

## WESTERN CANADA'S NEW BANK CHARTER.

### Prospects of Success—Banking Situation in Western Provinces—Sound Principles Necessary.

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In an article published in *The Monetary Times* on January 27th, 1912, it was shown that of six small banks, with assets less than \$5,000,000, in existence on May 31st, 1905—less than seven years ago—not one survives. Three failed, and three were absorbed. Of five other banks having assets exceeding \$5,000,000, but not exceeding \$10,000,000; on May 31st, 1905, two were absorbed. So taking the eleven banks in business seven years ago, having assets of less than \$10,000,000, it is seen that only three have preserved an independent existence.

On the other hand, if the banks having assets in excess of \$30,000,000 at the earlier date are taken, it will be found that all of them without exception are yet in active business—most of them appear to be thriving.

Since all new banks entering the Canadian field must start with comparatively small figures in their balance sheets, it might be argued that the facts narrated above prove that new banks in Canada have scarcely any prospects of success. But those who are capable of studying the banking situation intelligently do not go so far as that. Apparently the parties responsible for the new Bank of Saskatchewan, the bill of incorporation for which has just passed the Banking Committee at Ottawa, do not hold the opinion that Canada has no opening for new banks.

#### Finance Minister Cave Warning.

According to the newspaper reports, the Minister of Finance warned the promoters that the Government considered the granting of a bank charter as serious business, and that the Treasury Board would not issue the certificate of permission to begin business until it had conclusive evidence of the bona fides of the enterprise. Those in touch with Western conditions at the present time are well aware of the circumstances which appear to promise a brilliant future for a bank organized for operating in Saskatchewan, Alberta, British Columbia or Manitoba. The banks now in that field are unable to cope with the demand for credits. The branch managers find that their old customers are pressing for enlargement of lines of credit, while head office desires these credits kept firmly down.

Every little while some customer who has not figured as a borrower presents an application for a credit, and also new enterprises. Some of them backed by the best men in the locality, are continually making their appearance. Every such new enterprise, of course, represents a new or increased demand for the credit facilities which it is the business of the banks to supply. Finally there are the municipal activities—in the way of construction of public buildings, schools, pavements, sewerage and waterworks plants, etc.—which entail demands upon the banks for extensive loans for longer or shorter periods.

#### Volume of Business Assured.

As the existing banks are not able at present to supply this extraordinary demand, and as the process of settling and developing the three most westerly provinces seems to ensure a continuation of the conditions now prevailing, it appears certain that a new bank with head office in the West and with a Western body of shareholders and directors will have all the business it can handle from the day it opens its doors. Indeed there is no reason why such a bank, with sound and careful management, should not experience prosperity and develop in time into a large and powerful institution.

However, recent events in Canadian banking show that there are difficulties in the way. One of the first difficulties in the way of such an enterprise is connected with the placing of the capital stock. In spite of their great financial activity the Western provinces are not good fields for selling bank stocks. On an investment in the stock of a well-established Eastern bank something like 5 or 5½ per cent. may be secured with comparatively little risk. But those rates do not appeal to parties in the West who have money. They think in terms of 7 or 7½ or 8 per cent.; and some of them despise anything under 10 or 12.

The promoters of a new bank, if they know the banking business thoroughly and if they are perfectly honest in their promises, cannot even promise 5 or 5½ per cent. to subscribers to their stock. If the bank's directors are guided in their practiced by sound principles they will establish reserves of one kind and another before they commence paying dividends. Organization expenses and the expense attendant upon opening

a number of new branches would perhaps absorb the greater part of the profits in the first year, so the accumulation of reserves could make little progress till towards the end of the second year. Indeed it would doubtless help to ensure a long career for a bank of this kind if it paid no dividend for the first three years of its existence.

#### Investors are too Impatient.

But the trouble is that people would not buy its stock if they were given to understand that they would get no return on their money for three years, and then perhaps only 5 or 6 per cent. Thus most of the new banks are compelled to pay dividends at too early a stage, before they have provided the necessary reserves.

Then bankers understand that the business of starting a bank in a comparatively new country in boom time, so to speak, is fraught with risk or danger. The management of the bank needs the wisdom of the serpent and the strongest of will power to avoid being entangled in doubtful proposition, fathered perhaps by local interests who were active in founding the bank. Another difficulty is encountered in securing a capable staff. There will be plenty of applications from clerks employed by other banks who perhaps are dissatisfied with their progress. The timber thus secured may not strengthen the new institution.

The amalgamation movement among the older banks will cause the general public to welcome the appearance of sound, well-managed new banks. And the pressure for discounts in Western Canada is so heavy that perhaps some of the older banks will be disposed to welcome a newcomer possessing a responsible management and directorate.

## FIFTY YEARS OF FIRE INSURANCE.

To mark the fiftieth anniversary of the establishment of the North British and Mercantile Insurance Company in Canada, the company has prepared an interesting booklet giving some valuable information regarding the progress made during that period.

The North British and Mercantile Insurance could not have stood the stress of these fifty years had their undertakings been solely confined to Canada,—for the results have not been good, their profit during this period being only 7.92 per cent. Its special reserve funds, amounting to \$7,543,333.33, built up from a world-wide business, and its assets, \$102,817,654, is its protection against the heavy losses and conflagrations which, unfortunately, are so much more marked in Canada than elsewhere.

In addition to the large sums of money paid out in losses, and which has been such a factor in the rebuilding of towns and cities that are to-day large business centres, the company has at date upwards of \$9,000,000 invested in Canada.

The losses for the year as compiled by *The Monetary Times* totalled \$21,459,575, an average of \$1,788,298 per month. This is equal to a daily loss of \$58,793. In other words, \$2,450 worth of property has been burned every hour that year, or \$41 every minute. Reference is made in the booklet to several subjects that the Federal and Provincial Governments should solve. They are:—(1) Competition of unlicensed companies and Lloyds. The government lose considerable revenue by failing to introduce a law (such as they have in the United States) making it necessary for Lloyds and others to register and become licensed. (2) Rights of provincially incorporated companies to do business outside their respective provinces without license. (3) To determine if the provincial government have the right to enact legislation and license a company to do business when they have not been licensed under the Federal insurance act. The position of the Dominion and Provincial governments should be defined. (4) The necessity of having fire marshals appointed, with a necessary staff for each province, is of importance.

The only province so far that has a properly equipped department of this nature is Manitoba, where the results have proved the efficacy of such a system. British Columbia has just passed an act for the same purpose.

Mr. James Battle, said to be the representative of Chicago capital, proposes to erect a pulp and paper mill at Thorold, and seeks assessment concessions in that town.

Application will be made to the Manitoba Legislature at the next session for an act amending the act incorporating the Western Canada Accident and Guarantee Insurance Company, increasing the powers of the company and the classes of business which it is authorized to transact.