

WITHDRAWABLE SHARES.

The third point is: Shall the shares be withdrawable or not? The English Act makes a distinction between societies doing what is called banking and those having another object. The former cannot have withdrawable shares, while the latter can. As a matter of principle it is difficult to understand why the distinction is made, for both receive loans or deposits from outsiders. If in societies doing banking the shares are made non-withdrawable for the benefit of depositors among whom there may be outsiders as well as members, the necessity for a similar safeguard exists in the one case as in the other. The fact that in the case of the banking societies the amount of the deposit is not limited, while it is to £20 in the other, does not matter.

RESERVE FUND.

Be as it may, however, the main argument that can be invoked in favour of non-withdrawable shares is to be found in the fact that the English Act does not provide for a reserve fund to be accumulated out of the yearly profits by a percentage being put aside for that purpose. Such a reserve fund being made the exclusive property of the association as a whole, the individual members having on withdrawing, no right to a proportion of the same apart from their paid-up shares, would be the permanent capital of the society, and with its yearly increase will grow the safeguard offered by the association. The law should fix a minimum amount for that reserve fund, and until that minimum is reached the specified yearly percentage of the net profits should be set aside for that object. In case this fund is impaired by losses or otherwise, then the same yearly percentage should be taken from the net profits until it has reached again the minimum provided for. This minimum could be based on a reasonable proportion of the amount paid in on account of the shares subscribed. This guaranty fund serving as a permanent capital would safely permit the withdrawal of shares. This safeguard is not provided for by the English Act, and that can explain why the shares are not uniformly made withdrawable.

But apart altogether from the above consideration, as a question of general safety and wise management, it is most important to provide for the formation for such a reserve fund. Mr. Nicholson is very positive upon this point. He says:—

‘A reserve should be compulsory, and formed from the beginning by a percentage, say 10 or 20 per cent, taken from the profits before any dividend is announced; in the case of co-operative banks, allowing only fixed interest on the shares, a further allotment should be made to the reserve, to which also should be paid all entrance fees, and any commission specially intended for the reserve. There might be special reserves, especially for the insurance of borrowers against failures of their improvements; these would be filled by special contributions or by the allocation of surplus profits.’ (Page 382.)

Mr. Wolff is of the same opinion, and quotes approvingly the wise measure taken on this line. On page 229 of his ‘People’s Banks’ he states:—

‘I have incidentally spoken of the reserve fund, which, of course, these banks accumulate out of profit, allotting annually from 15 to 25 per cent to its formation.

‘The weaker banks are in capital, the more importance, as a matter of course, do they attach to a reserve fund; and thus we see every good bank in Italy building up as strong a reserve as it can—so strong that, in the case of the Banca Popolare of Bologna, it actually exceeds the paid-up share capital, standing at 1,292,077 liras, as against 1,260,540 liras.’

RESERVE FUND MINIMUM AND YEARLY CONTRIBUTION.

I would humbly suggest that the minimum amount of the reserve fund, when completed, be equal to the maximum amount paid in at any time on the subscribed shares, that the percentage to be taken out of the net profits be at least 20 per cent cent per annum.