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## Bank Inspection.

The area of discussion of the problem of bank inspection has been of late considerably narrowed down. Little has been heard recently of Governmental inspection pure and simple, which is not a matter for regret, and the fact that the president of the Canadian Bankers' Association has expressed himself as against any scheme which would make the Association responsible for an audit of the banks, suggests that the various proposals which have been put forward for inspection through the Association are not likely to be seriously pressed. In fact, the discussion appears to have been narrowed down mainly to two proposals, one, that of the Minister of Finance for auditors to be appointed by the shareholders of the Bank, the other a proposal which has been ably advocated by the *Toronto Globe*, and, it may be presumed, to some extent, reflects, even if it does not represent, the official Opposition view.

Mr. White's proposal for the election of auditors by shareholders at the annual meeting in each year is the making compulsory a proposal which Mr. Fielding, in the draft of the new Bank Act which he introduced at Ottawa in December, 1910, made permissive. The new provisions consequent upon this appointment of auditors are by Mr. White made somewhat stronger than by Mr. Fielding. In the main, the Finance Minister's proposals follow the English practice which, so far as we are aware, has worked exceedingly well. However, the proposals do not suit the *Globe*, which wants instead a system by which from a select list of chartered accountants the Government shall every year choose an inspector for each bank, who shall make his report to the Government, be paid by the Government, and who shall not inspect any one bank more frequently than once in five years. The *Globe*, by the way, at its first adumbration of this proposal spoke of it as a "halfway house" to the appointment of official examiners controlled by the Finance department. Is this significant, or a mere *façon de parler*?

Be that as it may, the arguments addressed in support of the *Globe's* proposal are not, in our view, entirely convincing. It is alleged, for instance, that the auditor appointed by the shareholders would be practically the nominee of the directors and management, and that accordingly he would criticise discreetly when he criticised at all, having in view

his continued holding of the office. This sounds something like a slur upon an honorable profession. Does, for instance, the *Globe* suppose that any accountant of standing appointed by the shareholders of the defunct Farmers Bank under such procedure as that now proposed by Mr. White, would not have reported the truth about the securities held by that institution? Moreover, the power of the shareholders is much under-rated. A minority who had good grounds for dissent from a particular appointment which had been put through by means of proxies, could through agitation, the consequent creation of suspicion regarding a bank, and an appeal to the Treasury Board, make things highly uncomfortable for the directors. To create suspicion is to use a very deadly weapon against a bank, and it can be created with considerable ease. It may be taken for granted, also, that after the Farmers' Bank trouble, the Treasury Board officials will take extra care in regard to complaints addressed to them by those connected with the banks. The bogey of an oligarchic directorate, insisting on having its own way in regard to the appointment of an auditor, as in everything else, can be safely dismissed.

There are more fundamental objections to the *Globe's* scheme. It is open to the same fatal objection as is any scheme of Government inspection, viz., that the impression will get abroad among the ignorant and unthinking that the safety of banking institutions is guaranteed by the Government. The disappointment in the event of a future bank failure will be bitter. There is another objection to the proposal that the banks might fairly take, that such an arrangement would place all the banks in the eyes of the public on the same level of safety, so that an old and highly conservative bank, whether large or small in regard to its assets and the extent of its operations, would lose the enjoyment of that prestige and standing earned by many years of sound business operations, to the fruits of which it is fairly entitled. In our opinion, on these and other grounds, Mr. White's scheme for the shareholders' audit is the preferable one.

By the way, the *Globe*, which is now engaged in damning Mr. White's proposals as unreal, a joke, inefficient and the like, in December, 1910, supported Mr. Fielding's proposed shareholders' audit, which was on the lines of that suggested by Mr. White but milder. Once again, circumstances alter cases.