

property held to be specially hazardous. This company had on 31st Dec., 72 policies outstanding to the amount of over 32 millions. There are quite a number of such companies in the New England States, and some of them show even a better return than this, but I have not their reports at hand to quote from. Judging from an experience like this, I have no other conclusion to come to but this, that the rates charged by the stock companies are excessive, and that if they selected their risks as carefully and kept up a periodical examination as do the Mutual Companies, they could charge a very much less rate and show a much larger profit to the stockholders.

I have not written this for publication, but you can make use of it if you wish in any remarks you make on this subject.

Yours truly.

B. ROSAMOND.

Rosamond Woolen Co.

Almonte, Ont., 2nd July, 1873.

No objection is taken to our statement, several times proven in these columns, that the operations of the fire insurance companies in Canada have not been profitable; but the writer argues that this fact merely proves "that their risks have not been well chosen or their business properly managed."

We shall not deny that there are evidences of mis-management; that the prevailing methods of conducting fire insurance operations are open to revision and improvement. Experience is teaching its daily lessons in this as in other departments of commercial life; and there are some here, as elsewhere, who will not profit even by the dearly-bought instruction of this tutor. Still the managers of stock insurance companies have the same interest in being successful as those engaged in other branches; they issue policies to make money for their stockholders. They select their risks; fix the rates of premium, and regulate their expenses all with the object of showing a favorable balance-sheet at the end of the year. The companies secure the most skilled, energetic and prudent managers, agents and other officers that are available with the same end in view. Yet it so happens that they have not for years succeeded in earning more than the most meagre return on their invested capital. It will be noticed, too, by those who have watched the statistics we publish from year to year that the fortunes of individual companies in different years vary very much; one that made money in 1871 lost it in 1872; another perhaps regained in the latter year what it had lost in the former. Is it not strange then that if the risks can be so well chosen and the business so managed as to produce the large profits that "excessive and unnecessary" rates ought to yield, some companies do not amass wealth for their shareholders? Suppose it were charged that Canadian woollens are too dear, it would be a very proper answer to give that the manufac-

turers, as a rule, are not making undue profits, that while some are very prosperous others are in difficulties; and yet if better machinery were introduced and more scientific or economical processes of manufacture adopted the result might perhaps be very different. The material costs so much, the manufacture a further sum; add the profits and we have the selling price of a piece of goods. Among ten thousand buildings so many burn down involving a certain amount of loss, the expenses of management involve a further expenditure; add then, the profit of the capitalist who assumes the risk and you have what the rate of premium is or ought to be.

We cannot admit that the experience of an individual company, taking a particular class of risks, in the United States, Germany or England, can be used to settle the question whether the rates charged by companies doing a general business in Canada are, or are not too high. Let these offices do business side by side with companies here for a few years and if they can then show such exceptional results, the illustration will acquire real value; and much progress would be made in solving the difficult problem which the fire insurance experience of Canada confessedly presents.

BANK RESTS AND DIVIDENDS.

Bank stockholders are sometimes unreasonable. When things are adverse they are apt to be unreasonable in clamoring for change, and when prosperous, they are equally unreasonable in desiring a larger distribution of profits than is warranted by prudence. In two of our recent bank meetings this spirit has been manifested, and especially in that of the Bank of Commerce, which is reported in a subsequent page. We are glad that it was met by a firm refusal on the part of the President, and that some leading stockholders had the good sense to sustain him in the sound position he took: viz., that not only a reserve of some kind, but a *very large* reserve fund is essential to the safety of a bank in a country like this. That this position is justified will be evident from a very few considerations.

None of our recently formed banks have passed through a monetary crisis. When such a crisis comes, the losses of banks swell up to such magnitude that the accumulations of years of prosperity are swept away. If a bank has been prudently managed, it may have nothing more than its rest destroyed, if otherwise, not only rest, but a large amount of capital will be swept away too. If the directors have been so imprudent as to impair the rest by an

entire division of profits; then such sweeping away of capital may take place as to ruin the bank itself.

Let us refer to facts. The Bank of Montreal has been in existence nearly fifty years and has been always well managed. Up to a few years ago it had not divided, on an average even eight per cent. Yet with this moderate division of profits, and with prudent management, the whole of its accumulated reserves were swept away by one crisis after another. The losses in 1847 and subsequent years impaired the capital and the bank met the contingency by reducing the dividend.

The losses in 1857 and the years of depression which followed, amounted, as we learn on good authority, to a million dollars or upwards, and this on a smaller business than is done by several of the larger banks now. The discounts of the Bank of Montreal in 1856 and 1857 were from ten to eleven millions. Those of the Bank of Commerce at present, are thirteen millions.

The same may be said of the British Bank which has had all its reserved profits swept away until within a very few years back. And this in spite of most jealously careful management.

The City Bank lost all its reserve in 1847, and its capital was so much impaired that most strenuous and energetic measures were needed to prevent its going down.

The Quebec Bank has been in existence nearly fifty years: it has never divided but moderate profits, yet up to within a few years back, its reserved funds have all been required to make up for losses in seasons of depression.

The Ontario Bank, the Molson Bank and the Bank of Toronto all commenced business just previous to 1857, and their losses through the revulsion of that year required all the surplus earnings of many succeeding years to make up.

Now take another class of facts. Three banks have failed or been wound up during the last twenty years; all of which passed through the crisis of 1857.

The Bank of Upper Canada lost the whole of its reserve, the whole of its capital, and a large amount of the money of its creditors.

The Commercial Bank lost the whole of its reserve—about \$500,000—and about \$2,000,000 of its capital.

The Gore Bank lost the whole of its reserve—about \$150,000—and \$150,000 of its capital.

Let stockholders ponder these things, and reflect whether it is not important to prepare in time for a period like 1857, by accumulating such a reserve that a good nest egg will be left even when extraordinary