

EXTERNAL EXAMINATION OF BANKS.

Mr. H. C. McLeod replies to Article in THE CHRONICLE of December 3rd.

To the Editor of THE CHRONICLE:

My attention has been called to the article in your issue of December 3, on External Examination of Banks, in which, in referring to my pamphlet on Bank Inspection, you maintain that the comparison of bank failures between the United States and Canada, according to number, is not "on all fours." In-as-much as small independent banks are rarely as efficiently managed as great banks under the branch banking system, I hold that there is no method of comparison with another country that will fairly represent the full advantages derived by the United States from the external supervision of its banks. The improvement may be most fairly shown by reference to the previous chaotic condition of banking in that country. However, discussion as to whether comparison by percentage of number is equitable may be avoided by changing the basis to that of capital involved. The result differs in degree only. At the end of 1908 there were 6,873 National banks in the United States, the aggregate capital being \$930,365,275. The losses to shareholders through failures within 44 years amounted to \$100,825,239, including the assessment for the double liability. There are twenty-nine active Canadian banks, with aggregate capital of \$94,471,415. Since 1865, according to careful estimates, shareholders in Canadian banks have sunk \$44,700,000. In this comparison of failures in proportion to existing capital the National system of the United States shows 11 p.c.: Canada shows 47 p.c. These figures leave the choice of two conclusions; one, that even an inefficient system of external examination is highly beneficial; the other, that small independent banks are the most stable. Canadian bankers will readily dissent from the last suggested conclusion; it is at variance with the experience of other countries.

In communications to the press I have long since pointed out that the National system of supervision is quite imperfect, mentioning that in 1905 11,516 inspections were made by only 78 examiners; a staff wholly inadequate for the work. The examiners and the Controller of the Currency may, year after year, ineffectually criticize some objectionable feature in a bank's management; they have no remedial or other power until after the insolvency of the bank.

With the favourable results shown from a system so faulty as the National system, what are we not entitled to expect from any plan of external examination that approaches effectiveness? Perhaps the best answer may be found in the experience of Scotland, from which country our banking system was adopted, before the later improvements. Scotland adopted external examination in 1879 and has since been free from bank failures. In the meantime Canada has had 19 failures. The figures are disturbing; 19 banks failed in 30 years and only 29 remain.

You array arguments against an imaginary contention by those in favour of external examination. It is not claimed that independent audit will take the place of general management, or that its adop-

tion will remove the necessity for the highest form of internal inspection. Indeed the plan of external examination, recently presented to the Canadian Bankers' Association, has for one of its first objects the ascertainment, "whether the inspection of the branches is regularly and efficiently performed by the bank's regular inspectors." We do claim that external examination has a salutary effect; that it would have disclosed the quality of the management of the banks that have gone before, in time to have saved most of the losses of shareholders since 1865 and it is pointed out that external examination has been generally adopted throughout the world.

Your comparison of bank shares with the speculative shares of "some present day merger" is unfortunate. Seemingly you feel scant sympathy for shareholders, but among those who have been reduced to poverty by bank failures are many women and children, as well as others of a class to whom the mental wretchedness of dependence is peculiarly intense. These investors, innocent of banking knowledge, like the savings depositors, are entitled to the protection of the safeguards that experience has shown to be effective and essential and that are of world-wide application.

The idea that simultaneous examinations of all offices of a bank are necessary has been exploded. There is no history of failures through operations at branch offices. Independent audit of the head offices is the system of Scotland and of the world and it is eminently successful. The logic of facts should be conclusive.

H. C. MCLEOD.

Toronto, Dec. 14, 1909.

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COLD STEEL.

A War Ballad—After the Fight was Over.

After the fight was over,
 (And, 'twas a dreadful fray.)
 When the lawyers hid their lowered heads
 To stack their gains away.
 Came the men of peace, without surcease,
 With great and noble hearts.
 "Since the war is done, the fun's begun,
 "Now let us do our parts,
 "And while in the mart and market place
 "The public pulse doth surge
 "Let's get our heads and hands to work
 "And go ahead and—Merge!"
 So they called a Plummer to lay the pipes,
 And sure he laid them good,
 And when the plans needed shoring up
 Why 'twas then they found use for Wood.
 And when any little doctoring
 Was needed to keep things well,
 They administered an old-time Pellatt,
 And things kept working swell.
 To make assurance doubly sure
 They called aid in from Aitken
 To keep a general eye about
 And see that the dose was taken.
 They gave Ross a dose of twenty-five,
 Then reduced to a stated seven,
 And where before there was hell-to-pay,
 Now everything is Heaven.

COCK ROBIN

December, 1909.