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EXTERNAL EXAMINATION OF BANK

With regard to the whole question of external bank inspection which Mr. McLeod, general manager of the Bank of Nova Scotia, discusses in his letter printed elsewhere in THE CHRONICLE, it will be noted that he lays a good deal of stress upon the effect which external examination has had in improving the tone of banking in the United States. When one considers this matter carefully it becomes tolerably clear that with a system of independent small banks, such as the United States possess, external inspection is a necessity. But in the case of Canada the necessity for outside supervision of the banks is not apparent. We are progressing towards the point where bank failures will be rare. As their numbers decrease the individual banking units are becoming stronger and larger. At present it is demonstrated that it is somewhat difficult to get enough capital subscribed and paid in to supply the requirements of the Bank Act for a new bank. And one may reasonably count on a slow decrease in the numbers of the banks.

So far as depositors and creditors are concerned the events of the past three or four years show that they are not in great danger of losing their money. It is a difficult thing to compare the experiences of bank stockholders in Canada and the States. In his letter, Mr. McLeod gives the losses to stockholders in the national banks in the past forty-four years as $100,825,239. He arrives at these figures evidently by taking the aggregate of capital of national banks becoming insolvent, since 1865 $82,727,420, and adding to it the cash collected in assessments made on the stockholders after suspension $20,974,373, getting the total $103,701,793. From this is to be deducted $2,876,554 dividends paid to shareholders in cash. However, this takes no account of the surplus over and above the capital—the fund carried in Canada under the headings of rest and profit and loss balance.

It is also a matter of knowledge that the comptroller of the currency is continually going after the banks through the course of every year, and forcing the directors and stockholders to pay up fresh money in order to clear away bad [illegible] ful assets. This does not appear at all in [illegible] st of insolvents and the total must amount to a very large sum. It should also be added, along with the wiped out surpluses and profit and loss balances, to the hundred millions odd of losses. If this were done the total losses suffered by national bank stockholders in the States would not show up so favourably in comparison with the losses of Canadian shareholders.

Another question might be raised that a comparison of 44 years back bears somewhat hardly on Canadian banks. The circumstances then prevailing in both countries were different.

Mr. McLeod refers to Scotland as a country in which the introduction of external examinations in 1879 operated to stop bank failures altogether. It is permissible to argue that there have been no bank failures in Scotland since 1879, because though the operation of Sir Robert Peel's Act of 1844, the Scotch banks had become greatly diminished in numbers and each unit had become large, strong, and well established. The Act of 1844 confirmed the Scotch banks existing in that year in a monoply of note issue. No new bank started in Scotland after that year could have the right to issue notes. This fact proved an effectual bar to the organization of new banks. Consequently the number of banks in Scotland began to decrease, and by the year 1879 there were only a few banks, but each one was solid and well established. Perhaps there might not have been any failures since 1879 even if external examination had not been introduced. The Canadian ten[illegible] is also in the direction of a diminution in t[illegible]ber of banks and an increase in the strength [illegible] the individual units.

If the government undertook the duty of external examination of banks it is more than doubtful whether the business would be handled so as to give the creditors and stockholders materially better protection than they now have. And there would be an amount of responsibility for bank failures thrown upon the Finance Department which [illegible]t may not be either anxious or willing to assume.

An audit of the head office once a year by accountants not qualified to pass on the character of the loans and discounts would be of very doubtful value. And then there would also be the question of political appointments.

Mr. McLeod is not correct in saying that we have scant sympathy for the bank stockholders who have been injured or reduced to poverty through bank failures in Canada. We would extend a hearty approval of any plan we considered practicable that would make their investments safer. Our own opinion is that the question of outside inspection is a matter for the shareholders and directors ra[illegible] than for Parliament.