

EXTERNAL EXAMINATION OF BANKS.

In a recently issued pamphlet on Bank Inspection, the general manager of the Bank of Nova Scotia advocates the external examination of Canadian banks. In view of the revision of the Bank Act this session—or more probably next—this pronouncement of so able a banker as Mr. H. C. McLeod will evoke interest and discussion. With characteristic fairness Mr. McLeod includes in an appendix many expressions of views opposed to his own. So that the pamphlet has the rare merit of presenting both sides of the question.

But at the outset the argument for external examination is based upon a comparison that is certainly not "on all fours." To state that the percentage of bank failures in the United States, under governmental inspection, is less than in Canada is not to the point—and it seems unfortunate that comparative ratios should be thus quoted without qualification. In the minds of the uninformed the statement is liable to give an erroneous impression as to the comparative safety of banking methods here and across the border. Indeed, no comparison of ratios should be instituted between branch banking and non-branch banking systems. The liquidation of a single bank in Canada, however few its branches, would apparently increase the percentage of failures by over three per cent.; though, on the basis of bank branches involved, it might affect a mere fraction of one per cent. of the country's total.

As to the comparative ineffectiveness of government inspection in the United States, there is no lack of evidence. The present Comptroller of the Currency is himself a scathing critic of the delinquencies of his staff of bank inspectors. His well-intentioned efforts at improvement are admissions of the dangers that inhere in such a system. Only this week he has issued orders that the directors of national banks must provide for more thorough internal control by appointing examining and discount committees—evidence surely that reliance upon external supervision has led to laxity in internal methods of management. Prominent American bankers themselves deplore the "false sense of security" that comes as a result of government inspection, leading the public to consider one bank as good as another without stopping to judge it by sound business standards.

And the branch system would make still more complicated the problem of external bank inspection in Canada. Though Mr. McLeod thinks that a head office audit would suffice, it is difficult to avoid the logical conclusion that branches also would have to be dealt with. As against this, it is scarcely a convincing argument to state that an examination at head office would have been suffi-

cient to reveal the approaching failure of this or that bank. If in any case the intent to deceive existed, and it were known that head office (and head office only) were to be subject to inspection, is it likely that means of shifting incriminating evidence to some leading branch would not be found possible?

Mr. McLeod does not deny the truth of the statement made by Mr. B. E. Walker, that "there are many forms of possible loss to shareholders which the government inspection or audit by a chartered accountant could not detect." But he expresses the conviction that chances of such loss would be minimized by external inspection. On this point the great majority of Canadian bankers do not agree with Mr. McLeod, though they are every whit as solicitous as he for the fair name of banking in Canada. But they are convinced that any external audit of accounts, however thorough, might prove a broken reed for public confidence to lean upon. To quote Mr. Thomas Fysche, "Bankers know that what is necessary to secure certainty is an audit of the facts or valuation of the assets, which is a very different thing." Only an officer of the bank itself can give any adequate opinion as to the nature and value of the assets covered by the balance sheet.

Holders of bank notes are amply protected under existing conditions in Canada. Nor have depositors, except in slight measure, been sufferers from bank failures in Canada during the last quarter century. Shareholders have borne the brunt. Unfortunate as this has been from their standpoint it is scarcely argument for government paternalism. As well argue that those buying stock in some present-day merger should have assurance that their interest would be looked after by government auditors.

In a letter to *The Globe*, of Toronto, three years ago, Mr. McLeod wrote as follows:

"Bank shareholders are the parties with the major interest at stake, and for the present the subject would be better left to them and their representatives, in the hope that a satisfactory solution of the problem may be reached."

This seems a more sound course than Mr. McLeod's present proposal for government interference. If the shareholders of any bank desire a change in methods of internal inspection, or would supplement it by an independent audit, the way is open without appeal to legislation.



THE GERMAN GOVERNMENT is introducing a measure extending sick benefit insurance to the working classes not heretofore protected, and creating a system of insurance for the dependent relatives of deceased workers.