BANKING AND INSURANCE.

(A VERY IMPORTANT CASE.)

Bank Managers all over Canada have been waiting for the verdict in the suit arising from the destruction by fire of the stock of the John Eaton Company of Toronto. The case possesses unusual interest for all Canadian banks, and we intend to dwell at some length upon thoughts engendered by the judgment given.

If to the element of risk now attaching to a system of straight advances by banks to their customers were to be added the fresh danger of faulty or fraudulent insurance, the banker's life would not be a happy one.

However, the Bank of Toronto has for the present won on every point involved in the suit. The total amount of insurance claimed by the bank to whom same was made payable in case of loss was $219,000.

The loss by the fire is shown to have been $277,000.

The entire case furnishes material for bankers and insurance men to grow very thoughtful over, and we wish to call attention to the light it throws upon the close connection existing between the Banks and their customers and the ever-increasing interest of insurance Companies in the practice now prevailing of transferring the insurance policies of the merchant and shop-keeper to the banks from whom they may require advances. There is a marked disinclination on the part of the first-class insurance companies to permit their policies to be thus transferred. The banks, being innocent holders and knowing nothing of the temptations of an over-insured client, are in cases of fire apt to fight for every dollar of the insurance. Moreover, it is easier for the insurance company to effect an equitable settlement of a loss with the insured than with a third party.

The collection of such a large amount of insurance by the Bank of Toronto will illustrate the wisdom of the caution which dictated the agreement for a transfer of the policies from the John Eaton Company to the bank.

The published report of the finding of the Court says :—

"The court first finds that there was no pretence of arson or any claim established in that respect. Second, that there was no fraud in the declaration of claim for insurance, and that, looking at all the evidence, whether from books or whether that given by the witnesses in general or in detail, the total loss by the fire amounts to $277,000. The court gives no effect to the contention of the defendants that there should be allowed an amount for the depreciation of the stock. The court says that the evidence is not sufficiently clear upon that, and that if any depreciation were allowed it would not affect the case, for no amount of depreciation that the court could allow can bring the claim down to the amount of the total insurance—about $219,000. The bank claims that amount."

The contention of the insurance company that the amount collectable by the bank should only be paid after a deduction for depreciation in the value of the insured goods would undoubtedly have been granted under any other circumstances than those prevailing in this case. But, although the Judge held that no allowance for depreciation could bring the claim down to the amount of the bank's claim ($219,000), it is quite likely that the destruction by fire of the John Eaton Company stock would be considered by any adjuster of losses "a very good sale."

Insurance directly effected in favour of a bank is unlikely to be fraudulent. The policies are, as a rule, held merely as collateral security for advances made, and are only regarded by the interested bank as protection against the loss by fire of a stock of merchandize from the sale of which the bank expects to be repaid its advances.

In the majority of similar cases (and the large amount of insurance now payable in case of loss to our banks would be surprising if made known), the banks will be found to have advanced money to enable customers with slender means to pay freight and duties on new stock, and to meet maturing obligations for same. Upon the safety of such a practice —the providing of capital by a bank for the prosecution of any business—we have nothing to say. But of the right of the bank to obtain all the security possible under such circumstances there is very little question. The interest of bank and customer is frequently, in these days of close competition for business, so closely interwoven that the bank is compelled to take as collateral security for its money not only the insurance on a merchant's stock, but on his life. For upon the very existence of a customer may, in the opinion of his banker, depend the success of the business he conducts.

The outcry against the banker who, as in the case of the John Eaton Company, in the event of fire or failure, is found to be well secured, holding even insurance as collateral for the customer's liability, is not justifiable.

If our banks were not in the majority of cases fully protected by their clients, the bank managers would be compelled to change from a policy of indulgence and support to the trade of the Dominion to one of such extreme caution that straight unsecured advances would be unknown and insurance "payable to bank in case of loss" quite unnecessary. *Perhaps such a change is desirable.* We leave it to our bank managers to determine this question.

But, so long as the individual trader or a Company embarks in business without sufficient capital, the banks carrying them will be compelled to ask for insurance of their merchandize in favour of the Bank.

There is another feature of this interesting subject to which we desire to call the attention of bank managers:—the importance of subjecting all insurance policies held by them to the inspection of experienced insurance agents, whose duty it will be to satisfy the bank concerned that the insurance is properly effected and the amount not likely to be disputed by any adjuster of losses on the ground of over-valuation.