paid up the call of thirty shillings to which they were now liable, then the Bank of Ireland was prepared to advance a further £250,000 on such of the security offered as may be deemed adequate and assuming that such an arrangement could be legally carried out. This proposal came to nothing.

Failing a bail-out by the government or the Bank of Ireland, the Munster s accountants advised voluntary liquidation in order to avoid expensive litigation. In early August shareholders and creditors meetings in Dublin and Cork recommended the appointment of three recently elected directors of the Munster James Jeremiah Murphy (of the eponymous brewery), John W. Payne, and James J. Rearden (a prominent tea and wine merchant) as provisional liquidators. In the event only Murphy, co-founder of Murphy s brewery and a major shareholder of the old bank, was appointed. The other liquidators were Robert Constable Hall of Rockcliffe, Blackrock, Cork, and Frederic William Pim of 22-23 William Street, Dublin. Hall was a prominent Cork merchant prince, head of a family dynasty specialising in the grain trade, while Pim came from the same well-known Dublin Quaker family as Bank of Ireland governor Joshua Pim. The appointment of Pim and Hall, who favoured the scheme proposed by Quilter, Ball, and Co. and by Murphy, gave the liquidators an aura of independence. They were to receive £5,000 each (£2,500 per annum) for their labours.

In late August the outlook still seemed rather bleak. The shareholders were presented with a gloomy report from a reconstruction committee which had been

unable to form the kind of directorate of wealthy investors needed to resuscitate the bank. The subcommittee complained of a want of sympathy other than lip sympathy with which their labours met, and tendered its resignation. The rather feeble response from the assembled shareholders was an undertaking to buy up five thousand shares in the new concern, and the promise of a considerable sum to defray the initial expenses of a reconstituted bank.[53] James Jeremiah Murphy and Vincent Scully, both Cork businessmen, were then authorised to select directors. In the first half of September many influential meetings were held in towns throughout Munster in which clergy, businessmen, and farmers canvassed support for the proposed new bank. Promises for sixty thousand shares at £5 were collected.[54] Archbishop Croke of Cashel lent his support as did both the catholic and protestant bishops of Cork. The part played by such clerical dignitaries and other clergymen amused the *Bankers Magazine s* reporter.[55]

Murphy and Scully completed their task by mid-September and the new Munster and Leinster Bank (henceforth M & L) was registered on 19 September 1885. Its immediate purpose was to take over the business of the Munster Bank on terms to be agreed on, and, pending such acquisition of the business, of aiding in the favourable realization of the assets, and in their early distribution to the creditors of the old bank.[56] The new bank prohibited directors from holding accounts of any kind in it. Given the disappointingly small share of the capital raised in Dublin, the board consisted entirely of Munstermen. The M & L opened for business on 19 October 1885, beginning cautiously with its premises in Cork and Dublin and in nine other places. More branches were opened in the following days, on the basis of their having been profitable in their previous existence. By 1894 the new bank had added four branches to its network (Maryborough, Buttevant, Lismore, and Waterford) but had not re-opened Baltimore, Cahir, Cashel, Clonmel, Ennis, Ennistymon, or Queenstown. It had also added eleven sub-branches and closed four. Thereafter the bank would prosper, carving a valuable niche for itself in the banking business of pre-war nationalist Ireland[57].

TABLE 4: THE FINANCIAL POSITION OF THE BANK 5th AUGUST 1885

ASSETS	£	*s*	*d*
Cash on hands and at bankers	205,530	16	0
Government stocks	300,000	0	0
Bills discounted	1,316,228	1	2
Current accounts and loans	1,424,441	15	2
Bank premises	100,000	0	0
Suspense a/c Farquharson s defalcations and Gold Robbery	89,230	9	1
	3,435,431	1	5
LIABILITIES			
Deposit accounts	1,461,176	10	3
Current accounts	635,284	15	0
Interest reserve	22,088	19	7
Other accounts	47,071	17	10
Bank of Ireland (fully secured)	410,743	3	8
Union Bank of London (do.)	98,005	12	9
	2,674,370	19	1
Nominal Surplus	761,060	2	4

Source: Munster Bank Liquidation Book

The liquidators audit found an apparent surplus on the Munster s account in early August 1885, which more than matched the capital (£525,000) and reserve (£200,000). The liquidators noted that extremely heavy losses were expected on many accounts, however, changing this seeming surplus into a heavy deficiency. The character of the assets, mainly current and past due bills, made them difficult to realise and would require judicious and careful treatment. The Munster s liquid assets, just over £0.5 million, matched its fully secured liabilities but the real value of the remaining assets could be determined only in the gradual working of the liquidation. The Bank of Ireland s reading of the Munster s situation as unsustainable on 11 July was thus confirmed. The liquidators paid off the Bank of Ireland s credit in October 1885, and that of the Union Bank of London in November.

The liquidators busied themselves with realising the bank s assets. One of their

first steps was to have William Shaw, James H. Belton, and Nicholas D. Murphy declared bankrupt. This meant that land formerly worth upwards of £40,000, but not to be taken to be worth nearly so much passed into the hands of the liquidators. It was believed that securities from the estate of Nicholas Murphy would also yield a substantial sum.[58] The liquidators sought to negotiate a compromise with the other three directors (Joseph McMullen, William Perrier, and Edward Dease) named in the vice-chancellor's decision. They obtained over £13,000 for the sale of ground and profit rents in Dublin, formerly La Touche property. They determined to continue collecting debts owed the bank in Dublin and Cork, but chose to work with the newly-constituted Munster and Leinster Bank Ltd. (which was registered on 19th September 1885) in seeking to collect its debts in country branches. They obtained £50,000 from the directors of the new bank for the premises and fittings of the Munster's branches in Dublin and Cork, and thirty others deemed viable.

The liquidators also sought claims from creditors. Total claims came to £2,468,050, including the £529,136 18s 10d owing to the Bank of Ireland and the Union Bank which was paid out in full. The liquidators paid out one hundred per cent on all claims of under £15, and ten shillings in the pound on remaining claims in early 1886. Another five shillings in the pound or £484,728 4s 11d was paid out in late 1886.
It became clear that a call on shares would be necessary, and accordingly a call of £2 per share was made. This should have yielded £300,000, but had produced only £192,491 by 11 September 1886. The problem was that the bank's failure had ruined many of its shareholders. According to the liquidators, 'One of the saddest circumstances in connection with the Liquidation is the number of shareholders who had invested the earnings of years, in some cases of a whole lifetime, in the shares of the Bank, and who were rendered by its failure, even irrespective of the subsequent call on the shares, absolutely or very nearly penniless, and against whom, therefore, any legal proceedings would be fruitless'.[59]

The liquidators had power to negotiate on debts owed them. They did so on sums totalling about £425,000, obtaining about ten shillings in the pound. On 11 September 1886 the balance remaining unpaid to creditors was £484,728 5s. Nominal assets in hand to meet this liability amounted to £1,643,858 3s. 4d. However, the liquidators estimated that the 'deficiency' on bills and current accounts at £730,000, on bank premises at

£47,125, on call account at £75,000 and on defalcations at £70,000. This left the estimated assets at £640,000, against expected further claims of £491,000, leaving a surplus of nearly £149,000 to cover all future expenses of liquidation, etc. Such expenses would rise should the liquidation continue, and doubtful debts would increase in value.

The liquidators with feelings of much relief made a provisional agreement with the M & L on 25 September 1886 that it take over the existing assets and liabilities of the Munster Bank. This proposal was finally accepted unanimously by a meeting of shareholders on 10 November 1886. The arrangement greatly eased the tasks of the liquidators. An Act of Parliament confirming the arrangement received the royal assent on 28 April 1887.

The first general meeting of the M & L s shareholders was held on 11 August 1886. An indication of the damage caused by the suspension and of the shift in policy on the part of the new board is obtained by comparing Tables 2, 4, and 5. Deposit and current accounts in the old bank exceeded £2 million on the even of suspension; those held in the new bank at the end of June 1886 were little more than one-fifth of that. The ratio of bills and advances to current and deposit accounts had exceeded unity under the Munster; now it was only half.

At the meeting of 11 August 1886 shareholders were told that J.J. Murphy s duties as liquidator of the old bank had forced him to resign his seat on the board of the new, but that he would be reinstated as soon as his duties as liquidator were over. Was there a conflict of interest in this for J.J. Murphy? Surely it was in his interest to have the assets of the old bank conservatively priced, in order to give the M & L an easy start? This is unlikely since the scheme drawn up by Quilter, Ball, and Co. gave shareholders of the old bank first offer on the shares of the new. The plan was for 150,000 shares at £5 each, or half the capital of the failed bank, with £2 per share to be paid up on acceptance. Munster shareholders would again be offered first offer on any shares remaining after the first issue. This procedure, it was felt, was best guaranteed to soften the blow for shareholders in the old bank.[60]

J.J. Murphy was widely seen in Cork as preventing a disaster. A subscription opened in his honour in 1890 attracted the signatures of more than six hundred of the city s business and professional men led to a function at the Imperial Hotel with

presentations and illuminated addresses. The Cork vintners[61] presented their own address which included a picture of a distressed ship Munster being rescued by the M & L in the guise of a lifeboat.[62]

TABLE 5: THE MUNSTER & LEINSTER S BALANCE SHEET, 30 JUNE 1886

Debit	*£1,000s*	*Credit*	*£1,000s*
Capital	137.7	Cash	262.7
Deposit and current accounts	443.9	Advances	70.2
Seven day bills	26.7	Bills	158.3
Net profits	0.8	Premises	25.0
		Govt securities	58.1
		Other	8.1
Total	582.5		582.5

Source: *Bankers Magazine*, September 1886: 882.

6. *CONCLUSION*:

Until relatively recent times Irish banks were seen as staid institutions where the keywords were stability and continuity. For the banks critics their virtual cartelisation bred under-performance and underdevelopment, but for their supporters that was a fair price to pay for consumer trust. At least Irish shareholders and depositors were spared the speculative panics and collapses that have marked the history of banking elsewhere. Between 1856 when the Tipperary Bank failed and 1982, when the collapse of the Insurance Corporation of Ireland placed its main owner, Allied Irish Banks, at some risk, the only major Irish bank to fail was the Munster Bank.[63]

The Munster Bank s failure was due a combination of over-generous credit, insider lending, and plain fraud. In different circumstances the insider lending might have played a useful role. In an influential book on banking in antebellum New England Naomi

Lamoreaux has revealed that region s relatively small single-branch banks as virtual investment clubs , or vehicles through which dominant shareholders channelled deposits into their own projects. In this case businessmen were using their local reputations to overcome the thinness of credit markets.[64] In general, however, a bank director faces a conflict of interest when he resorts to borrowing from his own bank. The lesson of the Munster Bank s failure was well put by the *Freeman s Journal*: If his securities are good, then he should be able to borrow elsewhere .[65] But with William Shaw and James Belton at the helm, *quis custodiebat custodies*? In the wake of the failure it was easy to declare that the looseness of certain screws in the establishment was plainly visible to all who were willing to see and that the directors... ought to have been replaced long ago by the shareholders .[66]

Critics of central banking have long been sceptical of a central bank s LLR function on the ground that the resultant moral hazard reduces the efficiency of the banking system as a whole.[67] But if loans of last resort are not automatic, and the central bank discriminates between rogue banks and ones facing liquidity problems due to some systemic shock, this criticism loses much of its force. The Irish experience in general, and the story of the Munster Bank in particular, suggest that the Bank of Ireland fulfilled its LLR responsibility competently.[68]

However, the Bank of Ireland s dual status as commercial bank and quasi-central bank gives this case-study a particular twist. There was a potential conflict of interest and the Bank of Ireland s hands were not entirely clean. As noted earlier, on one occasion when it insisted on the Munster cutting credit in towns where it offered direct competition it allowed its commercial interest to interfere with its LLR role. To what extent did it seek to take advantage of its rival s plight in the wake of suspension remains unclear. The exposure in the press of a circular from its manager in Charleville inviting Munster Bank account holders to place their money where it will be safe forced College Green to repudiate his action.[69]

But the more important message is one of close supervision of the Munster s behaviour, and the granting of a huge loan, rising from £0.25 million in December 1884 to over £0.4 million on the eve of suspension, though admittedly fully secured. Moreover, though this was hardly planned, the Bank of Ireland s action led not to the

destruction of the Munster but, rather, to its reincarnation in the form of the leaner and more efficient M & L. The Bank of Ireland chose not compete in branches with its new rival. Between 1881 and 1902 it opened only two new branches, both in Belfast.[70]

All of this overlooks a key factor: that Robert Farquharson managed both to defraud the Munster Bank and dupe the Bank of Ireland. As a provincial editorialist wrote, the amount of which [the Munster] was robbed would have kept its doors open.[71] Though in the immediate aftermath of the suspension the Old Lady of College Green may have seemed too strict, by early August Farquharson's frauds made room for a different interpretation. He had probably been using his pleas on behalf of the Munster to feather his own nest. For all the roguery of the Munster directors, Farquharson's embezzlement of £70,000 or so was more than the proverbial straw. In hindsight, the Bank of Ireland's mistake was that it did not pull the plug sooner.

APPENDIX 1: BRANCH SIZE AT CLOSURE

Branch	*Highest Account Number*	*Estimated Accounts*	*Population 1881*	*Other Banks Present*
Cork	1812	1849	80,124	4
Dame St.	1491	1521	249,602	8
Baggot St.	287	327	24,370	1
Bandon	291	387	3,997	2
Bantry	442	475	2,632	0
Baltinglass	118	156	1,151	1
Cashel	35	52	3,961	1
Castletownbere	246	259	1,028	0
Charleville	473	508	2,266	2
Clonmel	143	212	9,325	3
Cahir	131	174	2,469	1
Cahirciveen	120	239	2,003	1
Drogheda	126	143	12,297	4
Dungarvan	205	230	6,306	2
Dunlavin	105	139	615	0
Dunmanway	340	373	2,049	0
Ennis	152	202	6,307	3
Ennistymon	200	249	1,331	1
Fermoy	475	593	6,454	2
Fethard	162	184	1,926	0
Hospital	55	72	667	0
Kenmare	234	350	1,279	0
Macroom	758	909	3,099	1
Kildysart	50	99	560	0
Kilfinane	125	249	1,398	0
Killarney	139	208	6,651	1
Kilmallock	210	235	1,027	1
Kinsale	230	459	5,386	0
Limerick	400	499	38,652	3
Midleton	242	322	3,358	2
Mitchelstown	296	337	2,467	2
Mountrath	114	142	1,865	0
Naas	163	204	3,808	1
Nenagh	247	271	5,422	2
Newmarket	169	187	885	0
Queenstown	79	104	9,755	1
Rathdowney	154	307	1,109	0
Rathkeale	301	343	2,549	1
Skibbereen	219	240	3,631	1
Tarbert	63	83	712	0
Tipperary	255	339	7,274	3

ENDNOTES

1. My thanks to Andy Bielenberg, Maura Cronin, Desmond Norton, and Brendan Walsh for helpful comments on an earlier draft and to Desmond Norton for allowing me to consult two Munster Bank ledgers in his possession.

2. On the failures of the Agricultural and Commercial and the Tipperary banks see G.L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1975), pp. 149-50; J. O Brien, Sadleir s Bank , *Journal of the Cork Historical and Archaeological Society*, 82 (1977), pp. 1-10; J. O Shea, *John Sadleir: prince of swindlers*, (Dublin, 1999).

3. F.H. Hall, *The Bank of Ireland 1783-1946* (Dublin, 1949); Barrow, *Emergence*; C. Munn, The emergence of central banking in Ireland: the Bank of Ireland 1814-50 , *Irish Economic and Social History*, 10 (1983), pp. 19-32; F.S.L. Lyons (ed) *The Bank of Ireland: bicentenary essays* (Dublin, 1983). On the business of banking see P. Ollerenshaw, *Banking in nineteenth-century Ireland: the Belfast banks, 1825-1914* (Manchester, 1987).

4. *Cork Examiner*, 17 July 1885 (William Shaw at shareholders meeting).

5. C. Goodhart, *The emergence of central banking* (Cambridge, Mass. 1989).

6. See Mrs. A.M. Frazer, David Digges La Touche, banker , *Dublin Historical Record*, V (1943), pp. 55-68.

7. For economic and social context see Maura Murphy, The economic and social structure of nineteenth century Cork , in David Harkness and Mary O Dowd (eds), *The town in Ireland: Historical Studies XIII* (Belfast, 1981), pp. 125-54, and A. Bielenberg, *Cork s industrial revolution 1780-1880: development or decline?* (Cork, 1991).

8.*Limerick Reporter and Tipperary Vindicator* (*LR&TV*), July 17 1885. The five containing more than two thousand people were Bantry, Kinsale, Fethard, Dunmanway, Naas. In an ordinary least squares regression town population and its town population squared account for over two-thirds of the variation in either of the first two columns of Appendix 1.

9. Munster Bank Limited, Dividends Outstanding 31 October 1888 (in possession of Desmond Norton).

10. Ruggles, R. and H. Brodie, An empirical approach to economic intelligence in World War II , *Journal of the American Statistical Association*, 42 (1947), pp. 72-91; R.W.Q. Johnson, Estimating the size of a population , *Teaching Statistics*, 16(2) (1994), pp. 50-2.

11. Munster Bank Limited Liquidation Minute Book (in possession of Desmond Norton).

12. L.M. Cullen, Germination and growth , in B. Share (ed), *Root and branch*: *Allied Irish Banks yesterday, today and tomorrow*, (Dublin, 1979), pp. 23-60; C. Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994); Malcolm Dillon, *The History and development of banking in Ireland*, (London, 1889), p. 91; Reports from Commissioners (B.P.P. 1875, IX), *Select committee of the house of commons upon the restrictions imposed and the privileges conferred by law on bankers authorised to make and issue notes in England, Scotland, and Ireland*, Qs. 2361-2; compare the list in Hall, *Bank of Ireland*, 279.

13. Munster Bank Liquidation Minute Book.

14. Reports from Commissioners, Qs. 3385-6.

15. There is a list of Bank of Ireland branches by date of opening in Hall, *Bank of Ireland*, Appendix L.

16. Reports from Commissioners, Qs. 2405-6.

17. ***Irish Banker***, August 1876, Feb 1877, Aug 1878, Mar 1879.

18. *LR&TV*, July 17 1885; Cullen, Germination and Growth , 43.

19. *Bankers Magazine* (1882), 680; Hall, *Bank of Ireland*, 280.

20. Ó Gráda, *Ireland*, 358; Cullen, Germination and growth , 50.

21. William Shaw (1823-1895) was a congregationalist minister turned businessman-politician. In 1850 he married into a wealthy Cork merchant family and in the following years built up extensive business connnections. He was a director of Lane & Co.; Lane & Co. Ltd.; Allman, Dowden, & Co.; Dowden & Co.; and Shaw & Co. All of these companies owed the Munster Bank money in 1885. Shaw represented the whig tendency in the Irish Parliamentary Party, which he briefly led before being ousted by Charles Stewart Parnell. See C.C. O Brien, *Parnell and his party 1880-90* (Oxford, 1957), 24n. It is noteworthy that Shaw, James Sadleir, and James Neale McKenna, chairman of the troubled National Bank in the 1860s, were all members of parliament.

22. *CC*, 16 July 1885.

23. According to the *Irish Banker* (Mar 1, 1879, p. 272) almost one-third of the Munster s shareholders lived in and near Dublin. On the injuction see *Law Reports (Ireland)*, Jackson and others vs. the Munster Bank, Shaw and others (January 30 1884), vol. XIII, 118-138.

24. Nicholas D. Murphy (Nicholas Dan), one of the Cork porter brewing dynasty, had also been Liberal M.P. for Cork from 1865 until he was ousted by Parnell in 1880. Like Dease and Shaw he was more a Whig than a Home Ruler.

25. *FJ*, 27 June 1885, 30 June 1885; *CE*, 27 June 1885; Dillon, *Banking*, 92-8; *Law Reports (Ireland)*, Jackson and Others vs. the Munster Bank (Limited); ex parte Dease , June 26-7 1885, vol. XV (1886), 356-62.

26. *Dublin Evening Mail*, 27 June 1885; *CE*, 29 June 1885..

27. On 1 July the *Examiner* contained a letter from three newly-appointed Munster directors, making the same point.

28. *CE*, 16 July 1885.

29. The *Clare Journal* (16 July 1885) instanced continuous pressure in Bandon, Bantry, Skibbereen, Fermoy, Midleton, and Dunmanway.

30. *CE*,15 July 1885.

31. *IT*, 15 July 1885; *FJ*, 16 July 1885; *CC*, 16 July 1885.

32. *Bankers Magazine*, August 1885, XLV: 799; *Cork Constitution*, 16 July 1885.

33. *Clare Independent and Munster Advertiser*, 18 July 1885:

34. *CC*, 16 July 1885.

35. The Ulster Bank took advantage of the Munster s demise by opening branches in Naas and Dunlavin. See [W.J. Knox], *Decades of the Ulster Bank* (Belfast, 1965), 116, 121, 191; also *FJ*, 16 July 1885. The oscillations in Hibernian shares in these days were unrelated.

36. *FJ*, 22 July.

37. *CC* 16 July 1885; *LR&TV*, 17 July 1885; *IT*, 15 July 1885; *FJ*, 15 July 1885; 12 August 1885.

38. *CE*, 30 July 1885.

39. *FJ*, 17 July 1885; *LR&TV*, 17 July 1885.

40. The history of the Bank of Ireland s negotiations with the Munster Bank in the months before its collapse is well documented in F.H. Hall s *Bank of Ireland*.

41. Two directors, Kinahan and Ryan, protested against these measures and their opposition was noted in the minutes an unusual step (Hall, *Bank of Ireland*, 284).

42. *CE*, 31 July 1885.

43. *CE*, 31 July, 1 August 1885. In 1883 Farquharson was living at 23 Garville Avenue, Rathgar (*Thom s Directory 1883*, p. 1665). The *FJ* claimed that he had paid £5,000 plus £100 per annum for Dromana.

44. *FJ*, 12 August 1885; *Hue and Cry*, 4 August 1885.

45. *CE*, 31 July 1885; *LR&TV,* 31 July 1885; *FJ*, 30 July-5 August 1885; *IT*, 1 August 1885. *Hue and Cry* discontinued its weekly entry on Farquharson a year after his disappearance.

46. *CE*, 31 July 1885.

47. The *Freeman s Journal* of 24 August contained an unsigned article on How Farquharson obtained his money .

48. *FJ*, 3 August, 5 August 1885.

49. *BM*, Sept 1885: 881; *FJ*, 12 August 1885; *CE*, 17 August 1885.

50. *FJ*, 4 August 1885 (notice of a Dublin merchant tailor), 12 August 1885.

51. *Clare Independent and Munster Advertiser*, 1 August (Ennis); *Clare Journal*, 20 July (Ennis), 23 July (Kildysart); *CC*, 15 July 1885; *LR&TV*, July 17 1885.

52. *Hansard,* vol. 299 (1885), 1210-11, 1407 (July 20 and 21).

53. *LR&TV,* August 28 1885; *FJ*, 22 August 1885; *CE*, 26 August 1885.

54. *FJ*, 2-22 September 1885.

55. *BM*, October 1885: 991.

56. Liquidation Book, 22.

57. Cullen, Germination and growth , 55-7.

58. Munster Bank Liquidation Minute Book, f. 28.

59. Liquidators Report, 27.

60. *LR&TV*, August 4 1885.

61. The Cork vintners, a powerful pressure group, had been strong supporters of Nicholas D. Murphy in earlier elections.

62. Diarmuid Ó Drisceoil and Donal Ó Drisceoil, *The Murphy s Story: The History of Lady s Well Brewery* (Cork, 1997), pp. 11-13.

63. For background see Cullen, Germination and growth ; Ó Gráda, *Ireland*, ch. 14; Patrick Honohan and Jane Kelly, The Insurance Corporation of Ireland: resolving Ireland s worst financial crash , *Administration*, 45(3) (1997), 67-77.

64. N. Lamoreaux, *Insider lending: banks, personal connections, and economic development in industrial New England* (Cambridge, 1994).

65. In similar vein *The Limerick Reporter* rejoiced at the moves being made in Cork to seek government assistance to resuscitate the bank, but could see no excuse for the loose way in which Mr Shaw did business . See *FJ*, 15 July 1885; *LR&TV*, July 17 1885.

66. *LR&TV*, July 17 1885.

67. E.g. Forrest Capie and Geoffrey Wood, (1995). Lender of last resort , in Jaime Reis (ed). *International monetary systems in historical perspective* (New York, 1995); Charles Calomiris, Statement before the Joint Economic Committee, US Congress, 24 February 1998 (http://www.house.gov/jec/hearings/imf/calomiri.htm).

68. Ó Gráda, *Ireland,* 363-4. My earlier reading of the Bank of Ireland s dealings with the Munster Bank was incorrect in some respects, and the present account makes amends.

69. *Munster News*, 22 July 1885; *Tipperary People*, 24 July 1885; *FJ*, 14 August 1885.

70. Hall, *Bank of Ireland*, 283-6, 406.

71. *Munster News*, 1 August 1885.