

tion puts himself on record on this line he does so with the risk of incurring the ridicule of those whose experience teaches them differently.

One cannot pretend to follow the writer of the article in denouncing the extreme liberality of companies in the payment of excessive losses. It is, however, refreshing once in a while to hear of someone who really thinks he knows of a case where the companies have paid more than they should have done; as a rule the companies are "robbers," defrauding the poor innocent sufferers of their just dues by sharp adjustments, and it is quite possible that the zeal shown by most men to get as much as they can out of the insurance companies may recoil upon the offenders in this direction, and upon those who sit by and suffer in contentment. After all it is those who pay cash for goods who make up for those who do not pay, and it is those who do not have a fire who pay for those who suffer. And who can tell who will next suffer!!

RESERVE FUNDS AND BAD DEBTS.

At the Annual Convention of the New York State Bankers' Association, the Hon. F. D. Kilburn, Superintendent of the New York State Banking Department, delivered an excellent address on "Practical Banking," which has since been printed in pamphlet form by request of the members. From it we extract Mr. Kilburn's views regarding the accumulation of a surplus and the proper treatment of bad debts. His remarks under the latter heading contain excellent and sound advice for all banks. He said in part:

"I would like to say something about the policy of banks with reference to the declaration of dividends. I know that I am treading on delicate ground and that many will not agree with me in my view upon the subject, but I believe that in certain cases and under certain circumstances the payment of dividends is one of the greatest obstacles to success that banks experience. It may not be possible to lay down any specific rule by which to be governed, but as a general proposition I insist that all banks would succeed better if they deferred dividends until their surplus equalled their capital. Many hold the mistaken notion that the declaration of a dividend is a tangible evidence of success and strength, and that business will be attracted to the bank by such a course, and that, on the other hand, the failure to declare dividends is evidence that the bank is unsuccessful. I would rather have the attractiveness of a large and growing surplus to increase the business of a bank than all the solicitation that may be possible. Men usually will not deposit their money on account of friendship in a bank about whose stability they have any doubt. The ordinarily prudent man will above all things be sure, so far as he can be, that the institution in which he deposits his money is safe. An individual who spends all he earns is pursuing exactly the same course that a bank does which insists upon dividing among its stockholders all of its

earnings, and is entitled proportionately to the same credit and consideration. The stockholders lose nothing by allowing the earnings to accumulate and be put into surplus. Their stock increases in value. The earning power of the bank is made greater. The bank becomes more independent, and, of course, stronger and less liable to meet with serious trouble. You show me a bank whose policy has been to divide all of its earnings except what the law compels to be carried to surplus, and I will show you a comparatively weak institution which all the time has to struggle for existence and whose promise as to the future is not of the brightest.

I have suggested that without infallibility on the part of its managers a bank will lose more or less money from bad debts. Not only is this the case, but many banks, after knowing that debts are bad, insist upon carrying them in their assets. By this method they not only deceive their customers and the public and their own stockholders, but they seem to try to fool themselves.

A bad debt, or one which is reasonably so, has no more place in the assets of a bank than blue sky. No bank should hesitate to charge to profit and loss debts which are bad. This may be heroic treatment you say, and it may so diminish the surplus of a bank as to cause a lack of confidence and perhaps a run upon the institution. If this is to be the result, then I grant you that some other method ought perhaps to be adopted, and the only method I can suggest is that if a bank is paying dividends, it stop those dividends until its future earnings are sufficient to repair the losses; or that the stockholders eliminate the bad debts by putting money in their stead.

A statement which does not reflect substantially the true condition of a bank is not only misleading, but in itself it is dishonest, and no president or cashier or board of directors has the right morally or legally to issue a statement which does not, at least in their opinion, reflect substantially the true condition of the institution.

I do not believe that there is any trouble in conducting banking successfully if the simple rules to which I have called your attention are observed; but speculative enterprises and chances, taken because of large rates of interest, and slipshod methods of doing business, will all sooner or later bring trouble and disaster.

What I have said does not apply to any particular section of the State. It is just as necessary among the large institutions of our State as in the smaller, and until all of the banking fraternity of the State understand, as I believe most of them now do, that the methods to which I have called your attention are necessary to successful banking, we will not have attained to that perfection in the conduct of this business which is not only desirable, but easily possible. This cannot be brought about by legal control and restrictions. The provisions of our banking laws are reasonable and just, and undoubtedly have a great restraining influence, and if obeyed will do much to make banking successful and safe; but no law unaccompanied by judgment and discretion and wise methods can accomplish much; and, therefore, it is not enough that the letter of the law be kept, or perhaps the spirit of it; all the other things to which atten-