

for preventing possibility of human failure or successful crooked ingenuity. There will be troubles in banks to the end of banking. They will become scarcer, of course, but the unexpected will continue to happen.

The employment of independent chartered accountants as auditors did not prevent the suspension of hundreds of Australian banks in 1893. The employment of an independent auditor would surely have prevented the Ontario Bank fiasco. The trouble at the Ontario Bank was not in lack of government inspection, but, apparently, in lack of inspection altogether at the head office. The Ontario Bank seems to have been quite an exception in that regard. Its general manager had no experience in a head office before he took the reins. No other general manager of a Canadian bank would be able to raise in New York, on his own word, more money than would obviously be necessary for his current personal expenditure while on the business of the bank, without a voucher signed by two officers of the institution.

#### SPEED UP THE DEPARTMENT.

The Accident and Guarantee Insurance companies of Canada, while not directly affected by the investigation into the affairs of the Life Companies, are taking an interest in it, because it is likely to result in radical changes in the insurance laws of Canada. In many regards the Accident and Guarantee companies are not content with matters as they stand. If a new law is to be enacted they feel that something in the form of a basis of reserve should be established to give the companies a standard by which unknown liabilities may be measured, and make them, in that respect, as safe for those who "deposit" their savings with them, as the banks now are.

This reform is being discussed among insurance men, and is deserving of notice by those who will be entrusted with the remodelling of the insurance laws. Other similar matters are also agitating the insurance companies. One of them, which is certain to receive attention from the commission in its report to the government, is the needed reform in the duties of the Superintendent of Insurance. A change is felt to be urgently needed whereby the reports of the department will be made more modern and useful. Under present conditions the reports are interesting, but do not reflect completely the condition of the companies. They are compiled according to forms which have been in use for long years past and are, sadly in need of a change.

As an example, the total operations of each company are given, but there is nothing to show what this business has meant to the companies. Profits and losses cannot be computed from the tables. This is the most essential part of a report upon any company, and insurance men would feel that the reports are of some use to them if they could see how much the different companies had made.

One company may be doing a huge amount of business and yet losing money; while another, conducted on more business-like principles, may not be writing many policies, but at the same time may be making a handsome profit for all concerned in its welfare. Reports of the volume of business, therefore, are of comparatively small use to the public unless accompanied by a statement of the profit or loss resulting from the business transacted.

Another feature of the Government's annual report is the different treatment accorded to Canadian and foreign companies. In many cases information regarding foreign companies doing business in Canada is not published in the preliminary report, although it is obtained by the insurance department from the companies. Complaints also are frequent

regarding the lateness of publication. The interim reports do not as a rule reach the public until a month or two later than the final date of filing with the department, and the annual report is seldom to be had until the end of October. This report covers the operations of the companies for the previous year ending December 31st, and is not of much value when it comes to hand when the year is nearly three-fourths in the past.

The reports presented to the government by the companies are utilized by the government at present without much consideration for the people most interested. Applications are made from time to time by managers of companies for access to the files for the purpose of informing themselves as to the statistics which they would have liked to see published in the preliminary reports, but in many cases they are refused. Whether the government has an absolute right to refuse access to the files, is open to debate, but a feeling is prevalent that there is too much officialism and too little business at Ottawa.

#### FOREIGN CALL LOANS VINDICATED.

Among the object-lessons furnished by the recent banking flurry was one by which was illustrated the great value of the "call loans elsewhere than in Canada." All who know anything of banking and credit have recognized this right along; but critics and agitators have not been wanting who urged that the banks should be restricted to Canada in their investments and loans.

Their idea was, of course, that if the banks were subject to such a stipulation they would be obliged to put out all their funds at home, and that, consequently, the Dominion's great progress would have been even greater, because of the extra stimulation that would have been given to the national industries. It is easy to see how industry and trade are stimulated when the banks put large amounts of new money into mercantile loans; for it means that manufacturers, merchants, and other business men have larger credits at their disposal, and they are, therefore, able to enlarge their business and extend their operations.

In an indirect way the investment, by the banks, of new money in "call loans" has the same stimulating effects. Suppose the banks were barred from lending at call in New York and London. As their deposits accumulated they would then be obliged to increase their call loans at home. In Toronto and Montreal the stock brokers would be asked to borrow the banks' funds. If the offerings were very large the rate of interest would fall. And as the brokers would thus have at their command large supplies of cheap money they would be strongly tempted to induce a big speculation in order to put this money to profitable use.

When speculation is rife, and the stock markets strong and active, it is possible to float the stock issues of new concerns, industrial and other. Capitalists and promoters hardly ever fail to take advantage of such times. Generally a number of large, new concerns are launched and their operations always serve to quicken industrial life in their own vicinity and in other parts of the country as well.

One of the chief reasons why banks go abroad to make these loans, is because they wish to hold as security stocks and bonds which can be realized instantly, no matter what conditions rule. Such stocks and bonds can be found in quantity only in the great international markets. And if the banks could not go into those markets and loan it is quite certain that international stocks would come to Montreal and Toronto, and foreign houses would be given money on them at New York rates. This would be so because the big banks consider it vital to their safety

to have a certain amount of their capital in that class of realizable security.

It is also possible to stimulate industry and trade. If it is too easy to get bank loans, if borrowers are given some sort of reasonable limits, there will be a great increase of competition in trade and industry. Where, under such circumstances one or two traders or merchants would be two or three under the other, where a manufacturer was turning out goods about equal to the demand of the market would be apt to over-produce. In such a system would be almost certain to result in production and over-trading. In such a system their funds where they please the banks to regulate their credits, so that the banks have the disposal of the several industries to enable the industries to be produced and profitably. Liberty of industry to keep conditions stable and satisfactory during normal periods. What it does in periods of crisis has just been demonstrated.

that our banks have large amounts of funds in other countries. At the end of September the amount of "call loans" where there than in Canada" were \$63,700,000, increased from \$60,707,093 at the end of August.

When the bankers learned, on October 1st, that the Ontario Bank was on the rocks, they were as to how bank depositors in general were affected. How grave they considered the situation is shown by their agreeing to become guarantors of Montreal in sums of \$200,000 and to see that there be a final deficit in the Ontario Bank. When they entered into this guarantee they knew very much about the real situation in the Ontario Bank's head office. The risk was assumed that the liquidation proceed with "orderly" method would be least likely to alarm the public.

That was the first step—to deal with the shock. The next was to strengthen the position. It was essential that this step also should be taken in a manner not likely to create alarm. The banks were obliged to stop discounting for mercantile houses. One can imagine something of the situation if the mercantile houses would go down. Such a situation on discounting, but called Canadian stock loans. Prices would have slumped and the situation would have been verted severalfold.

Thanks to the "call loans" abroad these steps were necessary. There was no stopping mercantile discounts; those who had foreign call loans did not have to stop discounting Canadian stock loans. All that was necessary was a few millions in from Wall Street. This would not materially affect that market, and the situation in Canada at a day's notice. The situation amounted to more than the cash to the bank's resources; the report of a couple of millions in gold in the news of the day, helped maintain the public confidence. And everybody who had something like a complete understanding of the situation found an inestimable comfort in the fact that something like fifty or sixty millions of dollars had come from New York if the occasion arose.

#### EDITORIAL NOTE

It is a gratification, though not a surprise, that none of the Ontario Bank directors had sold of his own stock on the eve of disaster. It is suggested that they were knowingly selling their trust. An explanation of Mr. McGee's