SOME DIFFERENCES BETWEEN CANADIAN AND ENGLISH BANKS.

In considering the somewhat delicate question as to what amount of cash reserve a bank ought, in prudence, to hold, English examples are apt to be misleading. This is so for two reasons, the latter of which we regard as highly important, but so far we have not seen it even named in the many discussions of this subject. In the first place, an English bank has a resource when in need of more cash, which does not exist in Canada, which we will state shortly. The other condition is one in which Canada has, we submit, a great advantage over the Old Country. This arises from the general condition and character of our people, especially of the depositing class. Familiarity is said to breed contempt, but in this matter it tends to breed confidence. Our banks are far more closely in touch with the great body of the people than are those in England. Their officials are more intimately known; there are more persons in the community who have accounts at the banks, the absolute dependency of business upon the banks is far more realized here, and more gratefully realized; the traders who borrow from, and the farming class who lend to, banks in Canada have interests more closely interwoven than in England; so that a much livelier *personal* interest in the welfare of a bank is taken in this country than in the old land. Our banks, in a word, are more popular institutions, they evoke more good will and sympathy than in England. Then, the people here for many years have been favored by a prolonged series of instructions by the Press upon banking, upon the state of the banks month by month, so that they have acquired a more intelligent knowledge of the conditions of banking business, of the relation of deposits to loans, and the great utility of the note issues, than the people of any other country. All these influences have removed that suspicion and ignorance, which give panics their fuel when once started, and which indeed are so highly inflammable that a small spark is apt to start a large fire. Had, for instance, a bank in an English town collapsed like the Central Bank did in Toronto, there would have been a heavy run for deposits on the other banks. But the Central failure brought no call for deposits from other offices, not any unusual redemption of notes. This was noticed also when a Winnipeg bank failed, more recently; the people took the incident quite philosophically. When news of the failure of the City of Glasgow Bank reached Canada on 2nd Oct., 1878, many bankers were in great fear, but, mainly owing to the Press explaining the event as wholly disconnected with Canadian interests, etc., there was not a trace of disturbed confidence. When a man owns a brick in a house, he does not care to see it damaged. The remarkable quietude which prevailed in Canada in this respect when a storm panic was raging in the States has been attributed to our excellent banking system. But it must be remembered that *no strain* was put on that system last year; it was not tested, because of that universal confidence in banks which is so striking a feature in Canada, and which is an incomparably greater source of strength to them than any mere percentage of cash reserves. But English banks have a resource in time of need which ours have not. Take an example. In 1849 a bank in Yorkshire discovered a forgery of its notes. To protect the public it advised reference to the bank of all notes held. This required provision for their possible redemption; to find the necessary gold, two officials went off by night mail to London, and brought back heavy boxes of gold ready for the risk next day. In 1866, a Staffordshire bank took the same course, and well it did, for in one week it redeemed its note issues. Frequently the country banks every week run so short of hard cash as would be incredible to Canadian bankers; but when the wages day comes, they have secured an ample supply of gold and silver from a branch of the Bank of England. The Bank of England indeed practically holds the cash reserves of the English country banks, as all a manager needs do whose till is empty is to take an hour or two's trip with a selection of good paper, maturing early, to the London or a branch office of that bank, and he returns with his wants supplied. Whether such absolute reliance on the Bank of England is wise, is another matter; the reliance *is* placed, and has never been misplaced. When a panic comes, every country bank runs to the Bank of England for help of this kind, and no wonder the drain they cause drives rates for money up so highly. In those two features then our banks are differentiated widely from those in England, and the question of cash reserves is not intelligently discussed without these conditions being properly estimated.

DISTRIBUTION OF SURPLUS.

There is a considerable diversity of opinion among actuaries as to the best method of apportioning the profits of a life company amongst policy-holders. Theoretically, there is no such thing as profit in life assurance. What is called such is simply the premium paid in excess of that found by experience to have been necessary to provide the assured benefits. In computing premiums, certain rates of mortality, interest and expense are assumed as a basis for the calculation. If those factors could be assessed with exactitude beforehand, and rates charged accordingly, there could not possibly be any surplus, except such as might arise from accidental causes, to which reference will be made further on. With this explanation, the layman will understand that the distribution of a life company's surplus is an entirely different transaction from the apportionment of the profits of an ordinary business company or corporation. In the case of the latter, dividends are usually allotted, and rightly so, in proportion to the vested interests of the partners or shareholders as represented by the amount of capital invested. To adopt a similar principle in the allocation of a life office's surplus would be to contravene the basis of life assurance business. A life company's surplus represents the accumulated amount of premiums overcharged, and any method of distribution would be inequitable which did not aim at returning to the assured the amount over-paid. In other words, surplus