

# The Powers and Business of Canadian Banks

(By John Edouard)

One of the most popular topics of serious conversation in the West today is the banking system of Canada. Many people in British Columbia are of the opinion that this province is suffering through the policy adopted by the Canadian banks in certain particulars, and perhaps they are right. It is not the object, however, of this article, to deal with that phase of the question, but rather to give a rough summary of the workings of a bank under the Canadian banking laws.

Banking in Canada is done upon the plan commonly called the branch system, installed on the theory that, having the ready money of the country in the hands of a few large banks with branches scattered over the country, money could be rushed to any point where the deposits did not equal the demands for loans. Branch banks are mere separate offices of the principal bank, and are distinct from agencies, the main difference being that agencies collect a commission upon the amounts collected or cashed for their principal while branch banks charge nothing against the branch sending them a collection, their expenses being borne by the bank as a whole. Accounts kept at the different branches of a bank may be consolidated and a sum payable at a branch may be paid by the head office although for the purposes of notice of dishonor and payment of a cheque branches are treated as distinct banks.

The Act under which Canadian banks are now working was consolidated and altered in 1906, and is known as Chapter 29 of the Revised Statutes of Canada, 1906, shortly cited as the Bank Act. This Act is practically the result of the development of the banking statutes of Upper and Lower Canada. Since Confederation, 1867, the Parliament of Canada has had sole power to grant bank charters and the banks previously organized, as their charters expired, have been renewed by the Dominion government. The only Canadian bank now existing which is not wholly subject to the Bank Act is the Bank of British North America, incorporated by royal charter, with its head office in London, and having a corporate existence independent of the Act. The sections which do not apply to that bank are specified in the Act.

A "bank" may be defined as a corporation which in the ordinary course of its business receives money, which it repays by honoring the cheques of the persons from or on whose account it receives the money, and a "customer" as one who has an account with a bank. Private persons or corporations may engage in the business of banking provided they do not use in their business or sign the words "bank," "banking company," "banking house," "banking institution" or similar phrases. They are also prohibited from using paper currency.

The organization of a bank in Canada is not complicated or difficult, provided you have sufficient money or can raise it. Those who intend forming such an institution first elect provisional directors (not less than five or more than ten) to look after the opening of stock books, and the obtaining of subscriptions and payments thereon sufficient to comply with the act, which requires that the subscription must amount to at least \$500,000, with not less than \$250,000 paid up and handed over to the Minister of Finance. As soon as this has been done, the provisional directors call a meeting of the stock subscribers to elect directors for the ensuing year, and the functions of the provisional directors then cease, as they are merely the active organizers of the corporation. Within a year following the bank must apply to the Treasury Board of the Dominion for a certificate to do business. The matters of Canadian banks all expire at the same time, no matter when the bank was formed, and they must be renewed every ten years, the next renewal taking place in 1911.

The bona fide subscription of \$500,000 of capital and the payment of \$250,000 thereof to the Minister of Finance are two of the conditions precedent to a new bank's commencing business. Its object is to obtain a safe minimum of subscribed and paid-up capital as evidence of good faith, and acts as a deterrent to the formation of small, weak banks. Upon the issue of the certificate from the Treasury Board the minister repays to the bank the amount deposited with him, without interest, after deducting the sum of \$5,000, which is retained as a security for the notes issued by the bank. The whole amount is returned if no certificate is issued.

This \$5,000 goes into what is known as the Bank Circulation Redemption Fund, established for the payment of the notes of any insolvent bank with interest at 5 per cent per annum from the day of suspension until such payment.

The fund scheme is shortly this: Upon the formation of a new bank, \$5,000 is retained for the fund, and a readjustment is made as soon as possible after the 30th of June in each year in such a way as to make the amount paid into the fund by a bank equal to 5 per cent of its average note circulation for the year previous, or, in the case of a new bank, up to the time of adjustment. If a bank becomes insolvent the payments made from the fund are made without regard to the amount contributed by that bank, but any amount paid out of the fund in

excess of the amount contributed bears interest at 3 per cent, payable out of the insolvent bank's assets. Outstanding notes of an insolvent bank bear interest at 5 per cent per annum.

Bank notes, which we (if we can) handle every day, are lawfully issued by a bank up to the amount of its unimpaired paid-up capital. That is, if a bank has an unimpaired paid-up capital of \$500,000 it can get the use of an added \$500,000 without cost by issuing bank notes. This applies to all the Canadian banks except the Bank of B. N. A., which can only issue notes up to 75 per cent of its paid-up capital. It is provided, however, that a bank shall not issue or re-issue notes during a period of suspension of payment of its liabilities, or without the authority of the curator or Treasury Board after the ceasing of the suspension, and at no time are notes to be issued for a less sum than five dollars or a sum which is not a multiple of five dollars.

Likewise it is forbidden to pledge, assign or hypothecate its notes, and no advance or loan made on such security is recoverable from the bank or its assets, though should they come into the possession of an innocent holder, he could enforce payment by the bank, and if it proved insolvent, claim against its assets and the Circulation Redemption Fund.

After a bank has issued notes it must make arrangements for their circulation at par in every part of Canada, and towards this purpose the bank must establish agencies for their redemption and payment at the cities of Toronto, Montreal, Halifax, St. John, Winnipeg, Victoria and Charlottetown, and at such other places as are, from time to time, designated by the Treasury Board. Up to the present no other places have been designated by the Board, as Canadian banks redeem each other's notes at par anywhere, though legally speaking they are only compelled to accept legal tender and their own notes in payment of a debt. The section of the Act compelling the banks to guarantee a par redemption was passed in 1890, as it has become the practice to pay notes at a discount when they were circulated at a distance from the office where they were issued. A person receiving money from a bank may demand Dominion notes up to the sum of one hundred dollars, and no payment out of a

bank, whether in Dominion or bank notes is to be made in bills that are torn or partially defaced by excessive handling.

Each Canadian bank note before being put in circulation must be signed by the persons authorized by the directors to do so, and these persons are limited to the cashier, assistant cashier, or officer of the bank or any director, not being the president or vice-president. The signature may be made by machinery, if at least one signature to each bill is in the actual handwriting of a person authorized to sign. It sometimes happens that a counterfeit bill is presented to a bank official, and it is then his duty to stamp the bill with the word "counterfeit," "altered," or "worthless," but should he happen to wrongfully so mark it, he must redeem it at its face value.

The purposes of a bank are, primarily, to provide a safe place for the public to keep its money and other valuables, to lend its own money and that of others deposited with it (if not specially deposited) at a profit, to act as agent for the remission and collection of money, and to provide a convenient currency in the shape of bank notes. These purposes can, perhaps, best be stated by setting out the section of the Act, which reads as follows:

"The bank may—  
(a) open branches, agencies and offices;  
(b) engage in and carry on business as a dealer in gold and silver coin and bullion;  
(c) deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stocks, bonds, debentures and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, provincial, British, foreign and other public securities; and  
(d) engage in and carry on such business generally as appertains to the business of banking.

2. Except as authorized by this Act, the bank shall not, either directly or indirectly,  
(a) deal in the buying or selling, or bartering of goods, wares and merchandise, or engage or be engaged in any trade or business whatsoever;  
(b) purchase, or deal in, or lend money, or make advances upon the security or pledge of

any share of its own capital stock, or of the capital stock of any bank; or  
(c) lend money or make advances upon the security, mortgage or hypothecation of any lands, tenements or immovable property, or of any ships or other vessels, or upon the security of any goods, wares, and merchandise."

Subsection (c) of part 2, prohibiting the lending of money upon land, etc., will cause rather a surprise to the man on the street, for it is a common idea that in the lending of money upon lands a bank makes most of its profits. This provision was made to prevent the looking up of the assets of a bank and making them unavailable either for mercantile purposes, or for the purposes of meeting claims of depositors and of redeeming notes. It does not, however, trouble the banks very much, for, though a bank is prohibited from originally taking a mortgage upon real or personal property, there is nothing to prevent it taking a mortgage by way of additional security for debts contracted in the ordinary course of its business, as the objection of tying up capital does not apply when a loan has already been made. Often a mortgage is taken contemporaneously with the discounting of a bill or note, and in such a case it would be a question of fact for the judge or jury to determine whether the note was given to take a mortgage. A bank is allowed only to hold real estate for the purposes of its business and to purchase property, real or personal, offered for sale, (a) under execution, or in insolvency, or under the order of a decree of court, as belonging to any debtor to the bank; (b) by a mortgagee having priority over a mortgage held by the bank; or (c) by the bank under a power of sale given to it for that purpose. The bank's business cannot be held longer than seven years, which period may be extended to twelve years by the Treasury Board, and if not then sold it is liable to forfeiture to the Crown.

Normally a bank is the debtor of its customer, and must discharge its indebtedness by honoring its customers' checks. This necessitates the acting as collecting agent of its customer, and a bank must collect the checks and orders delivered by the customer, to be credited to his account, and in doing so it must use due diligence in collection, for if a customer loses through the fault of a bank, as by failing to present a bill for acceptance where acceptance is necessary, it is liable for all loss suffered by the customer. It is different in the case of a bill of exchange made payable at a bank and accepted by a customer, as the bank is not bound to pay the bill, though it generally does so to the extent of the customer's balance or to the amount agreed upon between them. Circumstances again change where money is paid to a bank with its assent to meet a bill. In such a case, if payment is refused, the holder may sue the bank for damages. A bank undertaking to collect an accepted bill must not tamper with it or permit it to be tampered with until paid, or if a conditional payment is made, until the condition has been accepted by the principal.

The greatest profit in banking comes through the lending of money in the form of allowing overdrafts on current accounts and in discounting bills and notes. The money which a bank has available for this lending is made up of the cash paid up on subscribed shares and the borrowed capital made up of the notes in circulation, the deposits of customers, and the money received for drafts, letters of credit, etc., which are to be paid at a future time. Thus the difference between the amount a bank earns on its capital, its exchange and collection charges, charges for keeping accounts and for acting as depository of valuables; and the amount it pays to its depositors, expenses of the bank and deductions for bad debts, form its profits out of which to pay dividends and bonuses and create a rest or reserve fund for contingencies.

The interest which a bank may stipulate for is limited by the Act to 7% per annum found in ways looking for profits, the banks soon found that there was no law in force rendering them liable to incur any penalty or forfeiture for standing the Act, stipulate for any rate of interest or discount they chose without invalidating the contract of loan or pledge. The only consolation left a borrower is that should he compel his bank to sue for interest, such bank cannot recover more than 7%, and even when the bank retains or debits his account with interest in excess of 7%, he is entitled to recover the excess so long as it was not paid voluntarily by him.

In addition to discount a bank may retain the following collection or agency charges on negotiable paper to run:  
(a) for less than thirty days, one-eighth of one per cent;  
(b) for thirty days or over but less than sixty days, one-fourth of one per cent;  
(c) for sixty days or over but less than ninety days, three-eighths of one per cent; and  
(d) for ninety days or over, one-half of one per cent.

A bank is not entitled to charge any discount or commission for cashing an official check of the Government of Canada or of any of its departments, whether drawn on the bank cashing the check or on any other bank.

A feature of banking not generally known to the public is the double liability of bank shareholders. When a man pays up a share in an ordinarily limited company his liability ceases, and should the company fail the creditors cannot call upon his private funds for the payment of its debts. The law governing banking is different. In the event of the property and assets of a bank being insufficient to pay its debts and liabilities each shareholder of the bank is liable personally for the deficiency to an amount equal to the par value of the shares held by him in addition to any amount not originally paid up on such shares. Which means that, if a bank fails and has no assets to meet its liabilities, a shareholder, in addition to paying his initial one hundred dollars per share, must pay another one hundred dollars under the "double liability clause."

Another peculiar position arises when the holder of a bill loses it by fire or otherwise, he being entitled to have it redeemed in full by giving indemnity. Redemption of this sort very rarely happens, as it is exceedingly difficult to identify a lost note unless the holder knew the number. Everybody knows that there is a distinct understanding between the Canadian banks as to the rate of interest to be paid depositors, to the rate of interest to be paid depositors, the lending of money, and other important matters, this understanding being brought about through the Canadian Bankers' Association, composed of representatives from the banks. The Association is incorporated under Dominion charter, and governs what is probably the strongest trust on the American continent, the Canadian Bank Trust. Among other things it establishes and regulates the clearing houses of Canada, supervises the banks, and in any case of bank insolvency appoints a curator to look after its affairs. Having such great powers, it goes ill with the opinions of the majority of those composing the Association. The official journal of the banks, the Journal of the Canadian Bankers' Association, is published by the Association.

One of the strongest points in the Canadian banking system is the provision for monthly returns required by the Government from each bank, and one of its weakest points is the method of inspection, as the inspector is an officer of the bank and holds his position through the influence of the men who he is supposed to watch. But, as stated before, it is not the purpose of this paper to deal with the advantages or disadvantages of the system; such a discussion will be left to a later article.

## From a Wayfarer in Old England

Amongst other interesting places which I was enabled to visit in Totnes, was the old castle, a once powerful Norman Keep, said to have been erected by Judhel de Totnes, as it has been erected for defensive purposes. I stood at its base, but learning that to see the wonderful view from its topmost turret would mean a long climb to a somewhat dizzy height, I did not make the attempt, although I was told that, for those who reached the top of the fine old ruins there was a rich reward, a magnificent panorama being spread out before them. From that vantage-ground could be seen not only immediately below it the town itself, but the River Dart winding its serpentine course between the hills, and away in the distance, beyond the nearer cultivated country, village after village, with their towering church spires and the Tor-crowned hills of Dartmoor marking the broken sky-line in all their rugged grandeur.

### The Ancient Rows

Perhaps the most striking features of Totnes as an old-time town, are the Piazas, or Ancient Rows. These are caused by the projection of the upper stories of the houses, supported on pillars, over the pavements beneath, and above the level of the shop-fronts, with their tempting wares below. Although these covered stone-built arcades are to be found still in good preservation in other old English cities, notably in Winchester, and very especially in Chester. They have won for Totnes the name of the "Chester of Devon." At one time, these Piazas were more extensive, and under them the markets were held, not only for the sale of farm produce but for the several manufactures of the neighborhood, one of which was a coarse kind of cloth known as "narrow pinties."

### Beating the Bounds

Beating the Borough Bounds is still an extant custom, and there is a record in the archives of 1654, of the small payment of six shillings and twopence for refreshments "for the schoolmaster, his scholars, and the constables" on the occasion of their long tramp in rogation week. That this kindly provision was omitted in 1664, is evident by the entry of another sum, which the Borough had to pay "For bread the boys took from several persons' windows in their perambulation."

### Bull-Baiting

Those old records have other stories to tell. That bull-baiting was at one time a pastime, was revealed by the discovery of an old post, of some height and girth, which was unearthed some years ago from several feet below the surface. On the top, a strong wrought-iron ring is fixed, the straight part going through the post, and moving freely from side to side. With it were discovered a number of animal bones, probably those of the bulls and dogs killed to make sport for the countryside. The entries state expenditure of several small sums "for making a new bull-ring and setting thereof," in 1651, three shillings and sixpence

for a new poste; and in 1678, "threepence and a half-penny for mending the bull-chayne." The spot on the plains where the bull-fighting was discovered is now marked with a granite stone, inscribed: "B.R. Happily, Bull-baiting has been abolished in England by Act of Parliament, but not until the year 1835."

One much pleasanter ceremony is, I venture to think, not only worth mentioning, but might, with much advantage, be adopted as an object lesson in the promotion of civic zeal and harmonious co-operation in the various centers of our ever-growing and wide-spreading Dominion. At the Mayoralty dinners, on November 9th, when the "Loving Cup" is passed around, each member of the company is still expected to give the toast, "Unity and prosperity to the Town and Borough of Totnes," and success to the trade thereof, those who fail to correctly repeat the words of the toast having to pay a fine.

It has been suggested, somewhat quizzically, of course, that the custom of afternoon tea must have originated at Totnes, for, in 1735, it was found that the sending of covered dishes by the Mayoress to the Aldermen of the Borough, was attended with inconvenience, and instead, it was decided (if Mrs. Mayoress was still expected to give the toast, "Unity and prosperity to the Town and Borough of Totnes," and success to the trade thereof, those who fail to correctly repeat the words of the toast having to pay a fine.)

Totnes parish church stands on a site which has always been used as a place of worship, probably that of a heathen temple before the introduction of Christianity into England. As recorded, it has survived many vicissitudes. The church which existed in the time of William the Conqueror, stood until the Thirteenth Century, it being then rebuilt and dedicated to the service of God, in 1299. Its present tower is very beautiful, magnificently proportioned, and has four lofty pinnacles. There are several niches, the names of the ancient figures therein being uncertain, except that of one, with a high crown, which is evidently meant for Bishop Lacy, in whose episcopate it was built. Below this effigy is inscribed: "I made this tower," a statement in stone which confirms this belief. Few churches can boast of a more exquisite stone screen. It dates from 1450, and was restored by the late Sir Gilbert Scott. The carving is like lace-work, its design being also attributed to Bishop Lacy, but, like so many of the old churches of England, the hand of the destroyer in Cromwell's time has been upon it, and has defaced many of its beauties. The roof loft has gone, but there still remains the stone stairway which formerly led to it, and in the south wall of the chapel is the opening through which the lepers were permitted to watch the Elevation of the Host.

Amongst the monuments was one representing a certain Christopher Blackall, who died in 1635. He is represented life-size, clad in armor, kneeling with hands clasped, and upon his face an air of almost "smug" content. Below him, in smaller effigies, are the kneeling figures of his four wives, hewn in sandstone, each in her order of precedence, and one with her poor head knocked off. "And they didn't none of them leave a child behind," said, somewhat comically, my good-natured cicerone, who had most untiringly and with unabated interest, conducted me through both church and guildhall.

Perhaps, even more than of all its claims to antiquity, the present inhabitants are proud of the beautiful river, the Dart, which the late Queen Victoria called "the Rhine of England." They are not only proud of the many beauties of its banks on either side between Totnes and Dartmouth, but also of its splendid salmon and speckled trout fisheries. "Sport of every kind can be had in Totnes, and, whether as a center of historical interests, natural beauties, or such newer pastimes as golf, football, cricket, bowling, lawn-tennis, etc., this most ancient borough should have many attractions for Canadians, and to them I would venture to recommend, should they desire to pay a visit to Devonshire, one of the most lovely counties of this dear old land—H.A.B.

## DUNCAN AND COWICHAN VALLEY

Continued from Page One

Cowichan, which is one of the most flourishing on the Island, includes the districts of Comaiken, Quamichan, Somoson, Sahlman, Seymour and Shawinigan. The soil of the Cowichan valley is of a peculiar richness, being strongly impregnated with carbonate of lime, with a depth of two to three feet, and with a subsoil of blue clay and gravel. The soil is suited to all kinds of crops, but is particularly adapted to fruit which grows in great abundance and of excellent quality and flavor. The roads throughout the district are among the best on Vancouver Island, where bad roads are the exception.

Very little wheat is grown, the area under cultivation being too limited, but oats are a principal crop, yielding 60 bushels to the acre. Peas, potatoes and hay also return good crops, while among the fruits, apples, pears, plums, cherries and small fruits do exceptionally well. In live stock, sheep-raising is carried on extensively, a ready market for sheep, lambs and Nanaimo.

Railroad communication was all that was required to cause Duncan and the Cowichan Valley to come into their own, and railroad communication of a superior kind is at hand. The result will be visible immediately in increased growth and importance. Settlement has been rapid of late years in this fertile, flourishing district and with the advent of a new era on Vancouver Island this important part of the wonderland of the Pacific Coast will come into its own.

## Field

FROM AN ICELAND NOT

We had good cause to congratulate ourselves on having had a long camping before visiting Iceland, for the master of tents and on our part of the true gipsy type. With a tent we should have been under the rigors of even the sun, with its continuous rain. Doubtful whether any canvas tent would have stood up to the weather, some of the storms we experienced would have blown bill tents out while even hurricanes passed over little gipsy tents, leaving them no

Quite as important as good tents who want to go far afield in Iceland. We were to make our headquarters at Storri Borg, which is an eighty-mile Skagastrand, our port of debarkation through the intermediary of our Christophersens, we had acquired two good riding ponies and a sary pack animal.

All Iceland saddle ponies are there is no occasion to rise in the saddle. The pack ponies, on the other hand, do not pace, and are of the natives to be worth only one-third as riding ponies. We were assured "hestur" were two of the best riding ponies in the island, and after two or three were satisfied with and bought the pieces, saddles and bridles thrown were sure-footed, and shooed little hands, but with poor shoulder cruppers to the saddles. We christened them "Anskait" and "Ansklit," two quantities made use of by Icelandic their cups, of which we did not the meaning. The pronunciation of the name should present no difficulty to who has traveled much in North-Iceland, and the full name of the glesey usually called Llanfair P.G.

Of course, we had the usual incidents with our little beasts, and time to time tempted to try and do for example, when on the morning of the morning from Christophersens farm for camp on the Storri Borg river, Anskait, which he carried, and charged the wing the Tun, or inclosed land round without attempting to rise, resulting his gun, rods, pots, and pans doubled up below the saddle. Beyond a large the Tun wall no damage was done.

One of these moments of temptation the annual Storri Borg pony fair, to the farmers of the district bring the mostly two or three year olds—in the dealer's agent may choose bestment to Scotland, where they are put in the cow mares. There was a big check of the Government of Canada or of any of its departments, whether drawn on the bank cashing the check or on any other bank. A feature of banking not generally known to the public is the double liability of bank shareholders. When a man pays up a share in an ordinarily limited company his liability ceases, and should the company fail the creditors cannot call upon his private funds for the payment of its debts. The law governing banking is different. In the event of the property and assets of a bank being insufficient to pay its debts and liabilities each shareholder of the bank is liable personally for the deficiency to an amount equal to the par value of the shares held by him in addition to any amount not originally paid up on such shares. Which means that, if a bank fails and has no assets to meet its liabilities, a shareholder, in addition to paying his initial one hundred dollars per share, must pay another one hundred dollars under the "double liability clause."

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From most of the farmers living in wide radius of Borg we received invitations from time to time to visit duck-shooting, and made several excursions with ponies and guns, staying the night, if too far away to ride back the same day. The accommodation at some of these was bad, not to say lively, and the coarse and uninviting, that we decide fuse all invitations from distant farm did not wish to take our tents and be with pack ponies. Coffee we could count on getting good at every farm.