

THE CANADIAN BANKING SYSTEM

By Sir Edmund Walker, President, Canadian Bank of Commerce

"The Canadian Banking System," particularly as it showed marked differences from other systems, how it has served Canada, how it stood the test of war, and what we have to face at the present time, was the subject of an address by Sir Edmund Walker, at the last annual Convention of Wholesale Grocers, held in Toronto. Owing to the prominent position held by Sir Edmund Walker in the banking profession throughout the world, his address will be of much interest not alone to our readers in Canada, but also to our readers in various parts of the world. After complimenting the Wholesale Grocers of Canada on the establishment of their guild, Sir Edmund Walker proceeded with his address as follows:

"There are four features in which Canadian methods are markedly different from those of some other countries, and in some respects different from those of almost all countries. In the first place we have—as Great Britain has, and the United States has not—a branch system of banking. There are very few people who know that we inherit our system of banking very largely—the beginning of it, at all events—not from Scotland and England, as we might suppose, but from the United States. The great genius, Alexander Hamilton, began as early as 1790 to fight for a system of banking which would have branches and would both gather in and distribute capital in an easy way, and cause banking to be an arm of the state, helpful to the state as a whole; as opposed to a system of banking by little institutions scattered all over the country, which may be very powerful in their own small areas, but are not powerful in working for the country as a whole. That struggle has lasted in the United States from 1790 to the present time, and when we established our first banks in Canada we took some of their features from the charter of the first bank established by Alexander Hamilton, so that we began with the ideas of banking which had already been tested to some extent on the American continent, and which had been successful thus far. In our Canadian West we still have the old dispute; there are still people coming from the United States who in that country used to go to the local bank director, slap him on the back, and ask him to lend them money, and who think they can get it more cheaply and easily that way. If they ever stopped to consider the value of our system, they must realize that theirs is a very poor system compared with ours, although it is undoubtedly a pleasant thing to borrow from the director of a bank instead of from the manager of a branch.

We are very different from the United States in having a branch system, which distributes capital easily all over the country.

The second feature is that in Canada we have the free issue of notes by the bank against its general assets. You may not know that we also borrowed that directly from the United States, it having been the early system in that country whether in the case of Hamilton's bank with branches or in the case of the individual bank. They all provided the currency of the country in this way. Some issued too many notes, it is true, but our system, as we have it at the present time, is borrowed from that source. I shall try to show you later that such issues properly guarded are the only good paper money that exists.

The third feature is the system of granting credits in this country; it is different from that of any other country in the world. In this country a bank desires to be the only bank to lend money to any particular concern, and the Canadian banker is very jealous of that privilege. If the customer desires to borrow money upon his own credit without other security, the banker insists upon seeing the customer's balance sheet, and, if he is a good banker, even his profit and loss account for some years back. Thus he knows intimately the affairs of the particular business for several years, and he acts upon that knowledge, and upon the basis of the fact that the customer is not going to borrow from anyone else. In no other country in the world are such large individual credits given as by the banks of Canada. These credits are only possible because of the intimate knowledge possessed by the banker of the customer's affairs for several years. They are also given without any condition as to his keeping part of the money borrowed at his credit with the bank. In the United States, for instance, you may want to borrow five dollars, but you may only get four, although you borrow and pay for five. The other dollar you must leave in the bank; and allow them to lend it again to other people. You get the money with no condition of that kind so far as the Canadian banks are concerned. You get also an option which is not granted by any other banking system in the world. Suppose at the beginning of the season we say we will lend you fifty thousand dollars, or a hundred thousand dollars, or five hundred thousand dollars, or two million dollars—whatever the sum may be. We put that at your disposal; of you do not take it, you do not pay interest, but we do obligate ourselves—not legally, but in our banking practice—to give to you at any time of the year, whether it is convenient to us or not. In no other country in the world, so far as I know, does such a practice