

ASKS FOR OUTSIDE INSPECTION.

General Manager of the Bank of Nova Scotia Writes Strongly of Canadian Failures.

Editor Monetary Times:

Sir.—Through the press and from the platform the banking system of Canada is lauded as being the best in the world. In many particulars the system is admirable, our elastic bank currency and the readiness with which the banking requirements of new districts are met by branch extension being its strongest features. However, it is not without defects, some of them of vital importance. Of these the most prominent is the lack of external inspection, which experience in the Western hemisphere has demonstrated to be essential. The public have been reminded of this necessity by the recent failure of the Ontario Bank and the leading papers of the country are almost a unit in demanding reform in this particular.

The reasonableness of this demand is made clear by a review of Canadian Banking history since 1880 and before, and is confirmed by the experiences of our near neighbors prior to the civil war. In 1880 there were in existence in Canada forty-one banks; since then seven have been incorporated and have commenced business, making a total of forty-eight banks. Of this total twelve have failed and some others have saved themselves by amalgamation. The failures are, therefore, twenty-five per cent. within a period of twenty-six years, the last ten of which were years of unexampled prosperity, with steadily rising deposits, conditions under which even insolvent banks seldom close their doors. Most, if not all, of the above mentioned failures were fraudulent, and it is now plainly evident that a few hours examination by a skilled banker would have disclosed an insolvent condition in any one of the banks, years before it collapsed.

In each of the two most recent disasters a correct diagnosis could have been made ten or more years ago. Some urge that the Government should call for special returns, but what value should attach to special returns from the Bank of Yarmouth, from the Ontario Bank, or from any of the other wrecks gone before? They would simply have enlarged the piles of incorrect and deceptive bank returns in the Finance Department. What is written by one having unusual facilities for observation is eminently true: "It is extremely rare to find a bank has failed without some of the officers committing fraudulent or illegal acts to hide it." There is at least sufficient truth in the above to dispose of the suggestion of special returns and to dispel faith in the returns of badly managed banks.

Some Canadian bankers, including one writer, whose words are entitled to great weight, contend that Government inspection has failed in the United States. Under the National Bank Act of that country there has been a somewhat imperfect system of bank examination, and a more imperfect system by some of the State Bank Departments. I say imperfect, for under the national system there were employed last year 78 examiners, whose duties required the making of no less than 11,516 inspections each year! For the forty-three years during which the National Bank Act has been in operation there have been established 7,066 banks. Of these 460 have failed, the failures being equal to 5½ per cent. of the whole number for the period. As for the banks other than national, with a more imperfect system of inspection, or no system at all, the failures reached 17½ per cent. The comparison of the percentages appears as follows:

National banks failed in 43 years, 5½%; other United States banks failed in 43 years, 17½%; Canadian banks failed in 26 years, 25%; National banks failed in 26 years (same period), 5%.

External inspection must not be regarded as an unfailing cure; it has its limitations, and the best that can be said of it is that it is a preventative that, if properly applied, will make bank failures almost unknown. An inspector cannot discover an embezzlement until after the act is committed; neither can he avoid a ruinously bad debt made before his visit, but the progress toward failure is generally slow and in the majority of cases a prudent inspector would by his advice and authority, save the situation and direct the management into safe channels.

The subject of the establishment of an effective bureau of inspection is one of the utmost importance, for unless it is founded on conservative lines, in which the interests of all sound institutions are carefully conserved, much more harm than benefit would ensue. Bank shareholders are the parties with the major interest at stake, and for the present the subject would be better left to them and to their repre-

sentatives, in the hope that a satisfactory solution of the problem may be reached.

Toronto, Nov. 21.

H. C. McLEOD.

FOR GOVERNMENT BANK INSPECTION.

Mr. W. I. Bell, district manager of the Federal Life Assurance Company at Guelph, writes to the Monetary Times, disputing the claim that bank failures in Canada are fewer than in the United States; and criticizing various aspects of Canadian banking practice. He says:—

"The United States has fourteen times the population of Canada, yet the total liabilities of all the banks in the United States which failed in 1905 were only \$18,046,955 (in 1904 they were \$21,153,054), or only slightly more than the liabilities of the Ontario Bank alone, to say nothing of the recently failed Bank of Yarmouth, Nova Scotia.

"While in Canada we have but thirty-five chartered banks (with over 1,000 branches), in the United States there are 16,247 banks, none of which have branches. The failure of one of our Canadian banks, with its many branches, is equivalent to the failure of, say, fifty ordinary American banks with a head office only. In the States they do not permit branches to be opened in the smaller towns, to obtain deposits to be sent to head office, for speculation or any other purpose. Had our Ontario Bank had no deposit-collecting branches, its gambling career would have been shortened.

"When an American bank does fail, on account of the infinitely more stringent laws in the United States the results are not so disastrous as with us. Such failures as we have had in Canada are quite impossible under American laws.

"The Canadian Bank Act of 1890 caused the banknotes issued in one Province to be accepted at par in all. It created the 5 per cent. circulation redemption fund, and made shareholders liable for double the amount of their subscribed capital. All of these good points were to be found in the United States National Bank Acts of 1864 and 1874. As our Bank Act was framed by the Bankers' Association, it was hardly to be expected that it would put upon the bankers themselves the restrictive clauses to be found in the American Acts. Bankers do not wish to be compelled to establish a security fund for depositors. They do not want a Government bond secured circulation, nor to pay a tax on circulation. It would seriously curtail their operations if a limit were placed on loans to other borrowers. Above all else they do not want Government inspection. These restrictions, to which United States banks are subjected, would compel our bankers to do a conservative business. It matters little that this or that banker does not consider Government inspection feasible. On the other side, for forty-two years it has been feasible. Bankers should accept the inevitable and submit to Government inspection gracefully, as our life insurance companies have done for years.

"Canadian banks are too large and unwieldy for Government inspection, we are told. The National City Bank of New York has the largest surplus reserve of any bank in the world (\$5,000,000 more than the Bank of England), and the deposits in its one office are double the total deposits of the Bank of Montreal, with its 100 branches. This bank is regularly inspected.

"Let the head offices and all branches be inspected simultaneously. A large staff of examiners will be necessary, but, as in the United States, make the banks pay for their own examinations, as life insurance companies do here. It would be money well spent, in the light of past events.

"Canadian life insurance companies have passed through an investigation, and, although many faults have been found, have proven themselves a credit to the country. Is it not possible to regulate our banks so as to bring them up to a similar high standard? This cannot be hoped for under our present Canadian Bank Act. A change seems imperative."

TIMBER IN BRITAIN.

Accounts of the condition of the British wood market are not encouraging. There is an overstock of Canadian woods, stocks of which as well as of pitch pine and Oregon pine are increased. The Liverpool report of Farnworth and Jardine, dated 1st November, says the tonnage from Canada has been 499,669 this year as against 434,612 same period of 1905. Imports of almost all sorts have increased and the value of some declined.

Square pine is firm, waney steady, oak quiet and unchanged, elm dull with small demand. Pine deals are in fair consumption at unchanged prices. Of New Brunswick and Nova Scotia spruce and pine deals the greater part have gone to Manchester direct. The stock in market has increased and is now rather heavy with values easier. Birch logs are in too large supply; of planks there has been light import and good consumption with values slightly improved. Planks sold during the month at about £7 c.i.f., and spruce deals from St. John and Halifax at from £8 to £8 2s. 6d.

AUSTRALIA VIA

Possibilities of the All-Br...

London to S...

(From Our Own Co...

Sydney, N...

I have been shown an Ottawa route on the 30th August, which is a new Australian mail contract, in the journey between Adelaide and London, 636 hours or 26½ days. It further states that the best time Canada could do by the new route is 33 days, and it then states that on both the Atlantic and Pacific routes there would be much improvement in the time.

Brindisi Is Not London. The writer of this paragraph is of the opinion that Brindisi is not London, but a point of the race. So far as the problem is between London and Brindisi, the new route from London to Brindisi would be as follows:—

Days.	Hours.	From.
2	3	London
26	12	Brindisi
1	18	Adelaide

Total of 30 days 9 hours from the mail landed in Sydney.

The Canadian competition at

Days.	Hours.
1	5
21	—
11	12

Making a total of 33 days 8 hours.

The time from Sydney to Brindisi is 725 miles by a route which is the time should be cut down to 24 hours. The distance to Vancouver is 6,510 miles. With this distance could be done in 17 stoppages. This would land the Sydney in 19 days even under existing conditions. Quite a Money Problem.

If Canada could carry the mail through the Liverpool pool in 10 days, allowing 9 hours for the trip, it would enable the through route to be made in 29 days. It is one of money. Sixteen-knot steamers would make two trips to Vancouver, cost of the trip specified easily, but money and that is the problem for consideration. The trip has been made by steamers in less than 20 days from Sydney.

It may be said that the Canadian winter is a serious obstacle of the winter to a serious winter on the Suez route between March and September. A heavy snow-blow—the present mail subsidies allow an extra time up to 36 hours period.

Passenger Traffic Advantage.

So far as Canada is concerned the passenger traffic, for with fast equal in accommodation to those of Australia to-day, there could be a large increase in receipts of tourist travel between the two countries. It is a prize worth contending for.

Preferential Tariff Questions.

The Commonwealth Government's preferential schemes in its policy. This was killed, as I have intimated, in the New Zealand Parliament. It was a scheme and involved in it conditions which were against negotiations with Canada.

The second was with South Africa, and it was utterly one-sided and in favor of the South African through both Houses with but one dissenting voice. It has no possibility of sending anything and possibly in the future, a little more was actually proposed by an anti-imperialist and sugar should be struck out of the list of supporters in his generous proposition.