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**The Last Major Irish Bank Failure:
Lessons for Today?**

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THE LAST MAJOR IRISH BANK FAILURE:

LESSONS FOR TODAY?¹

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THE LAST MAJOR IRISH BANK FAILURE

Irish joint stock banking as we knew it until recently dates from 1825. The initial flurry of entrants—the Provincial, Hibernian, Belfast, and Northern Banks in the 1820s, followed by the National Bank and the Agricultural and Commercial Bank in 1834 and the Ulster and the Royal in 1836—ended in 1838 with the foundation of the ill-fated Tipperary Bank. That period has been seen as the closest Ireland ever came to free banking. For two decades there was free entry, unrestricted note issue [subject to the gold standard, and setting aside the Bank of Ireland's remaining note-issuing monopoly within 50 Irish miles of Dublin], and no central bank.²

But there was quite an interval between the formation of the Tipperary Bank and that of the Munster Bank in 1864. The new kid on the block made quite an impression and, indeed, thrived for a time. Although resolutely regional in ambitions and ethos, by the 1870s it held 7-8 per cent of all Irish bank deposits, a share it maintained till the end (Figure 1). But it crashed sensationally in 1885.

The Munster Bank began as the National Investment Company in 1864, a vehicle whereby a group of Cork businessmen envisaged mopping up savings and investing them in local projects, mainly related to real estate. As Tony Lambkin has pointed out, such ventures were the flavour of the day in 1864. The International Financial Society, the Land Securities Company, the General International Agency, and the Alliance National Land, Building, and Investment Company were advertised heavily in the national and Cork press. Most likely, these

² For more on the banking background see Ó Gráda (1994: 349-65).

were a slightly delayed response to the joint stock company legislation of 1856 and 1862. The coterie of Cork businessmen behind the scheme included Nicholas Murphy, James Murphy, and former mayor James Lambkin, but the main impetus behind the move was undoubtedly Tyrone-born William Shaw (1823-1895), who had first moved to Cork as a Congregational minister but soon switched to immersing himself in the commercial life of the city. He would eventually become an M.P., and very briefly (between Butt and Parnell) leader of the Home Rule party.

For some time before then, John Francis Maguire, founder of the *Cork Examiner* in 1841, had been arguing that Irish economic development was hindered by an inadequate banking system. Ireland—and Munster—needed ‘liberal’ rather than ‘discouraging’ banks, whereby, as in Scotland, ‘the enterprising manufacturer is fostered and encouraged’ (cited in Lambkin, p. 7). Yet the bank’s initial prospectus hardly reflected such sentiments. It focused on making advances on land, buildings, freights and merchandise, ‘as well as villa residences’ and the like, and purchasing and leasing sites in the Cork area.

Over the summer of 1864, the initial strategy of attracting funds for the purchase of real estate broadened into one of seeking investments in ‘bottomry’ (laden ships bound for or temporarily held in home ports) and receiving deposits at interest. In August ‘a large and influential meeting of shareholders’ agreed that the new company combine banking and investment operations, and in mid-October the new project changed its name to the Munster Bank, determined to ‘open current accounts, discount bills, and transact the ordinary business of banking’ (Lambkin, p. 13).

The Munster Bank was built largely on Cork capital, although by the early 1880s half or more of its shareholders lived outside Munster. And although it concentrated its business on the province of Munster, its branch in Dublin's Dame Street was its second busiest. It developed quite an extensive branch network, venturing where no joint stock bank had ventured before, into small towns and even villages. A high proportion of its branches were located in insignificant small towns and villages (see Figure 2). At the time of its failure it had branches in places such as Kildysart, Hospital, Dunlavin, Kilfinane, and Tarbert—all with populations of less than a thousand in 1881. It also opened branches in places where there was already the branch of another bank, and it provoked rival banks into extending their networks. How profitable some of these branches were is hard to say, but Tarbert and Hospital are unlikely to have had more than a hundred depositors, and several others would have had less than two hundred.³

The Munster Bank also sought the business of people who probably had not banked much previously. As the chairman put it to his shareholders in January 1877, when the bank was riding high:

³ Estimated by applying a solution to the tank number problem to lists of Munster Bank depositors with dividend payments still unclaimed three years after the bank closed its doors. During World War II both Allied and German intelligence sought to infer enemy weapons production from serial numbers on captured materiel. Suppose the tank population is $1, 2, 3, \dots, N$, where N is unknown. The problem then is to estimate N from a random sample of $X_1, X_2, X_3, \dots, X_n$, 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 $[(n+1)/n] X_n$ (Ó Gráda 2002).

He could take him any day he pleased to a country branch and show him a sheaf of bills it would take him some time to count and those bills would be for sums ranging from £10 to £50 or £60 and up to £100 and a great many of these bills had the drawers' marks on them for in many instances they could not sign their names. But they were all farmers. It was a usual thing to have many of these bills unpaid when due...

The Munster Bank built up business partly by paying a generous return on deposits, just as the Tipperary Bank had done. It rattled its rivals, but the extra competition was all to the good. The Bank of Ireland, which had been lax about expanding its branch network, responded by creating branches in Clonakilty and Listowel in 1870, and in Charleville, Midleton, Skibbereen, and Mallow in 1876-77. This greatly irritated the Munster Bank, but it should be noted that Bank of Ireland had responded in exactly the same way in 1825 (in the wake of the creation of the Provincial Bank) when it opened seven new branches, and in 1834-6 (after the foundation of the National Bank) when it opened ten more. Another grievance of the Munster Bank is that it operated at the disadvantage of being a non-note issuing bank, something it tried to remedy without avail in the 1870s.

The Munster's collapse on July 15 1885 was headline news, and not only in Ireland. It was not the first, but it was the last Irish bank of the first rank to fail—that is, until the very recent past.

Figure 1. Munster Bank's share of Irish bank deposits, 1865-1884

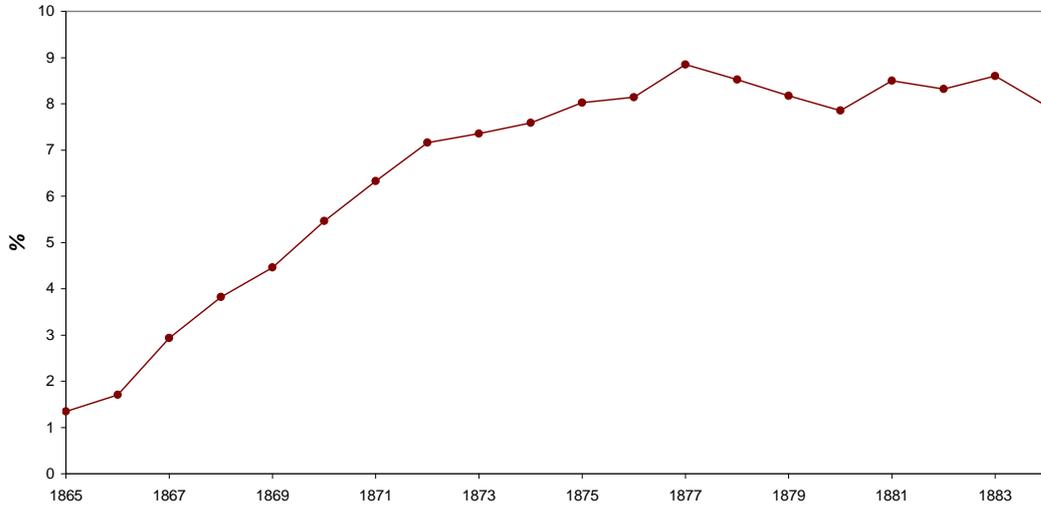
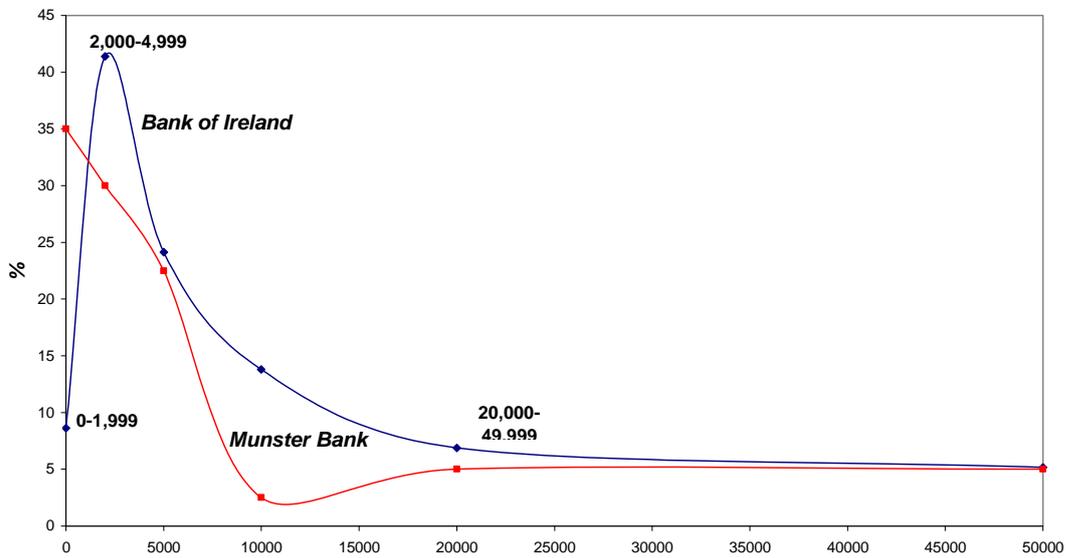


Figure 2. Branch network by town size



THREE BACKGROUND CONCEPTS:

Three theoretical concepts in the monetary and banking literature help contextualize and motivate this account of the collapse of the Munster Bank in July 1885.

[1] The first is what we might term, after Naomi Lamoureaux, insider lending. Lamoureaux (formerly of UCLA, now of Yale) describes in her classic *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (CUP 1994) how in the northeastern US in the early nineteenth century bankers routinely lent a large part of their funds to themselves and to fellow directors and their friends. Indeed starting off in business might mean setting up a bank in order to raise the capital. This worked quite well until with the development of alternative ways of raising venture capital, such as businessmen found it easier to raise capital through other channels. Lamoureaux shows that where capital markets are thin, this form of bank could work, and her analysis attracted a lot of praise from U.S. economic historians.

But how does this square with another tendency in the literature, well reflected in the title of William Black's recent *The Best Way to Rob a Bank is to Own One* (Texas, 2005)? The theoretical antecedent of Black's work is George Akerlof and Paul Romer's 'Looting: the economic underworld of bankruptcy for profit' (1993), which argued:

Bankruptcy for profit will occur if poor accounting, lax regulation, or low penalties for abuse give owners an incentive to pay themselves more than their firms are worth and then default on their debt

obligations. Bankruptcy for profit occurs most commonly when a government guarantees a firm's debt obligations.

A more recent contribution in this same tradition is La Porta *et al.*, 'Related lending' (2003). They argue, very much in the spirit of Lamoreaux, that 'bankers know more about related borrowers than unrelated ones because they are represented on the borrower's board of directors and share the day-to-day management of the borrower' (La Porta *et al.*, 2003, 231). Providing credit to insiders therefore could help to mitigate both adverse selection and moral hazard problems that occur when information costs are high. However, what they call a competing 'looting' hypothesis holds 'that close ties between banks and borrowers allow insiders to divert resources from depositors and/or minority shareholders to themselves' (La Porta *et al.*, 2003, 231).

They measure these opposing presumptions against data from contemporary Mexico, and find that related lending is common (20 percent of commercial loans) and involves favourable rates of interest to the borrower than lending to others (interest demanded considerably lower). However, related loans are 33 percent more likely to default and, when they do, have lower recovery rates (30 percent less) than unrelated ones. So the evidence for Mexico in the 1990s supports the view related lending is a form of looting.

Yet another paper in this area is Maurer and Haber (2007). They argue that *related lending* has negative outcomes compared to a first-best world of functioning capital markets, in which the allocation of capital would be less personal and therefore more efficient. But if the risk of default is very high and

property rights insecure, then *related lending* may be optimal in the circumstances. In other words, it can be seen as the endogenous result of weak property rights and costly informational asymmetries. So *related lending* is a second-best solution, perfectly sensible in a world of banking systems that don't engage in lending for productive purposes.

[2] The second background concept is the idea of *lender of last resort*, which dates back to English merchant banker Francis Baring's reference to 'dernier resort' in his *Observations on the Establishment of the Bank of England and on the Paper Circulation of the Country* [1797]. The idea received its mature, classic articulation in Henry Thornton's *Paper Credit of GB* [1802] and in Walter Bagehot's *Lombard Street* [1873]. Both were practicing bankers. Thornton's fear was that 'If any bank fails, a general run upon the neighbouring banks is apt to take place, which if not checked in the beginning by a pouring into the circulation of a very large quantity of gold, leads to very extensive mischief' (Thornton, 1802: 182). And the solution: 'If the Bank of England, in future seasons of alarm, should be disposed to extend its discounts in a greater degree than heretofore, then the threatened calamity may be averted.' So the important thing here is fear of contagion.

Bagehot's work was partly in response to the failure of Overend Gurney, a wholesale discount bank, in May 1866 with liabilities of over £10 million, a failure which had serious ramifications for the banking system and the British economy more generally.

The Bank of England decided in its wisdom that Overend Gurney was beyond redemption. Letting it go would cause some panic, but that was a price to pay.

The panic could be alleviated through monetary easing. Gladstone agreed to allow the Bank to increase the amount of money in circulation, subject to the stipulation that bank rate be raised to 10 per cent, while letting Overend Gurney sink. The crisis did not last long.

The Overend Gurney crisis had repercussions in Ireland, however. La Touche's Bank requested an overdraft of £50,000 of the Bank of Ireland; The Royal Bank and the Hibernian Bank asked for £50,000 each, and the Munster Bank for £30,000. The Union Bank of Ireland was a casualty; its branches were sold off to the Munster Bank and the Hibernian Bank before it went into voluntary liquidation. The depositors got their money back eventually. Shareholders who had been induced to part with more of their cash not long before the end—and at a time when the directors knew the writing was on the wall—lost the lot.

The 'Bagehot Principle' has become part of monetary orthodoxy. But some critics have objected that the presence of a lender of last resort creates moral hazard; this is the line taken by Hugh Rockoff (1986) and Lawrence White (1984).

In the Irish case, during its first century the Bank of Ireland often played the role of lender of last resort, especially in 1826, 1836, 1847, 1857, and 1866. The crisis of 1836 is worth dwelling on briefly, since it was due to the failure of another bank, the Agricultural and Commercial Bank. That bank had been founded in 1834 with headquarters in Nenagh (outside the Bank of Ireland's zone) so that it could issue banknotes. Overambitious and poorly managed the Agricultural and Commercial closed its doors on 14 November 1836. Prior to then all major banks had been forced to seek help at the Bank of Ireland, and the total advanced by it

during the crisis came to nearly £0.5 million. Even the Agricultural Bank got help to the tune of £24,000 but on 12 November the Court agreed to provide no further accommodation despite pleas from the Lord Mayor of Dublin and others. The Bank of England also refused to help the Agricultural. In the end the crisis was short-lived and good for the reputation of the surviving banks.

[3] The third background concept is taken from Charles Goodhart's *The Evolution of Central Banks*. Goodhart proposed that central banks evolve naturally because they fulfil a natural function. Their role as lender of last resort has macro or systemic ramifications. The private bank that doubles up as a quasi-central bank, to which other banks look up and resort when they are in trouble, faces a conflict of interests between its public service and commercial roles. This would seem to have applied to the Bank of Ireland, acknowledged lender of last resort to the other Irish banks, but also a commercial rival. It must choose eventually one route or the other. The Bank of England became a public institution, the Bank of Ireland a commercial bank.

TROUBLE ON THE HORIZON:

The monthly *Irish Banker* began sounding the alarm from 1877 on. In February 1877 it noted a sharp fall in the bank's liquidity position; in August 1878 it claimed that the bank should be holding about twice its then amount of convertible securities, and it was critical again in January 1880. In March 1881 the *Irish Banker*

sounded a more reassuring note about liquidity, but it ceased publication before the Munster's situation became really critical.

There are signs that some directors were beginning worry about how the bank was run from 1878 on. The bank was in effect being run by Shaw, manager James Belton, and co-director Nicholas Murphy. At the January 1879 shareholders meeting—following disclosure of some bad debts—Shaw promised that 'in future the entire business of the Bank must be under the control of the entire Board'. 'Therefore', he continued, 'I have insisted that the Board should be associated with me in the daily investigation of any business in Cork that requires investigation...' (Lambkin, p. 59).

Rumours regarding directors' borrowings had been circulating since 1881. At the shareholders' meeting of 25 Jan 1883 Shaw referred to them as follows:

The statements are, I believe, that some of the Directors are largely overdrawing their accounts without security and that the Bank is in a very serious position now with those Directors. I now assure you here publicly that there is not the slightest foundation for any such statement...I have stood here without thinking of remuneration for myself for 19 years now and I have never been absent from any Bank meetings save one.'

Shareholders' meetings from 1883 on were tense or stormy affairs. At the July 1883 meeting Shaw acknowledged the existence a group of Dublin-based shareholders led by Sir Robert Jackson, Thomas Fitzgerald C.E., John McSheehy (law agent to Dublin corporation), and Hugh Tarpey J.P., long-time member of

Dublin corporation and Lord Mayor in 1877-78. These extremely well-connected, well-heeled, and influential gentlemen were very unhappy with how the bank was being run. Their main worry was the fear that directors had been breaching the rule (which had stood since 1866) that no loans be made to directors except on adequate security.

Unhappily for the Cork directors, the Jackson group persuaded two directors not based in Cork, Edmund Dease and Robert La Touche, to assess the situation, and in July 1883 these two reported their unhappiness with the securities for several directors' overdrafts to McSheehy and Fitzgerald. Dease and La Touche seem to have been 'outsiders' on the Munster's board, and so not privy to everything that was going on. Subsequent investigation by shareholders' representatives suggested that 'sums to a very large amount' had been lent to directors on inadequate security.

Then on 7 November 1883 Tarpey in Dublin received a letter from J. H. Belton in Cork, stating that the Munster's 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 brazen move outraged the Dublin shareholders. They sought an injunction against the bank in the court of vice-chancellor Hedges Eyre Chatterton. They were successful in this immediate objective and obtained an order preventing the proposal of a resolution repealing an article forbidding 'that Directors of the Bank

or firms in which Directors were interested should receive advances or be permitted to draw on overdrafts without lodging full and sufficient securities' (p. 67).

The January 1884 meeting of shareholders meeting attracted a huge attendance of 250 and lasted four hours. Shaw acknowledged that they would not go ahead with the proposed change regarding Directors' loans, adding:

He might say for himself that his account was perfectly well secured and that of any concern with which he was connected was also perfectly secured. His property was pretty well known and where it was—he could not walk away.

And Shaw added, in *faux* valedictory mood:

I fell into the way of doing everything in the outside world in the way of working the Bank and the establishment of branches and in the purchasing of business. I was constantly employed and probably the thing could not have grown if there was anything like division or a divided council. Having existed for 20 years I think now it would be unwise for the Bank to continue in this one-man system. I now believe that the very best thing for the Bank...will be that I should retire and allow the Directors generally to take a more active part in the management of the Bank.

The Dublin shareholders had placed three demands before the meeting. First, they sought the removal of the bank's manager in Cork, J. H. Belton, from the board. Second, they sought an appointment of additional professional auditor and, third, they sought that shareholders' meetings alternate between Dublin and Cork. Only the second proposal was accepted (and a Mr. Gardner of Craig Gardner

appointed), although Shaw conceded that he might not oppose the idea of alternate meetings in Dublin 'when they were not being kicked and cuffed about by some of the Dublin shareholders' (Lambkin, p. 68).

In March 1884 the Jackson-led group, increasingly alienated and worried, brought suit against directors of the Munster Bank at the Vice Chancellor's court, charging that loans had been made to directors and ex-directors on inadequate security.

At the next meeting in July 1884, Shaw offered his resignation. At the same meeting, without elaborating much, he announced the transfer of £75,000 from reserves to the Bad and Doubtful Debts Account. The uncertainty affected account-holders' confidence and in 1884 deposits fell by £250,000.

Then on 20 Nov 1884, Shaw quietly filed a claim for £40,000 in the Court of Chancery in London for his services to the Munster since 1884, presumably to counter charges of borrowings by him and colleagues. This did not come to light until January 1885.

Edmund Dease, a relatively new and inactive board member, was appointed to chair the January 1885 shareholders' meeting, at which Nicholas D. Murphy, a Shaw loyalist, tendered his resignation from the board. That fraught meeting would prove to be the bank's last, in the following months the Munster was in repeated contact with the Bank of Ireland about its plight. But worse was to come.

In their very brief report to shareholders at the January 1885 meeting, the Directors were 'glad to be able to announce that subject to the sanction of the Court arrangements have been entered into under which the questions under

dispute can be determined without any further litigation'. No such hope. On 26 June the legal action of the Dublin shareholders culminated in a judgement whereby the defendants to be held liable for advances obtained in contravention to Bank's Articles of Association. The vice-chancellor, Hedges Eyre Chatterton, declared Shaw's statement to shareholders in January to have been 'as false a statement as ever was made'. This was the Munster Bank's death blow.

On 2 July a letter to the Bank of Ireland directors signed by three Munster Bank directors not directly implicated in the vice-chancellor's decision (Edmund Dease, J.W. Payne, James J. Murphy) stated that the legal proceedings 'relating to the advances to some of our directors in the past' had led to a withdrawal of deposits in Munster. This meant that the Munster Bank was 'not only unable to reduce our account with the Bank of Ireland, as we had fully intended to do at this time, but we are under the necessity of applying to you for further assistance'.

The letter referred to the puzzling buoyancy of Munster shares, 'which are now being freely bought at largely enhanced prices'. Apparently there were insiders and outsiders among the investing public as well. Still, Munster Bank shares had been falling relative to those of other banks since 1878, with the exception of those of the Provincial Bank.

THE MUNSTER AND THE BANK OF IRELAND:

On Christmas Eve 1884 the Bank of Ireland wrote to the Munster Bank expressing concern at the latter's overdraft with it exceeding the agreed amount.

There followed repeated requests from the Munster Bank followed by concessions from College Green. There was much to-ing and fro-ing between Dame Street and College Green, with Robert Farquharson, the co-manager in Dame Street, playing the lead part for the Munster. The Munster Bank features constantly in the Court minutes in the first half of 1885. In the end the Bank of Ireland gave up. On 3 July it made what would prove its final concession:

Dear Sirs

In an anxious desire of meeting the severe pressure under which the Munster Bank is at this moment labouring the Governors and Directors of the Bank of Ireland are prepared to accede to the final request put forward by the Munster Bank, in their letter of the 2nd Inst, and will agree to extend, during the pleasure of the Governors and Directors of the Bank of Ireland, the amount of the advance made to a total of £400,000 on the securities now held (including bills viz. £20,000 as offered yesterday). The Directors of the Munster Bank understanding most distinctly that under no circumstances whatever will the amount be permitted to exceed the sum above named, viz - Four hundred thousand pounds.

On 9 July the Bank of Ireland sent the following:

Dear Sir,

As you are well aware the Governors and Directors of the Bank of Ireland have had, for some time under their most anxious consideration, the condition of the account of the MB. The Governors and Directors observe with deep concern that the overdraft this morning stands at £402,802. This large sum is, you will observe, in excess of the outside limit, under all heads, to which the Governors

and Directors of the Bank of Ireland were induced to accede - as per their letter of the 3rd Inst. This outside limit the Governors and Directors distinctly stated they would not, under any circumstances, permit to be exceeded. In view of this state of facts it becomes my duty to inform you that, unless the overdraft be forthwith be brought within the limits prescribed in letter of the 3rd Inst, I am instructed at once, and without further notice, to withdraw from the country the various credits allowed under my letter of the 15th January 1885 and to refuse payment of any cheques that may be presented in excess of the permitted overdraft.

The Governors and Directors of the Bank of Ireland deeply regret the necessity imposed upon them but they feel that, after all their efforts to assist your Bank, under circs of extreme difficulty no other course is now open to them.

The court of the Bank of Ireland met almost daily as the crisis worsened. Its death sentence came on 11 July in a letter to J. H. Belton:

Dear Sir

It is with deepest regret that the Governors and Directors of the Bank of Ireland have learnt from the deputation of the Munster Bank at their interview today, that your Board were not in a position to put before the Governors and Directors of the Bank of Ireland any such fresh or satisfactory proposition as they were led hope for from the terms of the letter received yesterday from the joint managers in Dublin.

Thus my Board having lost hope that any further efforts on their part to assist the Munster Bank can be eventually successful, and being without any substantial ground upon which they are able, with due regard to the interests of their own Proprietary, to make any further advance, feel compelled to adhere to the conditions expressed in my

letters of the 3rd and 9th Inst, the former of which, as you are aware, laid down distinctly the outside limit to which my Board would, under any circs, go, and the latter which with equal distinctness called upon your Board at once to bring the overdraft within the stipulated limit. It is therefore my duty to inform you that I am instructed to withdraw from the several branches of the Bank of Ireland the credits as advised in my letter of 19 January 1885 and to state that no cheques of the Munster Bank will be honoured which shall be in excess of the limit stated.

That was the end, but the Munster did not close its doors immediately. The value of bank stock fell in anticipation. But did they not plummet? Either rumours of a rescue package kept some hopes high, or else the truth was kept a secret. On the evening of 14 July the Munster closed its doors.

AFTER THE FALL:

There were the usual queues and concerned depositors but only one riot, which took place outside the tiny branch in Kildysert. Two days after the bank closed its door, at a public meeting presided over by the mayor of Cork Shaw contended that he could get the bank back on its feet with a loan of £200,000 in London on the Bank's securities. A committee was formed to re-establish the bank. On the same day the mayor sent telegrams to the city's two M.P.s, Charles Stuart Parnell and Thomas Sexton, requesting that the Irish Party seek government help to save the shareholders and depositors. There were calls for the government to place pressure on the Bank of Ireland. Others, however, wanted nothing more to do with William Shaw, and called instead for a clean start.

On 21 July 1885 Parnell asked Mr. Chancellor of the Exchequer in the House of Commons:

in view of the monetary situation created in Ireland by suspension of payment on the part of the Munster Bank, and considering that the Bank of Ireland enjoys special facilities under the Law, and exceptional advantages from the Government, and has at its disposal unused note-issue power to the extent of above a million sterling, whether the Government will use its influence to cause the Bank of Ireland to assist the Munster Bank to recover its position, and thus avoid liquidation, if the different classes of persons interested in this Bank as depositors and shareholders should undertake to do their part, and the affairs of the Bank should be found in a condition to warrant assistance from the Bank of Ireland?

Parnell too surely shared the suspicion that the demise of its rival suited the Bank of Ireland. At the meeting on the 16th William Shaw had complained that the Bank of Ireland's stance 'was only in keeping with the attitude which [it] had assumed towards them, not yesterday, but for a considerable time'. The common perception—not entirely unjustified—that the Bank of Ireland was a 'unionist' bank did not help in the circumstances. Chancellor Sir Michael Hicks-Beach replied diplomatically:

The hon. Member has asked me a Question to which I could not give an affirmative reply without the risk of raising hopes which, so far as I see, could not be realized; but I may say that, in my opinion, the exceptional position of the Bank of Ireland entails upon it at times such as these special duties, and I have good reason to believe that

this is recognized by the Directors of the Bank, and that they are ready to help in promoting the very desirable object referred to by the hon. Member, so far as may be possible consistently with due regard to the safety of the Bank.

The Bank of Ireland, somewhat rattled by the public outcry, protested to Hicks-Beach that it done what it could, and that it was engaged at the time in trying to save another bank, the Hibernian. In a letter to Hicks-Beach on 22 July it argued:

The Governor and Board of Directors of the Bank of Ireland, whilst admitting the statement of the Chancellor of the Exchequer 'that the position of the Bank of Ireland entails upon it at such a time as the present exceptional duties', feel that they can appeal to their action in the past years under similar circs as having fully discharged whatever these duties may be and that on their present action towards the Munster Bank there is also a full recognition of these duties, consistent with their first duty to their own Proprietors and the public at large.

It included copies of its correspondence with the Munster Bank earlier in the month in this letter. An added ingredient in the complaints against the Bank of Ireland was that it motivated by '*the treacherous desire to grasp at the business of a rival concern*' (CE 30 July 1885).

The Bank's balance sheet when it closed its doors is described in Table 1. At first sight, this does not look so bad, but many of the assets were bad debts. In the end £735,000 of its debts were written off, the bulk of which had been incurred in Cork (£306,000) and at the Dame St office (£266,000).

With the Bank of Ireland refusing to help, talk turned from resuscitation of the Munster to the creation of a new bank on the basis of what was good of the old. Whence came, within an amazingly short period, the Munster & Leinster Bank. The new bank 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 months, 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 Cahir (with an estimated 174 Munster Bank depositors), Cashel (52), Clonmel (212), Ennis (202), Ennistymon (249), or Queenstown (104), all of which had a rival bank presence. It had also added eleven sub-branches and closed four. The shareholders lost all their investments. 'One of the saddest circumstances', wrote the liquidators, 'in connection with the Liquidation is the number of Shareholders who had invested the savings 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' (Munster Bank n.d.).

Assets		Liabilities	
Amounts due by debtors (secured and unsecured)	£2,740,670	Deposit accounts	£1,461,177
Investments & cash (gilts £400,000)	£505,530	Current accounts	£704,445
Premises	£100,000	Bank of Ireland	£410,743

Defalcations and gold robbery	£89,230		Union Bank of London	£98,006
Total	£3,435,430			£2,674.371
Report of Liquidators to Shareholders				

CONCLUSION:

This paper began with a quick review of the literature on insider or related lending. The story of the Munster Bank is a good example of the ‘looting’ interpretation. In Ireland in the 1880s the banking system was such that, as *Freeman’s Journal* quipped tellingly in the wake of the Munster’s collapse, if a bank director’s ‘securities are good, then he should be able to borrow elsewhere’ (July 15 1885).

There was an added sting to the tale. Much of the odium focused on Robert Farquharson, manager of the Dame Street branch, who defalcated to the tune of nearly £90,000 and absconded on 24 July . The police traced him to Amiens Street railway station, but the scent seems to have evaporated there. There were alleged sightings in Scotland, in Norway and in Spain (where he would be beyond the reach of extradition laws), in Amsterdam, and the United States. *Hue and Cry* discontinued its weekly entry on Farquharson roughly a year after he disappeared. The Munster’s liquidators had him declared bankrupt but this yielded them little. Their investigations confirmed that Farquharson had been rifling the bank since the early 1880s, though on a relatively small scale compared to his final grand theft.

The Farquharson scandal generated a doggerel ballad, 'A New Song on Farquharson and the Munster Bank', the first verse of which runs (Anon. 1885):

*The stoppage of pay is the talk of the day
With every class and rank,
And the money they lost through the robber that bossed
The great big Munster Bank.
No Irishman could pay the plan
Of robbing that he did
But on Scotland's shore, we knew before
There was many a knavish kid.*

Nobody ended up in jail in the wake of the Munster's failure, but its liquidators had Shaw, Belton, and Nicholas Dan Murphy declared bankrupt. Shaw owed the liquidators £130,000 against securities valued at £41,000 (*Irish Times*, 16 Sept 1886). He owed this money on his own behalf and on behalf of several companies of which he was a director. His main cronies on the board, Nicholas Murphy, J. W. McMullan, and J. H. Belton owed sums on behalf of companies of which they were co-directors with Shaw. Some other directors—Perrier, Dease, La Touche—seem to have been 'outsiders' (or not 'related'), and it is no coincidence that two of these confided in the Dublin shareholders.

Shaw's death and burial in Enniskerry a decade after his bank's demise passed almost unnoticed. In an obituary in *Freeman's Journal* he was described as 'Sensible Shaw' (21/9/1895), but Tony Lambkin said of him that he had '*become reluctant to allow it to be said that he refused loans to his friends*' (p. 74, italics added). That seems a fair depiction of what is dubbed 'crony capitalism' today.

Yet a remarkable feature of the story is how little lasting damage the collapse of the Munster did to anybody except to the directors and shareholders. Subsequent movements in the shares of other banks show that there was no contagion and no fear of systematic collapse. After an admittedly hesitant start, within weeks enough promises of support had been garnered from investors, mainly in Munster, to enable the registration of a new bank, the Munster & Leinster Bank, to replace the old. The new bank, registered on 19 September 1885, prohibited directors from holding accounts in it, and was unencumbered by some of the baggage accumulated by the Munster Bank in the form of uneconomic branches and overstaffing. A smooth transition was guaranteed by the liquidators, who included James Jeremiah Murphy, first chairman of the new bank.

As for the role of the Bank of Ireland, as quasi-central bank and lender of last resort, it probably did too much rather than too little in helping the Munster Bank in 1885 and probably should have pulled the plug sooner.

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