

BANK INSPECTION.

The Ontario Bank episode has given a considerable impetus to the agitation for Government inspection of banks. Some time ago a good deal was heard about this matter; the advocates of Government inspection had much to say in favour of the American inspection system, and they argued strongly for its introduction here. But the course of events did not give them much support. At home banking affairs went smoothly for a long term of years. There were no failures of importance and the people readily accepted the published statements of the banks as entirely trustworthy and accurate. While, in the States a succession of disastrous and discreditable bank failures has occurred, practically right down to the present time—failures which proved the American system of inspection to be decidedly faulty and unsatisfactory, and most certainly inferior to our own. Small wonder that the movement for government bank inspection in Canada fizzled altogether out. When the Government inspectors in the States were unable to stop, or even to detect, the criminal defalcations of Hipple of Philadelphia, of Stensland of Chicago, of defaulting bank presidents at Milwaukee and at dozens of other cities it was idle to press the argument that we should instal their like in Canada, instead of our own efficient inspecting officers.

But, a short time ago, the Bank of Yarmouth failed; and after the failure it was found that a large proportion of its loans were part due bills which had been reported in the Government statement as current loans. A government inspector would pretty surely have detected that. In all probability, if government inspection was in force, fear of the inspector's visit would have stopped the officers from falsifying their statement.

Now happens the humiliating Ontario Bank affair, in which over a million was lost by speculation and in which false statements were alleged to have been issued. It is hardly any use denying that a government officer would have found and stopped that also. In this case too, fear of the officer's visit would likely have prevented the falsification. And, if the Ontario had gone out of business five years ago, or if it had then reduced its capital and changed its manager, there is every probability that the stockholders would have escaped a large part of their losses.

Because of these two unhappy events it is quite natural that the new demand for Government inspection should arise. But there are some points to be considered carefully before conclusion is reached. Perhaps the most important is that the loss in these cases falls upon the stockholders, not upon the creditors. Had the note-holders or depositors suffered, it could then be contended, with

a great deal more reason, that it was the Government's duty to interfere. Of course, the Government is under obligation to guard with its laws, stockholders, as well as creditors. But it is always assumed that creditors have the greater right. The law arms stockholders with a great deal of power for their own protection. The directors are their representatives. Theoretically at least they are under the stockholders' control; they are removable at the stockholders' say-so. And the directors have power to devise any system they like of supervision over the management. They can inspect and examine wherever they please. It would not be possible to give them by law greater powers of control over their banks' affairs than they possess now. If they take the ground that they "must trust the general manager," and if they never taken any measures to satisfy themselves that the general manager is "square" the fault is theirs, not the system's. The system of inspection practised by the Canadian banks is thoroughly efficient and reasonably complete. The inspection officers are more capable for their business than government officers could be. The inspectors are chosen from among the brightest and most intelligent of the men. They go into everything, not only at the branches but at the head office. (The statement by Mr. Knight, the secretary of the Bankers' Association, effectually demolished the Ontario Bank inspector's surmises that other bank head offices were not inspected. One has only to look at the pamphlet annual reports to see what the practice is. In reporting to the shareholders the directors quite commonly say "all the branches of the bank *and* the head office have been inspected during the year.") There is no room for reasonable doubt that, in the inspection force, the directors have, if they choose to use it, a thoroughly efficient instrument for satisfying themselves that the general manager's statements and representations are true. Perhaps, in the past the inspectors have been left overmuch for the general manager's use. If so, the happenings in Toronto are likely to bring about a change. Against directors who are guilty of malfeasance, and against those who are guilty of negligence there are live criminal and civil laws to invoke. That they are not dead-letter laws, the presidents of the Ville-Marie and Yarmouth banks found to their cost. Nobody doubts that the manager of the Ontario, or its president and directors, will be punished, if found guilty of breaking these laws. Their punishment, or their being mulcted of their private property for negligence in office, cannot but operate to make directors more vigilant in the future.

Already the legal responsibilities of directors are large. If they are heavily increased it might be difficult to get men of means to act on bank boards.