

# The Chronicle

## Insurance and Finance

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### BANK DEPOSIT RATES.

There has been some comment over the fact that the deposit rate in Canada has not been raised during the present period of tight money. There is no question but that the banks have been getting materially better rates on loans and discounts than they were able to command a few years ago. The inference is that the margin of profit is wider. Indeed that is pretty well proved by the recent bank reports. Earnings have been at record figures, dividends have been raised quite generally and that without reducing the "balance of profits after dividends." Under these circumstances it is natural that some depositors should complain. Saturday Night of Toronto, hints at the existence of a banking trust. It mentions that many of the savings banks of the United States, some of them in the highest credit, are paying 4 p.c. on deposits. More to the point, however, is the news that comes from England, that the great London banks had been paying depositors as much as 4 p.c. Some special depositors, among them being one or two of the Australian colonies having large sums temporarily at their disposal, were able to get even more than 4 for deposits placed with London banks for terms of six or twelve months. Obviously it is fairer to compare the Canadian deposit-rate with the London rates than with American rates, because the security offered to depositors by the banks in Canada and England is nearer an equality and it is, in general, better than the small American banks can offer.

It only needs a little examination to show that Canadian depositors are better off than English depositors. In England the deposit rate follows the market rate of discount, being always from  $\frac{3}{4}$  p.c. to  $1\frac{3}{4}$  p.c. below it. When it is remembered that the market rate of discount is usually close to the Bank of England rate it will be easily understood that the deposit rate undergoes considerable fluctuation. For a long time, in the last trade depression, depositors in England were not

able to get from the banks a higher rate than 1 p.c. For them to get 3 p.c. it is necessary that the market rate of discount be 4 p.c. or higher, and that rate has not prevailed for a great length of time even in the last 3 years. Should trade activity decrease and money in the world's great centres become cheap—something that is within the range of possibility in the next year or two—English depositors are likely to have their rate put down to the neighborhood of 2 p.c. And taking their interest rate for a period of 5 years it is altogether likely that the average would be considerably under 3 p.c., the rate that Canadian depositors have received steadily in late years. And there are other considerations. Bank depositors here have certain advantages that are withheld from their brethren in England. One of the most important is the savings bank facilities. It is not possible in England to go into a big bank and open a savings bank account with a deposit of \$10, \$25, \$50, or even \$100. The savings bank department is almost unknown. The deposit business is done mainly with deposit receipts as it was here some 20 years ago. The depositor puts in his money (if it amounts to say £50) and gets in return a receipt or contract acknowledging the deposit and agreeing to pay interest at a specified rate if the money remain three (or six) months. When one of the provincial banks a little over a year ago instituted a savings bank department, the departure stirred up not a little criticism. The consensus of banking opinion in England seems to be that the savings bank business is something that should be kept entirely distinct from the ordinary banking business of current accounts, loans and discounts.

Then the multiplication of the branch offices, the establishment of branches in every little hamlet in the country, and at all the important street crossings in the cities, represents largely a concession made at some expense by the banks to their savings bank customers. The recent inauguration of quarterly payments of interest is another. This increases banking expenses and adds fractionally to the interest income of depositors.

In all new countries such as Canada, the margin between the deposit rate and the discount rate has to be wider than in a country like England, to provide for losses. In England the bankers have little difficulty in accurately estimating the chances of success for almost any industry or trade enterprise. And if they cannot do that, they can and do arrange matters so as to run little or no risk of loss. Here conditions are different. In supporting the legitimate operations of their customers the banks have sometimes to take chances that