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Interest on Bank Deposits.

A perennial subject of complaint by critics of the Canadian banks is contained in the allegation that the banks do not pay a sufficient rate of interest upon their deposits, that the depositors are entitled to receive a higher rate than 3 per cent. It is possible enough that this point will be raised again before the Banking and Commerce Committee and perhaps some attempt be made to bring pressure to bear upon the banks to increase the rate. But the problem is less simple than those who would summarily deal with it imagine.

It is widely supposed that all those deposits, which come in the banks' monthly return, under the heading of "Deposits by public, payable after notice or on a fixed day in Canada," and form, in fact, the greater part of the banks' deposits, are what may be called in general terms, the people's savings. As a matter of fact this is not the case. Only a proportion of the amount which is returned under this heading would be found on investigation to be really savings deposits—that is, the accumulated results of thrift on the part of poor or moderately poor people, placed in the bank. The remainder would be found to consist, in the first place, of deposits of a temporary character made by business people under various circumstances. Capital imported from abroad is thus frequently deposited in large amounts pending its use in the business or development for which it has been raised. And secondly, these deposits would be found to consist of an immense number of small and moderate "savings department" balances, constantly fluctuating, technically requiring notice of withdrawal, but in practice being treated in exactly the same fashion as a current account, freely drawn upon by cheque.

The position of the "savings departments" of the Canadian banks at the present time is, in fact, not quite a logical one. Undoubtedly they have performed and are performing a highly useful function. Through them the banks have been able to gather in an immense number of small deposits which have aggregated a very large sum, and under other circumstances would have gone, in part, possibly to the Post Office Savings Bank, but in part also to unproductive "old stockings" and such-like hoards. There have thus, through the savings departments, been rendered available for the purposes of the development of Canadian commerce and industry, very large sums which, had the banks not inaugurated the rule of thankful reception of deposits of one dollar and upwards, could not have been thus employed. To that extent the banks would have been less able to cope with the demands upon them. But as a result of the pressure of competition, the

facilities of these departments have been so widely extended that under normal circumstances much of the business transacted, though dealing in smaller amounts, is similar to that transacted in the general office. What in fact has developed is that, thanks to the facilities offered by the banks through their savings departments, many people of moderate means have been led to keep a current account in the savings department, obtaining 3 p.c. interest on their minimum monthly balances.

Dr. Johnson, in the interesting survey of the Canadian banking system which he wrote for the National Monetary Commission two or three years ago, suggested that a sharper distinction should be made between demand and savings deposits and that the money of savings banks depositors should be invested in bonds and mortgages. There is the primary objection that the carrying out of such a scheme would result in the reduction of banking funds available for ordinary commercial purposes, which, under the present circumstances of the country's development, is not to be thought of. Then as regards the difference between the rate of interest paid to depositors by the banks and the rate secured by the latter from their loans, we have the statement of a leading banker recently, that after allowing for salaries, rent, fuel, stationery and other expenses the banks' profits on their average deposit accounts do not exceed 1 to 1½ per cent. This can hardly be described as an extravagant profit. It has been suggested that interest should be paid on a fluctuating scale, according to the earning value of money, and that a central board, representative both of the Government and the banks should be established at Ottawa or elsewhere with authority to fix the rates from time to time. There is the objection to this proposal that our people are not accustomed to this system, and that the probabilities are they would object strenuously, when a rate of interest which for six months, say, had been 3½ p.c. was at the end of that time reduced to 3 p.c. Neither in consideration of this subject must it be forgotten that in the case of a large and increasing number of bank shareholders—certainly all those who have begun or increased their investments in this connection during recent years—the return they are obtaining from their shares is not more than from 4½ to 6 p.c. This is no more than they could obtain elsewhere without the drawback of double liability. As regards the paying of a higher rate of interest upon strictly savings accounts which are left untouched for prolonged periods, it is likely that the importance of accounts of this kind may easily be exaggerated. The enterprising character of our people generally suggests that they are not likely to leave on deposit with the banks larger sums than are absolutely necessary. They desire themselves to turn these funds to account.