

## SHAM BANK INSPECTION PLAYED OUT.

WE have the satisfaction of knowing at least that we are pertinacious in a good cause, if we once more come forward in the advocacy of the establishment of a system of government inspection into the financial condition of the banks of this country. Since we began to champion this reform, as we were the first to do, the necessity for it has become more and more obvious with each succeeding month. Within that time the financial institutions which have suddenly and irretrievably collapsed, at periods of apparent extraordinary and exceptional prosperity some of them, have been abundant as to numbers. Yet, up to the very week of each ruinous explosion, the official *Canada Gazette* has been made to show a financial soundness which rendered any misgiving, except to the favored ones behind the scenes, all but impossible. Yet in the very moment when to the general public matters appear most flourishing comes an explosion carrying dismay to the whole commercial community and ruin and lifelong misery to thousands. The Federal Bank affords the latest illustration of the difference that may exist between the position as stated in the annual report got up for the contemplation of the shareholders and the public at large, and the true condition of the establishment to which it refers. In that document everything was represented the other day as being in an enviable and flourishing condition. Millions of paid-up capital, millions of reserve, a large and profitable connection, and every other desirable item leading on to opulence. Yet only a day or two after this flourishing establishment reaches what is substantially if not technically a collapse. Quotations of its stock run down from 120 in the beginning of June to 60 at the end of the same month and then become unsalable at any price. It is too palpable to need argument that the rottenness which caused this stupendous fall a day or two after the issue of that glowing report must have existed at the time it was concocted. And the people, dismayed, are beginning to ask why it may not be the same with several other banks making an equally good show, and to question which is to be the next to go, and when? It is useless to conceal that public confidence is at length very greatly shaken by these constantly-recurring disastrous incidents, and the distrust of the shareholders especially is enhanced by the knowledge, so painfully and persistently thrust upon them, that they are entirely at the mercy of their respective directorates. They can do nothing but swallow the deceptive statements presented to them through the official *Canada Gazette*, let their distrust be great as it may, for the law virtually leaves them without any protection at all. Not till a bank absolutely closes its doors does one shareholder in a hundred know the actual true condition of an institution in which he has possibly sunk the

whole savings of a lifetime. And if he has had his suspicions aroused that things are not going on as well as the Board represents them to be the law provides him no means whatever for impartial and exhaustive enquiry. This latter the establishment of a bank inspection by Government officers would at once secure to him, and we have no hesitation in saying that had such a staff existed from the time when we began to advocate its creation not one of the latest disasters would ever have occurred. Who would have been found daring enough to cook the accounts and serve them up in the *Gazette* a week or a month or two before a final and total crash had it been known for certain that at any unexpected moment a Government inspector could step in, temporarily depose the bank officers, and searchingly overhaul the books? The inevitable detection of such frauds as must follow would alone suffice to prevent their commission. The remedy is so simple and so efficacious that it is astounding it should meet with the opposition it does. When we first mooted it bank managers would not listen to it. It was an intolerable interference with private affairs; a reflection on their own integrity; there were safeguards enough; and many more such objections of no greater soundness. We are glad to say, however, that some of the most influential of these have at length come over to our views and now recognise the immense protection such an impartial investigation would afford to the shareholders. They see, too, how it would at once tend to relieve themselves from any suspected complicity in crooked doings or statements leading to ultimate disaster. Not a few earnest friends have counselled us to abandon the advocacy of this innovation on the ground that, while it would certainly be ineffectual, we were compromising our own best interests with all the most influential of the bank magnates. Truly the danger was palpable enough in itself, but it happens that now the majority of these potent office-bearers have actually fallen into line with our own views on this question of Government bank inspection. Besides, as the very name of this journal implies, it is the interests of the shareholders that we especially represent, and who on their side have been, if slow yet sure, in recognising practically the sense they entertain of our sustained efforts in their behalf. Not only, too, have many leaders of the financial world come round to our ideas on this matter, but we see with great satisfaction that we are at length receiving some powerful allies in the press. These, too, like some of the bankers above alluded to, were for a time either supine or actively hostile. The moment is now, in fact, clearly ripe for the authorities at Ottawa to give this demand a consideration which till now has been inexplicably withheld. The argument that shareholders are already provided with all necessary powers to protect themselves against the schemers who work in the dark has been terribly dis-

proved within a very short period, as it assuredly will be again and again until impartial and irresponsible inspection is authoritatively provided for.

## INSURANCE INVESTMENTS.

THE Insurance Superintendent for New York has cancelled the call for the usual half-yearly statements of assets and liabilities from insurance companies to the 30th June. The St. Louis Insurance Department has followed suit, having cancelled the call made by circular a few days previous. This probably is a prudent step in the interests of the insurance companies, as there is little doubt that if the assets which they hold against their liabilities were estimated at their present value, many companies which showed moderate surpluses in their yearly statements on the 1st January last would, by reason of shrinkage in value, have to exhibit more or less impaired capitals. Some very probably would even come within the range where the law requires that the Insurance Commissioner shall prohibit them from continuing business. The insurance companies of New York appear by their reports to use a very large amount of their assets in loaning on stocks. This seems to be a very dangerous if not vicious policy for institutions assuming such important trusts to adopt. At the same time the fact cannot be hidden that the loaning on stocks means encouragement of speculation, which is at the root of most of the disastrous failures that have recently, as well as in times past, been brought to light. The rapid shrinkage in some of these securities would point to the serious imprudence of loaning upon them, as, in the event of the loanee being financially weak and not able to keep up his margin, the stocks must either be retained at their reduced value, involving a loss to the Company, or thrown upon the market to help the decline and demoralise values.

In Canada this system of investment (if it may be so called) by insurance companies is not resorted to—we think, with one exception, in the case of a leading life assurance company, and that a very trifling one, amounting to but a few thousand dollars. An insurance company that invests its money, moreover, in speculative stocks, such as railroads or banks, for the sake of getting a higher rate of interest at the risk of a heavy decline in the value of the security, cannot be regarded as a prudently-conducted corporation, and it is doubtless with the view of avoiding the publicity of this fact, in regard to a number of American institutions which had appropriated their funds in this way, that the necessity for the cancellation of the call for half-yearly returns this year has arisen.

LORD WALTER CAMPBELL is no longer the lonely lord of the London Stock Exchange. Lord MANDEVILLE's brother, Lord CHESTER MONTAGUE, has joined him.