

The Branch Bank System

AN EXPLANATION OF ITS MERITS AND ITS EQUALISING EFFECT—CANADIAN SYSTEM
SUPERIOR TO THE UNITED STATES

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ONE qualification of a proper Banking System is that it should possess the machinery necessary to distribute money over the whole area of the country so that the smallest possible inequalities in the rate of interest will result.

Our system performs this duty with admirable success and it does it by means of branches and agencies in various parts of the Dominion. Section 64 of the Act expressly authorises the bank to "open branches, agencies and offices" and this power has been very extensively used. At the present time there are 36 banks in Canada, and these banks have nearly 1,700 branches in 881 different cities and towns in Canada. Our two largest banks have together 286 branches in Canada.

For all practical purposes of convenience to the locality each branch is a separate bank, but instead of being a small bank with a limited capital it has behind it the strength and resources of the large institution of which it is a branch.

The branch system works in this way. In one locality where there are few if any factories or active business carried on and where the farmers are prosperous, the savings of the people will exceed the demands for money and the deposits in the bank will exceed the loans. In another locality where business is brisk and money is in demand the deposits will not equal the loans. The bank takes from one branch the excess deposits and uses this excess in the branch where there is a deficiency. This takes place with many branches, the excess in one making up the deficiency in another, with the result that the difference in the rate of interest charged to borrowers in different parts of Canada, except just now in the Northwest, is largely accounted for by the express charges in sending money from one place to the other and by the loss of interest during transit. Of course, the prevailing rate in a community where the borrowings greatly exceed the savings will be higher than in a community where the contrary is the case, and where a rapid development is going on, such as in our Northwest, the interest rates will be maintained at a higher level than elsewhere, but even there the facilities possessed by the banks in obtaining and distributing money by means of their branches and the competition between them will keep down any excessive rate.

THE BORROWER

A proper banking system "should supply the legitimate wants of the borrower not merely under ordinary circumstances but in times of financial stress, at least without that curtailment which leads to abnormal rates of interest and to failures."

The branch system is almost essential in order that this requirement may be properly met. I can best illustrate this by referring to the conditions in the United States. There the branch system is not in force, and the result is that the excess of the people's savings in one community does not readily find its way to the place where a deficiency exists. Banks in the East, as a rule, have immense deposits, and lend largely to banks in the South and West, by rediscounting customers' paper and by direct loans, but this is very different from a bank, say in New York or Boston, sending to its branches in the South or West, the excess on hand, to be loaned direct to customers of those branches. The capitals and resources of most of the banks doing busi-

ness in the thousands of towns and small cities of the United States are too small individually to supply the wants of the active business in their communities.

One of three things therefore happens, and frequently all three happen, viz.: the bank must re-discount the customers' notes with another bank at a distance or the customer must himself go to another bank for some of his wants, or the borrower must sell his paper through a note broker, to whatever banks will buy it; the result is that a business requiring large advances, and not able to keep its active account with one large and strong bank becomes indebted to several banks, either because the notes have been re-discounted or because the loans have been made direct by different banks, or because the borrower's notes have been sold to various banks. Contrast this with the branch system where every branch, no matter how small the place, has behind it the resources of the parent bank, and where the parent bank has a special interest in the customer and a stake in the community where the customer is, and then consider the different results in time of stress and distrust. In the one case the chances are that the borrower has no bank sufficiently interested in him or sufficiently strong, if interested, to give further assistance. Each bank is too apt to look out for itself. The notes mature. The banks holding them have no special interest in the maker or in his community. Distrust prevails. Payment of the notes is demanded and further advances or re-discounts are declined, the lending banks for their own protection must call on the borrower to pay; this happens with all his loans; he may have ample means to pay in full if helped over the period of stress, but he cannot get help, and through no fault of his and through no fault of his bankers, but simply because of the banking system, he has to fail.

SIMPLICITY OF SYSTEM

In the other case conditions are different, for in Canada it is the exception when a borrowing active business keeps more than one bank account. Our banks will not as a rule lend to a customer who borrows from another bank and our banks seldom, if ever, rediscount their customers' notes. The result is that in this country the borrower finds himself indebted to one bank only. He consults his bank. Head office is communicated with and the case is considered on its merits by those who, in the first place are able to help if help be decided upon, who in the second place have no other banks to consult, and who in the third place have a very special interest in the borrower and in the community where his business is being carried on. If the case deserves help, help is given, and the borrower, not because his case is more worthy of help than that of his brother across the line, but because the banking system is different, is saved from ruin.

That this is not a fanciful picture is shown by what happened in 1893 where stress and distrust in all kinds of business existed in the United States and Canada. In that year six hundred banks suspended payment in the United States, mainly through failure of their debtors, and only two hundred and two resumed business, whereas in Canada there was but one suspension, that of a small bank in Manitoba which had not been long in business. Its notes were promptly paid in full and its depositors and creditors received one hundred cents on the dollar.